TRAVELZOO®

NASDAQ: TZOO

2011 Annual Report

2012 Proxy Statement

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

April 5, 2012

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Travelzoo Inc. on May 18, 2012. We will hold the meeting at 590 Madison Avenue, 37th Floor, New York, NY 10022 at 10:00 a.m. local time.

In connection with the meeting, we enclose a notice of the meeting, a proxy statement and a proxy card. Detailed information relating to Travelzoo's activities and operating performance is contained in our 2011 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, which is also enclosed.

Whether or not you plan to attend the Annual Meeting of Stockholders, please vote your shares via mail with the enclosed proxy card. Please note that you can attend the meeting and vote in person, even if you have previously voted by proxy. If you plan to attend the meeting in person, please provide advance notice to Travelzoo by checking the box on your proxy card. In addition, you may provide notice to Travelzoo that you plan to attend in person by delivering written notice to Travelzoo's Corporate Secretary at 590 Madison Avenue, 37th Floor, New York, New York 10022.

If you hold your shares in street name through a bank, broker, or other nominee, please bring identification and proof of ownership, such as an account statement or letter from your bank or broker, for admittance to the meeting. An admission list containing the names of all of those planning to attend will be placed at the registration desk at the entrance to the meeting. You must check in to be admitted.

Travelzoo will make available an alphabetical list of stockholders entitled to vote at the meeting for examination by any stockholder during ordinary business hours at Travelzoo's principal executive offices, located at 590 Madison Avenue, 37th Floor, New York, New York 10022, for ten days prior to the meeting. A stockholder may examine the list for any legally valid purpose related to the meeting.

On behalf of the entire Board of Directors, we look forward to seeing you at the meeting.

Sincerely,

HOLGER BARTEL
Chairman of the Board of Directors

TRAVELZOO INC.
590 Madison Avenue
37th Floor
New York, New York 10022

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held On May 18, 2012

To the Stockholders of Travelzoo Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Travelzoo Inc., a Delaware corporation, will be held on Friday, May 18, 2012, at 10:00 a.m., local time, at 590 Madison Avenue, 37th Floor, New York, NY 10022, for the following purposes:

1. To elect five directors for terms expiring in 2013;

2. To approve the issuance of shares of common stock on exercise of options, under a nonqualified Stock Option Agreement, granted to the Company's Chief Financial Officer and the Company's President, North America;

3. To hold an advisory vote on executive compensation; and

4. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.

Only stockholders of record at the close of business on March 23, 2012 may vote at the Annual Meeting. Your vote is important. Whether you plan to attend the Annual Meeting or not, **please cast your vote by completing, dating and signing the enclosed proxy card and returning it via mail to the address indicated.** If you attend the meeting and prefer to vote in person, you may do so even if you have previously voted by proxy.

By Order of the Board of Directors,

TRAVELZOO INC.

GLEN CEREMONY
Corporate Secretary

PROXY STATEMENT
FOR THE TRAVELZOO INC.

2012 ANNUAL MEETING OF STOCKHOLDERS
INFORMATION ABOUT THE ANNUAL MEETING

Why am I receiving these proxy materials?

Travelzoo's Board of Directors is soliciting proxies to be voted at the 2012 Annual Meeting of Stockholders. This proxy statement includes information about the issues to be voted upon at the meeting.

On or about April 5, 2012, we intend to mail and send electronically a notice that describes how you would access electronically these proxy materials to all stockholders of record at the close of business on March 23, 2012. On the record date, there were 15,961,553 shares of our common stock outstanding.

Where and when is the Annual Meeting?

The Annual Meeting of Stockholders will take place on May 18, 2012 at 590 Madison Avenue, 37th Floor, New York, NY 10022. The meeting will begin at 10:00 a.m. local time.

What am I voting on?

Stockholders will vote on three items:

- The election to the Board of Directors of the five nominees named in this Proxy Statement;
- The approval of the issuance of shares of common stock on exercise of options, under a nonqualified Stock Option Agreement, granted to the Company's Chief Financial Officer and the Company's President, North America; and
- An advisory vote on executive compensation.

How many votes do I have?

You have one vote for each share of our common stock that you owned at the close of business on March 23, 2012, the record date. These shares include:

- Shares held directly in your name as the "stockholder of record" and
- Shares held for you as the beneficial owner through a broker, bank, or other nominee in "street name."

If I am a stockholder of record, how can I vote my shares?

You can vote by proxy or in person.

How do I vote by proxy?

If you are a stockholder of record, you may vote your proxy by mail. If you receive a paper copy of the Proxy Statement, simply mark the enclosed proxy card, date and sign it, and return it in the postage paid envelope provided. If you receive the Proxy Statement via e-mail, please print the attached proxy card, date and sign it, and return it via mail to Travelzoo Inc., Attention: Corporate Secretary, 800 W. El Camino Real, Suite 275, Mountain View, CA 94040.

If you vote by proxy, the persons named on the card (your "proxies") will vote your shares in the manner you indicate. You may specify whether your shares should be voted for all, some or none of the nominees for director or any other proposals properly brought before the Annual Meeting. If you sign your proxy card and do not indicate specific choices, your shares will be voted "FOR" the election of all nominees for director, "FOR" Proposal 2 and "FOR" Proposal 3. If any other matter is properly brought before the meeting, your proxies will vote in accordance with their best judgment. At the time of submitting this Proxy Statement for printing, we knew of no matter that will be acted on at the Annual Meeting other than those discussed in this Proxy Statement.

If you wish to give a proxy to someone other than the persons named on the enclosed proxy card, you may strike out the names appearing on the card and write in the name of any other person, sign the proxy, and deliver it to the person whose name has been substituted.

May I revoke my proxy?

If you give a proxy, you may revoke it in any one of three ways:

- Submit a valid, later-dated proxy before the Annual Meeting,
- Notify our Corporate Secretary in writing before the Annual Meeting that you have revoked your proxy, or
- Vote in person at the Annual Meeting.

How do I vote in person?

If you are a stockholder of record, you may cast your vote in person at the Annual Meeting.

If I hold shares in street name, how can I vote my shares?

You can submit voting instructions to your broker or nominee. In most instances, you will be able to do this over the Internet or by mail. Please refer to the voting instruction card included in the materials provided by your broker or nominee.

What vote is required to approve each proposal?

Each share of our common stock is entitled to one vote with respect to each matter on which it is entitled to vote. Our directors are elected by a plurality of votes, which means that the nominees who receive the greatest number of votes will be elected. Under our bylaws, a majority of the shares present at the meeting in person or by proxy is required for approval of all other items.

In order to have a valid stockholder vote, a stockholder quorum must exist at the Annual Meeting. A quorum will exist when stockholders holding a majority of the outstanding shares of our stock are present at the meeting, either in person or by proxy.

If a broker indicates on its proxy that it does not have authority to vote certain shares held in "street name" on particular proposals, the shares not voted ("broker non-votes") will not have any effect with respect to such proposals. Broker non-votes occur when brokers do not have discretionary voting authority on certain proposals and the beneficial owner has not instructed the broker how to vote on these proposals.

To approve, on an advisory non-binding basis, the Company's executive compensation, the affirmative vote of a majority of the shares present at the meeting in person or by proxy is required for approval. Abstentions will have the same effect as negative votes. Broker non-votes will not be considered as present and will not be counted for the purpose of determining whether the proposals have been approved.

Azzurro Capital Inc., whose beneficial owner is Ralph Bartel, holds an aggregate of 8,500,000 shares of our common stock, representing approximately 53.3% of the outstanding shares, as of March 23, 2012. Azzurro Capital Inc. has indicated that it intends to vote in favor of all of the director nominees, in favor of approval of the issuance of shares of common stock on exercise of options granted to our Chief Financial Officer and President, North America, and in favor of approval of the Company's executive compensation.

Who is paying the costs of soliciting these proxies?

We are paying the cost of preparing, printing, mailing and otherwise distributing these proxy materials. We will reimburse banks, brokerage firms, and others for their reasonable expenses in forwarding proxy materials to beneficial owners and obtaining their instructions. A few of our officers and employees may also participate in the solicitation, without additional compensation, by telephone, e-mail, other electronic means, or in person.

Where can I find the voting results of the meeting?

We intend to announce preliminary voting results at the meeting. We will publish the final results in a report on Form 8-K, which we intend to file on or before May 24, 2012. You can obtain a copy of the Form 8-K by logging on to Travelzoo's investor relations website at *www.travelzoo.com/ir,* by calling the Securities and Exchange Commission at (800) SEC-0330 for the location of the nearest public reference room, or through the EDGAR system at *www.sec.gov.* Information on our website does not constitute part of this proxy statement.

ELECTION OF DIRECTORS (PROPOSAL 1)

Under Travelzoo's bylaws, the number of directors of Travelzoo is fixed, and may be increased or decreased from time to time, by resolution of the Board of Directors. Each director holds office for a term of one year, until the annual meeting of stockholders next succeeding the director's election and until a successor is elected and qualified or until the earlier resignation or removal of the director. Holger Bartel, Ralph Bartel, David J. Ehrlich, Donovan Neale-May, and Kelly M. Urso are currently directors of Travelzoo.

Nominees for a One-Year Term That Will Expire in 2013:

The ages, principal occupations, directorships held and other information as of March 23, 2012, with respect to our nominees are shown below.

Name	Age	Position
Holger Bartel, Ph.D.(2)	45	Chairman of the Board of Directors
Ralph Bartel, Ph.D.	46	Director
David J. Ehrlich(1)	49	Director
Donovan Neale-May(1)(3)	59	Director
Kelly M. Urso(1)(2)(3)	46	Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Disclosure Committee

Each of the director nominees listed above was elected to be a director at the Company's Annual Meeting of Stockholders held on June 2, 2011. Our Board of Directors has determined that each of Mr. Ehrlich, Mr. Neale-May, and Ms. Urso meet the independence requirements of the listing standards of the NASDAQ Stock Market (the "NASDAQ").

Holger Bartel, Ph.D., has served as a Chairman of the Board of Directors since July 2010 after serving as a Director from June 2005 to June 2010. Mr. Bartel served as a consultant to the Company from July 2010 through September 2011 and became an employee of the Company in October 2011 serving as the Head of Strategy. Mr. Bartel served as Chief Executive Officer from October 2008 to June 2010, after serving as Executive Vice President from September 1999 to November 2007. From 1995 to 1998, Mr. Bartel worked as an Engagement Manager at McKinsey & Company in Los Angeles. From 1992 to 1994, Mr. Bartel was a research fellow at Harvard Business School. Mr. Bartel holds a Ph.D. in Economics and an MBA in Finance and Accounting from the University of St. Gallen, Switzerland. He is the brother of Ralph Bartel.

Areas of Holger Bartel's relevant experience: Deep knowledge of Travelzoo's operations, Internet, strategy, management of growth companies, travel, international management.

Ralph Bartel, Ph.D., founded Travelzoo in May 1998 and has served as a Director since July 2010 after serving as Chairman of the Board of Directors from May 1998 to June 2010. From May 1998 to September 2008, Mr. Bartel served as Travelzoo's Chief Executive Officer and President. Mr. Bartel is a professionally trained journalist who also holds a Ph.D. in Communications from the University of Mainz, Germany, a Master's degree in Journalism from the University of Eichstaett, Germany, and a Ph.D. in Economics and an MBA in Finance and Accounting from the University of St. Gallen, Switzerland. He is the brother of Holger Bartel.

Areas of Ralph Bartel's relevant experience: Media, journalism, Internet, finance, start-up experience.

David J. Ehrlich has served as a Director since February 1999. Mr. Ehrlich currently serves as the CEO of Aktana, the leader in actionable analytics for sales force effectiveness. Before Aktana, Mr. Ehrlich was an Executive in Residence with Mohr Davidow Ventures. From March 2007 to January 2010, Mr. Ehrlich served as Chief Executive Officer of ParAccel, Inc., a technology company. From 2003 to 2006, Mr. Ehrlich was Senior Vice President, Marketing and Chief Strategy Officer of NetIQ Corporation. From 1998 to 2002, Mr. Ehrlich was Vice President, Product Management and Strategic Partnering for Visual Networks, Inc. From 1993 to 1998, Mr. Ehrlich worked as a consultant for McKinsey & Company. Mr. Ehrlich holds a bachelor's degree in Sociology with honors and distinction from Stanford University, a Master's degree in Industrial Engineering from Stanford University, and an MBA from Harvard Business School.

Areas of Mr. Ehrlich's relevant experience: Technology, corporate development, mergers & acquisitions.

Donovan Neale-May has served as a Director since February 1999. Mr. Neale-May is the president and managing partner of GlobalFluency, Inc., a global organization of independent marketing and communication firms with 70 offices in over 40 countries. Since 1987, Mr. Neale-May has been managing and running his own marketing and public relations agency business, Neale-May & Partners, operating from Silicon Valley and New York offices. Previously, Mr. Neale-May held senior positions with marketing, promotions and public relations agencies, such as Ogilvy & Mather, in Silicon Valley, New York, London and Los Angeles. During his 30 years as an international marketing and brand strategist, Mr. Neale-May has consulted with over 300 leading multi-nationals, new venture starts and emerging growth companies. Mr. Neale-May is the founder and executive director of the Chief Marketing Officer (CMO) Council, a global affinity network of more than 6,000 senior marketing and branding executives controlling some $300 billion in aggregated annual marketing spend. Mr. Neale-May is a journalism graduate of Rhodes University in South Africa and serves on the board of governors for this leading institution and the board of trustees for the Rhodes University Trust, USA. He is also an adjunct professor at Seoul National University in South Korea.

Areas of Mr. Neale-May's relevant experience: Brand strategy, public relations, marketing, international management.

Kelly M. Urso has served as a Director since February 1999. Since 2003, Ms. Urso has been a principal at K. M. Urso & Company, LLC, a firm that provides U.S. and international tax consulting and compliance services. From 2001 to 2003, Ms. Urso was a tax attorney with Reynolds & Rowella LLP. From 1997 to 2001, Ms. Urso was the leader of the expatriate tax group at General Electric International, Inc. Ms. Urso holds a bachelor's degree in business administration from the University of Cincinnati and a Juris Doctor degree from the Thomas M. Cooley Law School in Lansing, Michigan.

Areas of Ms. Urso's relevant experience: Tax planning, tax compliance, international management.

The Board of Directors is not aware that any nominee named in this Proxy Statement is unwilling or unable to serve as a director. If, however, a nominee is unavailable for election, your proxy authorizes the named designees to vote for a replacement nominee if the Board of Directors names one.

YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THESE NOMINEES.

The Board of Directors believes that each director nominee possesses the qualities and experience it believe that nominees should possess. The Board of Directors seeks out, and the Board of Directors is comprised of, individuals whose background and experience complement those of other Board members.

APPROVAL OF STOCK OPTIONS (PROPOSAL 2)

The Company entered into a Nonqualified Stock Option Agreement (the "Stock Option Agreement") with Mr. Ceremony and Ms. Tafoya (the "Optionee") on January 23, 2012, pursuant to which the Company granted each person the option (the "Option") to purchase 50,000 shares (for an aggregate total of 100,000 shares) of the Company's common stock. The options will begin to partly vest on January 23, 2012. Stockholders are being asked to approve the issuance of common stock which is issuable to Mr. Ceremony and Ms. Tafoya upon exercise of the Option. The principal terms of the Stock Option Agreement are summarized below. The following summary is qualified in its entirety by the full text of the Stock Option Agreement, which is incorporated herein by reference to Exhibit 10.1 and 10.2 to the Company's report on Form 8-K, filed March 30, 2012.

Exercisability of Option

The exercise price of the Option is $28.98 per share. The Option will become exercisable in accordance with the following schedule:

- Twenty five percent (25%) of the Option will vest on January 23, 2013
- Twenty five percent (25%) of the Option will vest on January 23, 2014
- Twenty five percent (25%) of the Option will vest on January 23, 2015
- Twenty five percent (25%) of the Option will vest on January 23, 2016

Mr. Ceremony and Ms. Tafoya must exercise the Option by January 23, 2022; after such date, the Option will expire.

Exercise of Option

Optionee may exercise, in whole or in part, the Option by delivering to the Company not less than 30 days prior to the exercise date (or such shorter period the Company may approve) a written notice of exercise, designating the number of shares to be purchased, along with payment of the full amount of the purchase price of the shares being purchased. The purchase price may be paid in cash or, in the discretion of the Board of Directors, by tender of shares of common stock already owned by Optionee or other method.

Adjustment of Option

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

Transfer Restrictions

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

Effect of Termination of Employment

If Optionee's employment with the Company is terminated, including in the event of his death or disability, any portion of the Option which is not then exercisable will immediately terminate. With respect to any portion of the Option which is then exercisable on the date of termination of employment, Optionee (or, in the event of his death, his legatee(s) under his last will, or his personal representatives or distributes) may exercise the Option for a period of three (3) months following such termination, but in no event after January 23, 2022.

Registration

The Company will register the shares of common stock made available under the Stock Option Agreement under the Securities Act of 1933, as amended.

Federal Income Tax Consequences

The Company is generally entitled to a Federal income tax deduction in an amount equal to the difference between the exercise price of the Option and the fair market value of the shares at the time of exercise, and Optinee would generally recognize taxable income in that amount.

Personal Interest

Mr. Ceremony is the Chief Financial Officer of the Company and Ms. Tafoya is the President, North America.

YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE STOCK OPTION AGREEMENT.

ADVISORY VOTE ON EXECUTIVE COMPENSATION (PROPOSAL 3)

Recently enacted federal legislation (Section 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) requires that we include in this Proxy Statement a non-binding stockholder vote on our executive compensation as described in this Proxy Statement (commonly referred to as "Say-on-Pay").

We encourage stockholders to review the Compensation Discussion and Analysis included herein. Our executive compensation program has been designed to pay for performance and align our compensation programs with business strategies focused on long-term growth and creating value for stockholders while also paying competitively and focusing on the total compensation perspective. We feel this design is evidenced by the following:

- We provide a significant portion of our total compensation in the form of performance-based compensation; for example, approximately 6% to 36% of our named executive officers' total compensation for 2011 was in the form of performance-based compensation based on the achievement of quarterly corporate financial measures such as revenue, operating income and the number of subscribers to the Company's publications.

The Board of Directors strongly endorses the Company's executive compensation program and recommends that stockholders vote in favor of the following resolution:

RESOLVED, that the stockholders approve the compensation of our named executive officers, as disclosed pursuant to the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis and the tabular and narrative disclosure in the Company's proxy statement for its 2012 Annual Meeting of Stockholders.

Because the vote is advisory, it will not be binding upon the Board of Directors or the Compensation Committee and neither the Board of Directors nor the Compensation Committee will be required to take any action as a result of the outcome of the vote on this proposal. The Compensation Committee will consider the outcome of the vote when considering future executive compensation arrangements.

YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THIS PROPOSAL.

Board Meetings and Committees

The Board of Directors has appointed an Audit Committee, a Compensation Committee, and a Disclosure Committee. Below is a table indicating the membership of each of the Audit Committee, Compensation Committee, and Disclosure Committee and how many times the Board of Directors and each such committee met in fiscal year 2011. Each of Mr. Holger Bartel, Mr. Ralph Bartel, Mr. Ehrlich, Mr. Neale-May, and Ms. Urso attended at least 75 percent of the total number of meetings of the Board of Directors and of the committees on which he or she serves.

	Board	Audit	Compensation	Disclosure
Mr. Holger Bartel	Chair		Member	
Mr. Ralph Bartel	Member			
Mr. Ehrlich	Member	Chair		
Mr. Neale-May	Member	Member		Member
Ms. Urso	Member	Member	Chair	Chair
Number of 2011 Meetings	4	4	1	4

The Company does not require that directors attend the Annual Meeting.

Audit Committee

The Audit Committee's primary responsibilities are to oversee and monitor (i) the integrity of Travelzoo's financial statements, (ii) the qualifications and independence of our independent registered public accounting firm, (iii) the performance of our independent registered public accounting firm and internal audit staff, and (iv) the compliance by Travelzoo with legal and regulatory requirements. A complete description of the committee's responsibilities is set forth in its written charter. A copy the written charter can be found in Appendix A of our 2008 Proxy Statement. The Audit Committee is responsible for appointing the independent registered public accounting firm and is directly responsible for the compensation and oversight of the work of our independent registered public accounting firm. The Audit Committee is composed solely of independent directors as defined in the listing standards of the NASDAQ. The Board has determined that Mr. Neale-May qualifies as an audit committee financial expert within the meaning of the regulations of the Securities and Exchange Commission ("SEC").

Compensation Committee

The Compensation Committee reviews and approves the compensation and benefits for the Company's executive officers and directors, and makes recommendations to the Board of Directors regarding such matters. The Compensation Committee also approves the Company's non-equity incentive plans. The Compensation Committee further reviews and discusses with management the Compensation Discussion and Analysis section of this Proxy Statement. The Compensation Committee does not have a charter. The Report of the Compensation Committee is included herein. The Company is not required to have a Compensation Committee consisting entirely of independent directors since it is a "Controlled Company" under NASDAQ Rule 5615(c), on account of the stock ownership by Azzurro Capital Inc.

Disclosure Committee

The Disclosure Committee's primary responsibilities are (i) to design, establish and evaluate controls and other procedures that are designed to ensure the accuracy and timely disclosure of information to the SEC and investment community and (ii) to review and supervise preparation of all SEC filings, press releases and other broadly disseminated correspondence.

Nominating Committee

Travelzoo does not have a nominating committee of the Board of Directors. Since it is a "Controlled Company" as referred to above, such a committee is not required. Through its share ownership, Azzurro Capital Inc. is in a position to control Travelzoo and to elect our entire Board of Directors. Azzurro Capital Inc. considers candidates for director nominees.

The Board's Role in Risk Oversight

The full Board oversees enterprise risk as part of its role in reviewing and overseeing the implementation of the Company's strategic plans and objectives. The risk oversight function is administered both in full Board discussions and in individual committees that are tasked by the Board with oversight of specific risks. On a regular basis, the Board and its committees receive information and reports from management on the status of the Company and the risks associated with the Company's strategy and business plans. In addition, the Audit Committee reviews the Company's risk assessment and risk management policies and procedures at least annually, including steps taken to monitor and control such exposures. The Board believes the continuity of Board membership, as well as the independent directors constituting a majority of the Board and separation of the roles of Chairman and Chief Executive Officer, encourage open discussion and assessment of the Company's ability to manage its risks.

Communications with Directors

The board has established a process to receive communications from stockholders. Stockholders and other interested parties may contact any member (or all members) of the board, or the non-management directors as a group, any board committee or any chair of any such committee by mail. To communicate with the Board of Directors, any individual directors or any group or committee of directors, correspondence should be addressed to the Board of Directors or any such individual directors or group or committee of directors by either name or title. All such correspondence should be sent "c/o Corporate Secretary" at Travelzoo Inc., 590 Madison Avenue, 37th Floor, New York, NY 10022.

All communications received as set forth in the preceding paragraph will be opened by the Corporate Secretary for the sole purpose of determining whether the contents represent a message to our directors. Any contents that are not in the nature of advertising, promotions of a product or service, patently offensive material or matters deemed inappropriate for the Board of Directors will be forwarded promptly to the addressee. In the case of communications to the board or any group or committee of directors, the Corporate Secretary will make sufficient copies of the contents to send to each director who is a member of the group or committee to which the correspondence is addressed.

Audit Committee Report

The information contained in this report shall not be deemed to be "soliciting material" or "filed" with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except to the extent that Travelzoo specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended (the "Securities Act") or the Exchange Act.

The Audit Committee oversees Travelzoo's financial reporting process on behalf of the Board of Directors. Management is primarily responsible for the financial statements and reporting processes including the systems of internal controls, while the independent auditors are responsible for performing an independent audit of Travelzoo's consolidated financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board ("PCAOB"), and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States.

In this context, the committee has met and held discussions with management and the independent auditors regarding the Company's audited consolidated financial statements for the fiscal year ended December 31, 2011. The committee discussed with Travelzoo's independent auditors the overall scope and plan for their audit. The committee met, at least quarterly, with the independent auditors, with and without management present, and discussed the results of their examinations, their evaluations of Travelzoo's internal controls, and the overall quality of Travelzoo's financial reporting. Management represented to the committee that Travelzoo's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States. The committee has reviewed and discussed the consolidated financial statements with management and the independent auditors, including their judgments as to the quality, not just the acceptability, of Travelzoo's accounting principles and such other matters as are required to be discussed with the committee under auditing standards of the PCAOB.

Travelzoo's independent auditors also provided to the committee the written disclosures required by applicable requirements of the PCAOB regarding the independent accountant's communications with the audit committee concerning independence, and the committee discussed with the independent auditors that firm's independence, including those matters required to be discussed by Statement on Auditing Standards No. 61, as amended.

In reliance on the reviews and discussions referred to above, the committee recommended to the Board of Directors (and the Board of Directors has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC. The committee has not yet selected Travelzoo's independent auditors for fiscal year 2012.

While the committee has the responsibilities and powers set forth in its charter, it is not the duty of the committee to plan or conduct audits or to determine that Travelzoo's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditors. Nor is it the duty of the committee to conduct investigations or to assure compliance with laws and regulations or Travelzoo's business conduct policies.

Audit Committee

David J. Ehrlich *(Chair)*
Donovan Neale-May
Kelly M. Urso

Director Compensation

Directors who are of the Company or its subsidiaries are entitled to receive certain retainers and fees. On June 22, 2011, the Compensation Committee reviewed its director compensation policy and determined that no adjustments to this director compensation policy were necessary. The retainers and meeting fees are as follows:

- Annual board member retainer — $30,000;
- Annual Audit Committee chair retainer — $30,000;
- Fee for attendance of a board meeting — $1,680;
- Fee for attendance of an Audit Committee meeting — $2,800;
- Fee for attendance of a Disclosure Committee meeting — $1,680;
- Fee for attendance of a Compensation Committee meeting — $2,800; and
- Fee for attendance of a strategy meeting — $4,480.

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

Mr. Ralph Bartel chose not to receive any compensation for his services.

The following table shows compensation information for Travelzoo's directors for fiscal year ended December 31, 2011.

Name	Fees Earned or Paid in Cash ($)	Total ($)
Mr. Holger Bartel	34,820	34,820
Mr. Ralph Bartel	—	—
Mr. Ehrlich	82,400	82,400
Mr. Neale-May	59,120	59,120
Ms. Urso	61,920	61,920

Security Ownership of Certain Beneficial Owners and Management

The following table shows the amount of our common stock beneficially owned as of March 23, 2012 by (a) each director and nominee, (b) each named executive officer, (c) all executive officers and directors as a group, and (d) each person known by the

Company, as of December 31, 2011, to beneficially own more than 5% of the outstanding shares of common stock of the Company. In general, shares "beneficially owned" include those shares a person has or shares the power to vote, or the power to dispose of.

Beneficial Owner	Beneficial Ownership Number of Shares(1)	Percent of Total(2)
Directors and Named Executive Officers		
Holger Bartel	—	—
Ralph Bartel(3)	8,500,000	53.3%
David J. Ehrlich	—	—
Glen Ceremony	—	—
Christopher Loughlin	—	—
Donovan Neale-May	—	—
Shirley Tafoya	—	—
Kelly M. Urso	525	*
Directors and executive officers as a group (8 persons)	8,500,525	53.3%
Persons Owning More Than 5% of Common Stock		

* Less than 1%

(1) Except as otherwise indicated and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all their shares of common stock.

(2) For each person and group indicated in this table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of 15,961,553 shares of common stock outstanding as of March 23, 2012, plus the number of shares of common stock that such person or group had the right to acquire within 60 days after March 23, 2012.

(3) Ralph Bartel indirectly holds 100% of Azzurro Capital Inc., which is the holder of 8,500,000 shares, through the Ralph Bartel 2005 Trust.

Section 16(a) Beneficial Ownership Reporting Compliance

Under Section 16(a) of the Securities Exchange Act of 1934, the Company's directors, executive officers and the beneficial holders of more than 10% of the Company's common stock are required to file reports of ownership and changes in ownership with the SEC. Such directors, executive officers and beneficial holders of more than 10% of the Company's common stock are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such forms furnished to the Company or written representations from reporting persons, during fiscal 2011, all Section 16(a) filing requirements were satisfied on a timely basis, except the Form 3 for the hiring of Glen Ceremony as Chief Financial Officer on June 15, 2011, which was filed on July 15, 2011.

Code of Ethics

We have adopted a code of ethics that applies to our Chief Executive Officer and our Chief Financial Officer, who also serves as our principal accounting officer. This code of ethics is posted on our website located at *corporate.travelzoo.com/governance.* We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on our website, at the address and location specified above. A copy of the code of ethics is also available in print to stockholders and interested parties without charge upon written request delivered to our Corporate Secretary at Travelzoo Inc., 590 Madison Avenue, 37th Floor, New York, NY 10022.

Executive Compensation

Compensation Discussion and Analysis

We hold annual votes on executive compensation, in accordance with shareholder recommendation made at the 2011 annual meeting. In light of last year's shareholder approval the compensation for executives, there were no significant changes in executive compensation except for the granting of stock options to Mr. Ceremony and Ms. Tafoya to further align interests of these executives to stockholders.

Overview of Compensation Program

The following Compensation Discussion and Analysis, or "CD&A," describes our overall compensation philosophy and the primary components of our compensation program. Furthermore, the CD&A explains the process by which the Compensation Committee, or "Committee", determined the 2011 compensation for our Chief Executive Officer, Chief Financial Officer and other most highly compensated officers. We refer to these individuals collectively as the "named executives" or the "named executive officers."

Compensation Philosophy and Objectives

The fundamental objectives of our executive compensation program are to attract and retain highly qualified executive officers, motivate these executive officers to materially contribute to our long-term business success, and align the interests of our executive officers and stockholders by rewarding our executives for individual and corporate performance based on targets established by the Committee.

We believe that achievement of these compensation program objectives enhances long-term profitability and stockholder value. The elements utilized to help achieve the Committee's objectives include the following:

- *Accountability for Individual Performance.* Compensation should in large part depend on the named executive's individual performance in order to motivate and acknowledge the key contributors to our success.

- *Recognition for Business Performance.* Compensation should take into consideration our overall financial performance and overall growth.

- *Attracting and Retaining Talented Executives.* Compensation should generally reflect the competitive marketplace and be designed to attract and retain superior employees in key competitive positions.

We implement our compensation philosophy through setting base salaries for our executive officers, through the use of our executive bonus plan and through reviewing and approving other terms of employment agreements.

Compensation Determination Process

Compensation Committee Members. The Committee is responsible for establishing, overseeing and reviewing executive compensation policies and for approving, validating and benchmarking the compensation and benefits for named executive officers. The Committee is also responsible for determining the fees paid to our outside directors. The Committee includes Ms. Kelly M. Urso (Chair) and Mr. Holger Bartel. Ms. Urso satisfies the independence requirements of the NASDAQ. The Compensation Committee does not have a charter.

Role of Management. During 2011, the Committee engaged in its annual review of executive compensation with the goal of ensuring the appropriate combination of fixed and variable compensation linked to individual and corporate performance. In the course of its review, the Committee considered the advice and input of the Company's CEO and data prepared by management, including a comparison of the current compensation of the named executive officers with publicly available industry data from *The Wall Street Journal. The Wall Street Journal* data utilized by the Committee included salary and total compensation information based on the title, job description, and geographic location of similarly situated executives. The most significant aspects of the CEO's role in the compensation determination process are evaluating employee performance, establishing business performance targets, goals and objectives and recommending salary and bonus levels. The CEO does not participate in discussions regarding his compensation.

The Committee compared the compensation received by the Company's named executive officers with the levels of compensation received by similarly situated executives in the same geographic location in light of the named executives' responsibilities, performance, experience and tenure, in order to arrive at the total compensation package for each of the named executive officers. In some cases, the compensation package that the Committee awarded a named executive officer was at or below the median compensation received by executives per *The Wall Street Journal* data, while in other instances the compensation was higher due to the executive's responsibilities, performance, experience and tenure.

The Committee did not engage an outside consulting firm to provide advice on executive compensation.

Components of Executive Compensation

The Committee has structured an executive compensation program comprised of base salary, cash bonus and non-equity incentive pay. In addition, the Committee has approved the grant of options to the Company's Chief Financial Officer and President, North America, each for 50,000 shares of common stock as described under "Approval of Stock Options."

Base Salary. The Committee considered two types of potential base salary increases for the named executive officers in 2011: (1) "merit increases" based upon each named executive's individual performance; and/or (2) "market adjustments" based upon the salary range for similarly situated executives.

In determining merit increases, the Committee considers the specific responsibilities of the executive and the executive's overall performance and tenure with the Company. In addition, the Committee also considers the CEO's evaluation of each named executive officer in making the decision regarding merit increases.

The Committee determines any market adjustments based on the Committee's comparison of the executive's compensation with statistical information on average compensation for similarly situated executives that is publicly available through *The Wall Street Journal*.

The Committee increased the annual salary of Ms. Shirley Tafoya in 2011 from $530,000 to $542,000, effective July 1, 2011. Pursuant to the terms of Mr. Christopher Loughlin's employment agreement entered into on November 18, 2009 under which Mr. Loughlin became the Company's Chief Executive Officer beginning on July 1, 2010, Mr. Loughlin's annual salary increased from $550,000 to $562,000 beginning on July 1, 2011. The Committee approved the annual salary of $450,000 for Mr. Ceremony effective upon the date hire of June 15, 2011.

Incentive Bonus Pay. In 2009, 2010 and 2011, Mr. Christopher Loughlin, Mr. Holger Bartel, Mr. Wayne Lee, Mr. Glen Ceremony and Ms. Shirley Tafoya also received incentive bonuses pursuant to the terms of their employment agreements.

Pursuant to the terms of Mr. Loughlin's previous employment agreement dated May 16, 2005, as amended on July 12, 2006 and as amended on July 1, 2007, Mr. Loughlin was eligible to receive quarterly and annual bonuses. Mr. Loughlin's bonuses were payable in British pounds and have been translated into U.S. dollars (at the rate of £1 = $1.54431) for the purposes of this summary. Mr. Loughlin was eligible to receive the following quarterly bonuses:

Criteria	Quarterly Bonus Payment
Revenue goal as defined in the official budget for Europe is met	$ 11,582
Net income goal as defined in the official budget for Europe is met	$ 11,582
Subscriber goal as defined in the official budget for Europe is met	$ 11,582
Performance evaluation by the Chairman of the Company	Up to $11,582
Total maximum bonus per quarter	Up to $46,328

Under the terms of the annual bonus plan set forth in Mr. Loughlin's pervious employment agreement, Mr. Loughlin was eligible to receive 10% of Travelzoo Europe's pro forma operating income generated from operations in the U.K., Germany and France from January 1, 2010 to June 30, 2010. The quarterly net income goal was met for the first quarter of 2010. Mr. Loughlin was paid 100% of his quarterly performance evaluation bonus for the first and second quarters of 2010. In determining the quarterly performance evaluation bonus for the first and second quarters of 2010, the Chairman of the Company considered factors such as the quality of Mr. Loughlin's strategic management to ensure the long-term success of the Company's business in Europe, the development of the Company's talent in Europe, the quality of the content of the Company's publications in Europe, and the development of the Travelzoo brand in Europe. For the first and second quarters of 2010, Mr. Loughlin received $34,747 and $285,165 pursuant to the quarterly and annual bonus plans, respectively, set forth in his employment agreement.

Pursuant to the terms of Mr. Loughlin's current employment agreement dated November 18, 2009 and effective July 1, 2010, Mr. Loughlin is eligible to receive a quarterly Performance Bonus and a quarterly Discretionary Bonus. Mr. Loughlin was eligible to receive a quarterly Performance Bonus and a quarterly Discretionary bonus for the third and fourth quarters of 2010. The quarterly Performance Bonus is calculated as follows:

Criteria	Quarterly Bonus Payment
Worldwide revenue target for the quarter met AND there are no more than two Significant Customers AND no Significant Customer accounts for 17% or more of Worldwide consolidated revenue for the quarter	$ 20,000
Worldwide operating income target for the quarter met	$ 20,000
Worldwide subscriber target for the quarter met	$ 20,000
Total maximum Performance Bonus per quarter	$ 60,000

The quarterly target for worldwide operating income and revenue were not met during the year. The quarterly targets for worldwide subscribers were met for the first and third quarters of 2011. Mr. Loughlin received Performance Bonuses totaling $20,000 for each of the first and third quarters of 2011. Mr. Loughlin did not receive Performance Bonuses in the second and fourth quarter of 2011. For 2011, Mr. Loughlin received 17% of the maximum performance bonus. The Company believes that targets set for worldwide revenue, worldwide operating income and worldwide subscribers align with the Company's desire to continue to grow the business. Since the individual targets are intended to be challenging, and since the separate targets related to different aspects of the Company's performance, it is expected it will be difficult for all the targets to be achieved for any given year.

Mr. Loughlin is also eligible to receive a quarterly Discretionary Bonus of up to $20,000 per quarter. The Discretionary Bonus is to be determined by the Board of Directors at its sole and absolute discretion. In exercising such discretion, the Board of Directors will take into consideration Mr. Loughlin's individual performance. In evaluating Mr. Loughlin's individual performance during 2011, the Board of Directors considered factors such as the quality of Mr. Loughlin's strategic management to ensure the long-term success of the Company, the development of the Company's leadership talent, the quality of the content of the Company's publications, and the development of the Travelzoo brand. Mr. Loughlin received Discretionary Bonuses of $15,000, $5,000, $10,000 and $13,500 for the first, second, third and fourth quarter, respectively in 2011.

Pursuant to the terms of Mr. Holger Bartel's employment agreement dated September 17, 2008 and effective October 1, 2008, Mr. Bartel was eligible to receive a quarterly Performance Bonus and a quarterly Discretionary Bonus for the first and second quarters of 2010 as his employment terminated on June 30, 2010 as further described in the 2011 Proxy Statement. Mr. Bartel does not have any Performance Bonus or Discretionary Bonus pursuant to the terms of his employment agreement for Head of Strategy, which is effective October 1, 2011.

Pursuant to the terms of Mr. Lee's employment agreement as amended on September 23, 2008, Mr. Lee was eligible to receive a quarterly Performance Bonus and a quarterly Discretionary Bonus. The quarterly Performance Bonus is calculated as follows:

Criteria	Quarterly Bonus Payment
Worldwide revenue target for the quarter met AND there are no more than two Significant Customers AND no Significant Customer accounts for 17% or more of Worldwide consolidated revenue for the quarter	$ 15,000
Worldwide operating income target for the quarter met	$ 15,000
Worldwide subscriber target for the quarter met	$ 15,000
Total maximum Performance Bonus per quarter	$ 45,000

The quarterly target for worldwide revenue was not met during the first and second quarter of 2011. The quarterly targets for worldwide subscribers were met for the first quarter of 2011. Mr. Lee received Performance Bonuses totaling $15,000 for 2011. For 2011 Mr. Lee received 17% of the maximum Performance Bonus. The Company believes that targets set for worldwide revenue, worldwide operating income and worldwide subscribers align with the Company's desire to continue to grow the business. Since the individual targets are intended to be challenging, and since the separate targets related to different aspects of the Company's performance, it is expected it will be difficult for all the targets to be achieved for any given year.

Mr. Lee was also eligible to receive a quarterly Discretionary Bonus of up to $15,000 per quarter. The Discretionary Bonus was to be determined by the Chief Executive Officer in his sole and absolute discretion. In exercising such discretion, the Chief Executive Officer took into consideration Mr. Lee's individual performance. In evaluating Mr. Lee's individual performance during 2011, the Chief Executive Officer considered factors such as Mr. Lee's role as an advisor to the CEO on how to improve the Company's financial performance, his initiatives to improve the Company's management information systems, his leadership in the areas of corporate governance and business ethics, and the quality of his management of the Company's relationships with the investment community. Mr. Lee received Discretionary Bonuses totaling $90,000, of which $50,000 was related to excess discretionary retention bonus, for 2011.

Pursuant to the terms of Ms. Tafoya's employment agreement dated August 4, 2010 and effective July 1, 2010, Ms. Tafoya is eligible to receive a quarterly Performance Bonus and a quarterly Discretionary Bonus. Ms. Tafoya was eligible to receive a quarterly Performance Bonus and a quarterly Discretionary Bonus for each quarter during 2011. The quarterly Performance Bonus is calculated as follows:

Criteria	Quarterly Bonus Payment
North America revenue target for the quarter met AND there are no more than two Significant Customers AND no Significant Customer accounts for 17% or more of North America consolidated revenue for the quarter	$ 30,000
North America operating income target for the quarter met	$ 30,000
North America subscriber target for the quarter met	$ 30,000
Total maximum Performance Bonus per quarter	$ 90,000

The quarterly target for North America revenue was met for the first and fourth quarter of 2011. The quarterly targets for North America operating income were met for the first, third and fourth quarters of 2011. The quarterly targets for North America subscribers were met for each quarter of 2011. Ms. Tafoya received Performance Bonuses totaling $270,000 during 2011. For 2011 Ms. Tafoya received 75% of the maximum Performance Bonus. The Company believes that targets set for North America revenue, North America operating income and North America subscribers align with the Company's desire to continue to grow the business. Since the individual targets are intended to be challenging, and since the separate targets related to different aspects of the Company's performance, it is expected it will be difficult for all the targets to be achieved for any given year.

Ms. Tafoya is also eligible to receive a quarterly Discretionary Bonus of up to $30,000 per quarter. The Discretionary Bonus is to be determined by the Chief Executive Officer in his sole and absolute discretion. Ms. Tafoya was eligible to receive quarterly Discretionary Bonuses for each quarter of 2011. In exercising such discretion, the Chief Executive Officer will take into consideration Ms. Tafoya's individual performance. In evaluating Ms. Tafoya's individual performance during 2011, the Chief Executive Officer considered factors such as the quality of Mr. Tafoya's strategic management to ensure the long-term success of the Company, the development of the Company's leadership talent, the quality of the content of the Company's publications, and the development of the Travelzoo brand. Ms. Tafoya received Discretionary Bonuses totaling $120,000 for 2011.

Pursuant to the terms of Mr. Ceremony's employment agreement dated May 9, 2011 and effective June 15, 2011, Mr. Ceremony is eligible to receive a quarterly Performance Bonus and a quarterly Discretionary Bonus. Mr. Ceremony was eligible to receive a quarterly Performance Bonus and a quarterly Discretionary Bonus for the third and fourth quarters of 2011. The quarterly Performance Bonus was $37,500 and was guaranteed under the terms of his agreement. Also under the terms of Mr. Ceremony's employment agreement, a sign on bonus of $75,000 was paid after six months of service. This was paid in the fourth quarter of 2011.

Mr. Ceremony was eligible to receive quarterly Discretionary Bonus of up to $12,500 per quarter. The Discretionary Bonus is to be determined by the Chief Executive Officer in his sole and absolute discretion. Mr. Ceremony was eligible to receive quarterly Discretionary Bonuses for the third and fourth quarter of 2011. In exercising such discretion, the Chief Executive Officer will take into consideration Mr. Ceremony's individual performance. In evaluating Mr. Ceremony's individual performance, the Chief Financial Officer considered factors such as Mr. Ceremony's role as an advisor to the CEO on how to improve the Company's financial performance, his initiatives to improve the Company's management information systems, his leadership in the areas of corporate governance and business ethics, and the quality of his management of the Company's relationships with the investment community. Mr. Ceremony received Discretionary Bonuses totaling $25,000 for 2011.

Other Compensation-Related Matters

Stock Options. See "Approval of Stock Options" for information relating to stock options granted to Mr. Ceremony and Ms. Tafoya.

Perquisites and Additional Benefits. The Company seeks to maintain an open and inclusive culture in its facilities and operations among executives and other Company employees. Accordingly, the Company does not provide executives with reserved parking spaces or separate dining or other facilities, nor does the Company have programs for providing personal-benefit perquisites to executives, such as club dues or defraying the cost of personal entertainment. Named executive officers and employees may seek reimbursement for business related expenses in accordance with our business expense reimbursement policy.

Employment Agreements. The Company has entered into employment agreements with the named executive officers, some of which contain severance and change of control provisions. The terms of such employment agreements are described in more detail below in *Employment Agreements and Potential Payments Upon Termination or Change-in-Control*. The Committee believes these agreements are appropriate for a number of reasons, including the following:

- the agreements assist in attracting and retaining executives as we compete for talented employees in a marketplace where such agreements are commonly offered;

- the change in control provisions require terminated executives to execute a release in order to receive severance benefits; and

- the change in control and severance provisions help retain key personnel during rumored or actual acquisitions or similar corporate changes.

Compensation Committee Interlocks & Insider Participation

Holger Bartel was a consultant of the Company during a portion of last year, and became employed by the Company as Head of Strategy on October 1, 2011. In these roles, he earned $472,500 in salary and consulting fees during the last year.

Compensation Committee Report

The information contained in this report shall not be deemed to be "soliciting material" or "filed" with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that Travelzoo specifically incorporates it by reference into a document filed under the Securities Act or the Exchange Act.

The Company's Compensation Committee has reviewed and discussed the CD&A with management and, based on such review and discussions, the Compensation Committee recommended to the Company's Board of Directors that the CD&A be included in this proxy statement on Schedule 14A.

Compensation Committee

Kelly M. Urso (*Chair*)
Holger Bartel

Summary Compensation Table

The following summary compensation table sets forth information concerning the compensation to our Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers during the fiscal year ended December 31, 2011, December 31, 2010 and December 31, 2009.

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(2)	All Other Compensation ($)	Total ($)
Christopher Loughlin(3)	2011	556,500	43,500(7)	—	40,000(12)	46,555(17)	686,555
Chief Executive Officer	2010	435,608	20,000(7)	—	379,912(12)	61,886(17)	897,406
(effective July 1, 2010)	2009	324,418	3,371(7)	3,468,000	824,705(12)	52,036(17)	4,672,530
Holger Bartel(4)	2011	150,000	—	—	—	366,500(18)	516,500
Head of Strategy (effective October 1, 2011),	2010	200,000	40,000(8)	—	60,000(13)	257,398(18)	557,398
Consultant and Chairman of the Board of Directors	2009	400,000	70,000(8)	—	140,000(13)	—	610,000
Wayne Lee(5)	2011	140,000	97,369(9)	—	15,000(14)	18,162(19)	270,531
Chief Financial Officer (ending June14, 2011)	2010	240,000	41,119(9)	—	90,000(14)	1,500(19)	372,619
	2009	240,000	46,517(9)	—	105,000(14)	1,500(19)	393,017
Shirley Tafoya	2011	536,500	120,000(10)	—	270,000(15)	1,500(20)	928,000
President, North America	2010	522,906	202,369(10)	—	150,000(15)	1,500(20)	876,775
	2009	518,010	266,441(10)	—	—	11,462(20)	795,913
Glen Ceremony (6)	2011	245,455	25,000(11)	—	150,000(16)	1,500(21)	421,955
Chief Financial Officer (effective June 15, 2011)							

(1) Under SEC rules, the values reported reflect the aggregate grant date fair value of grants of stock options to each of the listed officers in the years shown. We calculate the grant date fair value of stock options using the Black-Scholes option pricing model. For a more detailed discussion on the valuation model and assumptions used to calculate the fair value of our options, refer to notes 1 and 6 to the consolidated financial statements contained in our 2011 Annual Report on Form 10-K filed on February 21, 2012.

(2) The amounts reflected in this column reflect the performance-based cash awards paid to the named executives pursuant to certain employment agreements, as discussed in the CD&A above.

(3) Mr. Loughlin became the Chief Executive Officer on July 1, 2010. In 2009 and from January 1, 2010 to June 30, 2010, Mr. Loughlin served as Executive Vice President, Europe. Mr. Loughlin's compensation for 2009 and from January 1, 2010 to June 30, 2010 is denominated in British pounds and was translated into U.S. dollars using the average 2009, and 2010 daily exchange rates of £1 = $1.55970, and £1 = $1.54431, respectively, as published on oanda.com.

(4) Mr. Bartel served as Chief Executive Officer from October 1, 2008 to June 30, 2010. From July 1, 2010 to September 30, 2011, Mr. Bartel served as a consultant to the Company under the terms of an independent contractor agreement. Starting October 1, 2011, Mr. Bartel has been employed as Head of Strategy.

(5) Mr. Lee's served as Chief Financial Officer through June 14, 2011 and his employment terminated on July 27, 2011.

(6) Mr. Ceremony became the Chief Financial Officer on June 15, 2011.

(7) For 2011 and 2010, amount consists of discretionary bonuses earned per the terms of Mr. Loughlin's employment agreement. For 2009, amount consists of a $3,371 bonus payment made to eligible employees of the Company as of the end of December 31, 2009.

(8) Amount consists of discretionary bonuses earned per the terms of Mr. Holger Bartel's employment agreement dated September 17, 2008 and effective October 1, 2008, as further described in the 2011 Proxy Statement.

(9) For 2011, amount consists of $95,000 of discretionary bonuses earned per the terms of Mr. Lee's employment agreement and

$2,369 in bonus payments made to eligible employees of the Company as of the end of December 31, 2011. For 2010, amount consists of $38,750 of discretionary bonuses earned per the terms of Mr. Lee's employment agreement and $2,369 in bonus payments made to eligible employees of the Company as of the end of December 31, 2010. For 2009, amount consists of $41,250 of discretionary bonuses earned per the terms of Mr. Lee's employment agreement and $5,267 in bonus payments made to eligible employees of the Company as of the end of December 31, 2009.

(10) For 2011, amount consists of $120,000 of discretionary bonuses earned per the terms of Ms. Tafoya's employment agreement. For 2010, amount consists of $200,000 of discretionary bonuses earned per the terms of Ms. Tafoya's employment agreement and $2,369 in bonus payments made to eligible employees of the Company as of the end of December 2010. For 2009, amount consists $262,500 of discretionary employee bonus awards and $3,941 in bonus payments made to eligible employees of the Company as of the end of December 2009.

(11) Amount consists of $25,000 discretionary bonuses earned per the terms of Mr. Ceremony's employment agreement.

(12) Amounts consist of bonuses earned per the terms of Mr. Loughlin's employment agreement.

(13) Amount represents quarterly performance bonuses earned per the terms of Mr. Holger Bartel's employment agreement.

(14) Amount represents quarterly performance bonuses earned per the terms of Mr. Lee's employment agreement.

(15) Amount represents quarterly performance bonuses earned per the terms of Ms. Tafyoa's employment agreement.

(16) Amount represents quarterly performance bonuses earned per the terms of Mr. Ceremony's employment agreement.

(17) For 2011, amount consists of housing allowance of $45,055 and $1,500 of the Company's matching contribution under the Company's 401(k) Plan. For 2010, amount consists of the Company's contribution of $11,243 to the Company's UK Employee Pension Contribution Plan, $7,852 for premiums paid for private health insurance for Mr. Loughlin and his family, and housing allowance of $33,232, and $9,559 for relocation assistance. For 2009, amount consists of the Company's contribution of $22,709 to the Company's UK Employee Pension Contribution Plan, $12,300 for premiums paid for private health insurance for Mr. Loughlin and his family, and housing allowance of $17,027.

(18) For 2011, amount consists of $322,500 in fees paid to Mr. Bartel pursuant to the terms of his consulting agreement for the period from January 1, 2011 to September 30, 2011 and $44,000 in director fees for 2011. For 2010 amount consists of $217,500 in fees paid to Mr. Bartel pursuant to the terms of his consulting agreement for the period from July 1, 2010 to December 31, 2010, $18,360 in director fees for the period from July 1, 2010 to December 31, 2010 and $21,538 for the pay-out of accrued vacation.

(19) For 2011, amount consists of $16,662 for the pay-out of accrued vacation and $1,500 for the Company's matching contributions of $1,500 under the Company's 401(k) Plan. For 2010 and 2009, amount consists of the Company's matching contribution of $1,500 under the Company's 401(k) Plan.

(20) For 2011 and 2010, amount consists of the Company's matching contribution of $1,500 under the Company's 401(k) Plan. For 2009, amount consists of $1,500 of the Company's matching contribution of $1,500 under the Company's 401(k) Plan and $9,962 for the pay-out of accrued vacation.

(21) Amount consists of the Company's matching contribution of $1,500 under the Company's 401(k) Plan.

Grants of Plan-Based Awards in 2011

The following table sets forth certain information with respect to non-equity incentive plan awards granted to each of our named executive officers during the fiscal year ended December 31, 2011.

Name	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)
Christopher Loughlin(1)	—	240,000
Holger Bartel	—	—
Wayne Lee(2)	—	90,000
Glen Ceremony(3)	—	150,000
Shirley Tafoya(4)	—	360,000

(1) Amount represents the potential quarterly Performance Bonus payments under the terms of Mr. Loughlin's employment agreement. For the first and second quarters of 2010, Mr. Loughlin was also eligible for an annual bonus payment which did not have a targeted payout amount, as the amount that Mr. Loughlin may receive for such bonus is not capped. The measurements for determining the Performance Bonus and annual payouts are described in the CD&A.

(2) Amount represents the potential quarterly Performance Bonus payments under the terms of Mr. Lee's employment agreement for the first and second quarters of 2011. The business measurements and performance goals for determining the Performance Bonus payout are described in the CD&A.

(3) Amount represents the potential quarterly Performance Bonus payments under the terms of Mr. Ceremony's employment agreement for 2011. The business measurements and performance goals for determining the Performance Bonus payout are described in the CD&A.

(4) Amount represents the potential quarterly Performance Bonus payments under the terms of Ms. Tafoya's employment agreement for 2011. The business measurements and performance goals for determining the Performance Bonus payout are described in the CD&A.

Outstanding Equity Awards at December 31, 2011

Name	Option Awards: Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Christopher Loughlin	75,000	225,000(1)	14.97	11/18/2019

(1) The options are exercisable in increments of 25% from and after July 1 of each year from 2011 through 2014, as long as Mr. Loughlin's employment remains in effect at such dates.

Option Exercises and Stock Vested

For the year ended December 31, 2011, there were no options exercised by any of our named executive officers.

For the year ended December 31, 2011, there was no stock vested for any of our named executive officers.

Employment Agreements and Potential Payments Upon Termination or Change-in-Control

The Company has employment agreements with its named executive officers and certain other employees. The employment agreements as of December 31, 2011 with the Company's named executive officers are described below.

Mr. Loughlin entered into an employment agreement with the Company on November 18, 2009, pursuant to which he became the Company's Chief Executive Officer on July 1, 2010. The agreement has a four-year term. The Company may terminate the agreement, with or without cause, upon written notice to Mr. Loughlin. However, if Mr. Loughlin's employment is terminated at any time without cause or if Mr. Loughlin's employment is terminated at any time due to a change of control (as defined in the agreement) or if he is not offered a position of comparable pay and responsibilities in the same geographic area in which he worked immediately prior to a change of control, Mr. Loughlin will be entitled to receive his base salary and medical benefits for a twelve month period in exchange for executing a general release of claims as to the Company. Assuming that Mr. Loughlin was terminated by the Company as of December 31, 2011 without cause, Mr. Loughlin would have been entitled to receive $562,000 and the Company would incur additional expenses for medical benefits of approximately $19,375.

Mr. Loughlin is paid a base salary and is eligible to certain annual and quarterly bonuses. In connection with the agreement, on November 18, 2009 the Company granted Mr. Loughlin options to purchase 300,000 shares of the Company's common stock. The Company provided relocation assistance and is providing a housing allowance to Mr. Loughlin in connection with his move from London to New York City. Mr. Loughlin is also entitled to participate in or receive such benefits under the Company's employee benefit plans and policies and such other benefits which may be in effect from time to time and as are provided to similarly situated employees of the Company.

Mr. Loughlin agreed that the Company will own any discoveries and work product (as defined in the agreement) made during the term of his employment and to assign all of his interest in any and all such discoveries and work product to the Company. Furthermore, Mr. Loughlin agreed not to, directly or indirectly, perform services for, or engage in, any business competitive with the Company or solicit the Company's customers or employees during the term of his employment and for a period of one year thereafter.

Mr. Wayne Lee entered into an employment agreement with the Company on December 9, 2005 as amended on September 23, 2008. Pursuant to the terms of the agreement, Mr. Lee was an at-will employee and the Company or Mr. Lee may terminate the agreement, with or without cause, upon two weeks prior written notice. Mr. Lee was not entitled to receive any severance or change of control benefits under the terms of the agreement. Mr. Lee was paid a base salary and was eligible to receive a quarterly Performance Bonus and a quarterly Discretionary Bonus (as defined in the agreement). In addition, Mr. Lee was entitled to participate in or receive such benefits under the Company's employee benefits plans and policies as may be in effect from time to time. The agreement was terminated on July 27, 2011.

Mr. Lee agreed that the Company will own any discoveries and work product (as defined in the agreement) made during the term of his employment and to assign all of his interest in any and all such discoveries and work product to the Company. Furthermore, Mr. Lee agreed to not, directly or indirectly, perform services for, or engage in, any business competitive with the Company or solicit the Company's customers or employees during the term of his employment and for a period of one year thereafter.

Ms. Shirley Tafoya entered into an employment agreement with the Company on August 4, 2010. Pursuant to the terms of the agreement, Ms. Tafoya is an at-will employee and the Company or Ms. Tafoya may terminate the agreement, with or without cause, with or without notice. However, if Ms. Tafoya's employment is terminated at any time without cause, Ms. Tafoya will be entitled to receive her base salary for a twelve month period in exchange for executing a general release of claims as to the Company. Assuming that Ms. Tafoya was terminated by the Company as of December 31, 2011 without cause, Ms. Tafoya would have been entitled to receive $542,000. If Ms. Tafoya's employment is terminated at any time due to a change of control (as defined in the agreement) or if she is not offered a position of comparable pay and responsibilities in the same geographic area in which she worked immediately prior to a change of control, Ms. Tafoya will be entitled to receive her base salary and medical benefits for a twelve month period in exchange for executing a general release of claims as to the Company. Assuming that Ms. Tafoya was terminated by the Company as of December 31, 2010 following a change of control of the Company, Ms. Tafoya would have been entitled to receive $542,000 and the Company would incur additional expenses for medical benefits of approximately $19,350.

Ms. Tafoya agreed that the Company will own any discoveries and work product (as defined in the agreement) made during the term of her employment and to assign all of her interest in any and all such discoveries and work product to the Company. Furthermore, Ms. Tafoya agreed to not, directly or indirectly, solicit the Company's customers or employees during the term of her employment and for a period of one year thereafter.

Mr. Ceremony entered into an employment agreement with the Company on June 15, 2011. Pursuant to the terms of the agreement, Mr. Ceremony is an at-will employee and the Company or Mr. Ceremony may terminate the agreement, with or without cause, with or without notice. However, if Mr. Ceremony's employment is terminated at any time without cause, Mr. Ceremony will be entitled to receive his base salary for a six month period in exchange for executing a general release of claims as to the Company. Assuming that Mr. Ceremony was terminated by the Company as of December 31, 2011 without cause, Mr. Ceremony would have been entitled to receive $225,000. If Mr. Ceremony's employment is terminated at any time due to a change of control (as defined in the agreement) or if he is not offered a position of comparable pay and responsibilities in the same geographic area in which he worked immediately prior to a change of control, Mr. Ceremony will be entitled to receive his base salary and medical benefits for a six month period in exchange for executing a general release of claims as to the Company. Assuming that Mr. Ceremony was terminated by the Company as of December 31, 2011 following a change of control of the Company, Mr. Ceremony would have been entitled to receive $225,000 and the Company would incur additional expenses for medical benefits of approximately $8,670.

Mr. Ceremony agreed that the Company will own any discoveries and work product (as defined in the agreement) made during the term of his employment and to assign all of his interest in any and all such discoveries and work product to the Company. Furthermore, Mr. Ceremony agreed to not, directly or indirectly, solicit the Company's customers or employees during the term of his employment and for a period of one year thereafter.

Certain Relationships and Related Party Transactions

The Company maintains policies and procedures to ensure that our directors, executive officers and employees avoid conflicts of interest. Our Chief Executive Officer and Chief Financial Officer are subject to our Code of Ethics and each signs the policy to ensure compliance. Our Code of Ethics requires our leadership to act with honesty and integrity, and to fully disclose to the Audit Committee any material transaction that reasonably could be expected to give rise to an actual or apparent conflict of interest. The Code of Ethics requires that our leadership obtain the prior written approval of the Audit Committee before proceeding with or engaging in any conflict of interest.

Our Audit Committee, with the assistance of legal counsel, reviews all related party transactions involving the Company and any of the Company's principal shareholders or members of our board of directors or senior management or any immediate family member of any of the foregoing. A general statement of this policy is set forth in our audit committee charter, which was attached as Appendix A to our proxy statement for the 2008 Annual Meeting of Stockholders which has been filed with the SEC. However, the Audit Committee does not have detailed written policies and procedures for reviewing related party transactions. Rather, all facts and circumstances surrounding each related party transaction may be considered. If the Audit Committee determines that any such related party transaction creates a conflict of interest situation or would require disclosure under Item 404 of Regulation S-K, as promulgated by the SEC, the transaction must be approved by the Audit Committee prior to the Company entering into such transaction or ratified thereafter. The chair of the Audit Committee is delegated the authority to approve such transactions on behalf of the full committee, provided that such approval is thereafter reviewed by the committee. Transactions or relationships previously approved by the Audit Committee or in existence prior to the formation of the committee do not require approval or ratification.

Independent Public Accountants

KPMG LLP ("KPMG") served as Travelzoo's independent registered public accounting firm for our 2011 fiscal year. KPMG representatives are not expected to be present at the Annual Meeting or to make a formal statement. Consequently, representatives of KPMG will not be available to respond to questions at the meeting.

The Audit Committee has not yet selected our independent registered public accounting firm for our 2012 fiscal year. The Audit Committee annually reviews the performance of our independent registered public accounting firm and the fees charged for their services. This review has not yet been completed. Based upon the results of this review, the Audit Committee will determine which independent registered public accounting firm to engage to perform our annual audit. Stockholder approval of our accounting firm is not required by our bylaws or otherwise required to be submitted to the stockholders.

Principal Accountant Fees and Services

During fiscal year 2010 and 2011, KPMG charged fees for services rendered to Travelzoo as follows:

Service	2010 Fees	2011 Fees
Audit fees(1)	$ 928,072	$ 851,693
Audit-related fees	—	—
Tax fees	—	—
All other fees	—	—
Total	$ 928,532	$ 851,693

(1) Audit fees consisted of fees for professional services rendered for the annual audit of Company's consolidated financial statements and review of the interim consolidated financial statements included in the quarterly reports and audit services rendered in connection with other statutory or regulatory filings.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee pre-approves all audit and permissible non-audit services provided by the Company's independent registered public accounting firm. These services may include audit services, audit-related services, tax and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis. During 2010 and 2011, all services provided by KPMG were pre-approved by the Audit Committee in accordance with this policy.

Voting

Under the Delaware General Corporation Law and our certificate of incorporation and bylaws, the presence, in person or represented by proxy, of the holders of a majority of the outstanding shares of our stock is necessary to constitute a quorum of stockholders to take action at the Annual Meeting. Once a quorum of stockholders is established, the affirmative vote of a plurality of the shares, which are present in person or represented by proxy at the Annual Meeting, is required to elect each director. The affirmative vote of a majority of the shares entitled to vote and present in person or by proxy in favor of any other matter properly brought before the Annual Meeting is required to approve of such action.

Shares represented by proxies which are marked "vote withheld" with respect to the election of any person to serve on the Board of Directors will not be considered in determining whether such a person has received the affirmative vote of a plurality of the shares. Shares represented by proxies that are marked "abstain" with respect to any other proposal will not be considered in determining whether such proposal has received the affirmative vote of a majority of the shares and such proxies will not have the effect of a "no" vote.

Shares represented by proxies which deny the proxy-holder discretionary authority to vote on any proposal will not be considered in determining whether such proposal has received the affirmative vote of a majority of the shares and such proxies will have the effect of a "no" vote.

To approve, on an advisory non-binding basis, the Company's executive compensation, the affirmative vote of a majority of the shares present at the meeting in person or by proxy is required for approval. Abstentions will have the same effect as negative votes. Broker non-votes will not be considered as present and will not be counted for the purpose of determining whether the proposals have been approved.

To approve, on an advisory non-binding basis, the frequency of the advisory vote on executive compensation, the frequency of the advisory vote on executive compensation receiving the greatest number of votes (every one, two or three years) will be considered the frequency approved by stockholders. Abstentions and broker non-votes will have no effect on such vote.

We know of no matters to come before the Annual Meeting except as described in this Proxy Statement. If any other matters properly come before the Annual Meeting, the proxies solicited hereby will be voted on such matters in accordance with the judgment of the persons voting such proxies.

Availability of the Proxy Materials

"IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 18, 2012."

This Proxy Statement and 2011 Annual Report are available on the Internet at *corporate.travelzoo.com/annualreport.*

Stockholder Proposals for the 2013 Annual Meeting

Proposals of eligible stockholders intended to be presented at the 2013 Annual Meeting must be received by us by December 4, 2012 for inclusion in our proxy statement and proxy relating to that meeting. Upon receipt of any such proposal, we will determine whether or not to include such proposal in the proxy statement and proxy in accordance with regulations governing the solicitation of proxies.

If a stockholder wishes to present a proposal at Travelzoo's 2013 Annual Meeting or to nominate one or more directors and the proposal is not intended to be included in Travelzoo's proxy statement relating to that meeting, the stockholder must give advance written notice to Travelzoo by March 22, 2013. These requirements are separate from and in addition to the requirements a stockholder must meet to have a proposal included in our proxy statement.

Any such notice must be delivered or mailed to our Corporate Secretary, at Travelzoo Inc., 590 Madison Avenue, 37th Floor, New York, New York 10022. Any stockholder desiring a copy of our bylaws will be forwarded one upon written request.

Householding

As permitted by applicable law, only one copy of this Proxy Statement and Annual Report is being delivered to stockholders residing at the same address, unless such stockholders have notified the Company of their desire to receive multiple copies of the Proxy Statement.

The Company will promptly deliver, upon oral or written request, a separate copy of the Proxy Statement and Annual Report to any stockholder residing at an address to which only one copy was mailed. Requests for additional copies, or requests for a single copy to be delivered to a shared address should be directed to Investor Relations, Travelzoo Inc., 590 Madison Avenue, 37th Floor, New York, New York 10022 or by telephone at (212) 484-4900.

Other

We will bear the cost of solicitation of proxies. Proxies will be solicited by mail and also may be solicited by our executive officers and other employees personally or by telephone, but such persons will not be specifically compensated for such services. It is contemplated that brokerage houses, custodians, nominees and fiduciaries will be requested to forward the soliciting material to the beneficial owners of stock held of record by such persons and we will reimburse them for their reasonable expenses incurred in connection therewith.

Even if you plan to attend the meeting in person, please sign, date and return the enclosed proxy promptly in accordance with the instructions shown on the enclosed proxy. You have the power to revoke your proxy, at any time before it is exercised, by giving written notice of revocation to our Corporate Secretary or by duly executing and delivering a proxy bearing a later date, or by attending the Annual Meeting and casting a contrary vote. All shares represented by proxies received in time to be counted at the Annual Meeting will be voted. Your cooperation in giving this your immediate attention will be appreciated.

HOLGER BARTEL
Chairman of the Board of Directors

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

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

Form 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

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 Incorporation or Organization)	(I.R.S. Employer Identification No.)
590 Madison Avenue, 37th Floor, New York, New York	**10022**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code:
(212) 484-4900
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Stock, $0.01 Par Value
(Title of Class)

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

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

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

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

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

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

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

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

As of June 30, 2011, the aggregate market value of voting stock held by non-affiliates of the Registrant, based upon the closing sales price for the Registrant's Common Stock, as reported on the NASDAQ Global Select Market, was $514,503,890.

The number of shares outstanding of the Registrant's Common Stock as of February 15, 2012 was 15,961,553.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2011 Annual Meeting of Stockholders are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13, and 14.

TRAVELZOO INC.

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Forward-Looking Statements

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

PART I

Item 1. *Business*

Overview

Travelzoo Inc. (the “Company” or “Travelzoo”) is a global Internet media company. We inform over 24 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, 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. Voucher promotional offers 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. The results of operations of the Asia Pacific operating segment have been classified as discontinued operations for all periods presented. We have not had significant ongoing involvement with the operations of the Asia Pacific operating segment and have not had 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. See Note 11 to the accompanying consolidated financial statements.

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, Kimpton Hotels, Liberty Travel, Marriott Hotels, Royal Caribbean, Spirit Airlines, Starwood Hotels & Resorts Worldwide, United Airlines, and Virgin Atlantic.

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 click-throughs, number of referrals, or percentage of the face value of vouchers sold. Insertion orders are typically for periods between one month and twelve months and are not automatically renewed. Merchant agreements for *Local Deals and Getaway* advertisers are typically for the voucher redemption period, which normally is between three months and twelve months and are not automatically renewed. Our revenues have grown on an annual basis since we began operations in 1998. Our revenues increased from approximately $84,000 for the period from May 21, 1998 (inception) to December 31, 1998, to approximately $148 million for the year ended December 31, 2011.

We have two operating segments based on geographic regions: North America and Europe. North America consists of our operations in Canada and the U.S. Europe consists of our operations in France, Germany, Spain, and the U.K. For the year ended December 31, 2011, 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.

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

Travelzoo is controlled by Ralph Bartel, who held beneficially approximately 53.3% of the outstanding shares as of February 15, 2012.

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.

In April 2002, Travelzoo.com Corporation was merged into 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 one share of Travelzoo Inc. in exchange for each outstanding 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 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 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 December 31, 2011, there were 15,961,553 shares of common stock outstanding.

In October 2004, the Company announced a program under which it would make cash payments to persons who establish that they were stockholders of Travelzoo.com Corporation, and who failed to submit requests for shares in Travelzoo Inc. within the required time period. See Note 3 to the accompanying consolidated financial statements.

On April 21, 2011, the Company entered into an agreement which required a $20.0 million cash payment to the State of Delaware resolving all claims relating to the State of Delaware's unclaimed property review. If additional escheat claims are asserted in the future, 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. The Company is not able to predict the amount or outcome of any future claims which might be asserted related to the unissued shares. The Company is continuing its program under which it makes cash payments to people who establish that they were former stockholders of Travelzoo.com Corporation, and who failed to submit requests to convert their shares into shares of Travelzoo Inc. within the required time period. See Note 1 to the accompanying financial statements for further details.

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

Our Industry

While our mission is to provide our subscribers and users the highest quality information about the best travel, entertainment and local deals, our revenues are generated from advertising fees. According to Kantar Media, travel companies in the U.S. spent $2.7 billion in 2011 on advertising (source: Kantar Media, 2011). According to BIA Advisory Services and The Kelsey Group's U.S. Local Media Annual Forecast (2008-2013), U.S. local advertising revenues will be $144.4 billion in 2013 (source: BIA Advisory Services/The Kelsey Group, 2009). We believe that traditional media outlets such as newspapers, television and radio continue to be another medium for travel companies, entertainment companies and local businesses to advertise their offers, though the percentage spent on advertising in these traditional media outlets is decreasing.

We believe that several factors are causing and will continue to cause travel companies, entertainment companies and local businesses to increase their spending on Internet advertising of offers:

- *The Internet Is Consumers' Preferred Information Source.* Market research shows that the Internet has become consumers' preferred information source for travel (source: Forrester's North American Technographics Travel Online Survey, Q1 2008).

- *Benefits of Internet Advertising vs. Print, TV and Radio Advertising.* Internet advertising provides advertisers advantages compared to traditional advertising. These advantages include real-time listings, real-time updates, and performance tracking. See "— Benefits to Travel, Entertainment and Local Companies" below.
- *New Advertising Opportunities.* The Internet allows advertisers to advertise their sales and specials in a fast, flexible, and cost-effective manner that has not been possible before.
- *Suppliers Selling Directly.* We believe that many travel suppliers prefer to sell directly to consumers through suppliers' websites versus selling through travel agents. Internet advertising attracts consumers to suppliers' websites.

Problems Travel, Entertainment and Local Companies Face and Limitations of Newspaper, TV and Radio Advertising

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

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

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

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

Our Products and Services

We provide airlines, hotels, cruise lines, vacation packagers, other travel suppliers, entertainment and local companies with a fast, flexible, and cost-effective way to reach millions of Internet users. Our publications include the *Travelzoo* websites, the *Travelzoo Top 20* e-mail newsletter, the *Newsflash* e-mail alert service, the *Local Deals* and *Getaways* e-mail alert services. 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 enables users to find and compare the best flight options from multiple sources, including airline and online travel agency websites. While our products provide advertising opportunities for travel, entertainment and local companies, they also provide Internet users with a free source of information on current sales and specials from thousands of travel, entertainment and local companies.

As travel, entertainment and local companies increasingly utilize the Internet to promote their offers, we believe that our products will enable them to take advantage of the lower cost and real-time communication enabled by the Internet. Our listing management software allows our advertisers to add, update, and delete special offer listings on a real-time basis. Our software also provides our advertisers with real-time performance tracking, enabling them to optimize their marketing campaigns.

The following table presents an overview of our products:

Product	Content	Publication Schedule	Reach/Usage*	Advertiser Benefits	Consumer Benefits
Travelzoo websites	Websites in the U.S., Canada, France, Germany, Spain, and the U.K. listing thousands of outstanding sales and specials from more than 2,000 travel, entertainment and local companies	24/7	13.8 million unique visitors per month	Broad reach, sustained exposure, targeted placements by destination and travel segment	24/7 access to deals, ability to search and browse by destination or keyword
Travelzoo Top 20	Popular e-mail newsletter listing 20 of the week's most outstanding deals	Weekly	20.4 million subscribers	Mass "push" advertising vehicle to quickly stimulate incremental travel and entertainment purchases	Weekly access to 20 outstanding, handpicked deals chosen from among thousands
Newsflash	Regionally-targeted e-mail alert service with a single time-sensitive and newsworthy travel and entertainment offer	Within two hours of an offer being identified	19.0 million subscribers	Regional targeting, 100% share of voice for advertiser, flexible publication schedule	Breaking news offers delivered just-in-time
Local Deals and Getaways	Locally-targeted e-mail alert service with a single time-sensitive and newsworthy offer from local merchants such as spas and restaurants	Twice per week in active markets	Over 116 markets	Local targeting by zip code, 100% share of voice for the local business, flexible publication schedule	Breaking news offers delivered just-in-time
Travelzoo Network	A network of third-party websites that list outstanding deals published by Travelzoo	24/7	Over 350 third-party websites	Drives qualified users with substantial distribution beyond the Travelzoo audience	Contextually relevant travel deals that have been handpicked and professionally reviewed
SuperSearch	Travel search tool using a proprietary algorithm to recommend sites and enable one-click searching	On-demand	5.6 million monthly searches	Drives qualified traffic directly to advertiser site on a pay-per-click basis	Saves time and money by recommending the sites most likely to have great rates for a specific itinerary
Fly.com	Travel search engine that enables users to find and compare the best flight, hotel and rental car options from multiple sources	On-demand	3.3 million monthly searches	Provides advertisers a low cost distribution channel and retention of the user engagement on the advertiser's website	Free access to real-time price comparisons from airlines and online travel agencies

* For *Travelzoo* websites, reach information is based on data from Google Analytics. For *Top 20, Newsflash, Local Deals* and *Getaways, Travelzoo Network, SuperSearch,* and *Fly.com*, reach/usage information is based on internal Travelzoo statistics as of December 31, 2011.

In 2011, 73% of our total revenues were generated from our North America operations, and 27% of our total revenues were generated from our European operations. See Note 8 to the accompanying consolidated financial statements.

Benefits to Travel, Entertainment and Local Companies

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

- *Real-Time Listings of Special Offers.* Our technology allows travel and entertainment companies to advertise special offers on a real-time basis.
- *Real-Time Updates.* Our technology allows travel and entertainment companies to update their listings on a real-time basis.
- *Real-Time Performance Reports.* We provide travel and entertainment companies with real-time tracking of the performance of their advertising campaigns. Our solution enables travel and entertainment companies to optimize their campaigns by removing or updating unsuccessful listings and further promote successful listings.
- *Access to Millions of Consumers.* We provide travel and entertainment companies fast access to over 24 million travel shoppers.
- *Global Reach.* We offer access to Internet users across the U.S., Canada, France, Germany, Spain, and the U.K.

Key features of our solution for local companies include:

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

Benefits to Consumers

Our *Travelzoo* websites (www.travelzoo.com, www.travelzoo.ca, ww.travelzoo.co.uk, www.travelzoo.de, www.travelzoo.es, www.travelzoo.fr, among others), *Travelzoo Top 20* e-mail newsletter, *Newsflash, Local Deals, Getaways,* the *Travelzoo Network, SuperSearch* search tool, and *Fly.com* search engine provide consumers information on current offers at no cost to the consumer. Key features of our products include:

- *Aggregation of Offers from Many Companies.* Our *Travelzoo* websites and our *Travelzoo Top 20* e-mail newsletter aggregate information on current offers from more than 2,000 travel, entertainment and local companies. This saves the consumer time when searching for travel, entertainment and local deals, sales and specials.
- *Current Information.* Compared to newspaper, TV or radio advertisements, we provide consumers more current information, since our technology enables travel, entertainment and local companies to update their listings on a real-time basis.
- *Reliable Information.* We operate a Test Booking Center® to check the availability of travel, entertainment and *local deals* included in the *Travelzoo Top 20* before publishing.
- *Search Tools.* We provide consumers with the ability to search for specific offers.

Growth Strategy

Key elements of our strategy include:

- *Build Strong Brand Awareness.* We believe that it is essential to establish a strong brand with Internet users and within the travel industry, entertainment industry and with local businesses. We currently utilize online marketing and direct marketing to promote our brand to consumers. In addition, we believe that we build brand awareness through product excellence which leads to word-of-mouth referrals. We utilize sponsorships at industry conferences and public relations to promote our brand.
- *Increase Reach:* In order to attract more users to our products, we intend to expand our advertising campaigns as our business grows. We believe that we also can attract more users through product excellence that is promoted by word-of-mouth.
- *Quality User Base:* We believe that, in addition to increasing our reach, we need to maintain the quality of our user base. We believe that high quality content attracts a quality user base.
- *Increase Number of Advertisers:* We intend to continue to grow our advertiser base by expanding the size of our sales force and by entering into new content categories such as restaurants and spas. See "— Sales and Marketing" below.
- *Excellent Service:* We believe that it is important to provide our advertisers and users with excellent service.
- *Replicate Business Model in Foreign Markets.* We have successfully replicated our business model in foreign markets including Canada, the U.K., Germany, France and Spain. We believe that there is an opportunity to replicate our business model in additional foreign markets. In addition, we believe that we can strengthen our strategic position if we offer global advertising solutions to existing and new advertisers.

Advertisers

As of December 31, 2011, our advertiser base included more than 2,000 travel companies, entertainment companies and local businesses, including airlines, hotels, cruise lines, vacations packagers, tour operators, destinations, car rental companies, travel agents, theater and performing arts groups, restaurants, spas, and activity companies. Some of our advertisers are:

Air New Zealand	Interstate Hotels & Resort
American Airlines	Jet Luxury Resorts
Apple Vacations	Kimpton Hotels
British Airways	Liberty Travel
CheapTickets	Lufthansa
Cirque du Soleil	Marriott Hotels
Delta Air Lines	Orbitz Worldwide
Expedia	Royal Caribbean
Fairmont Hotels and Resorts	Spirit Airlines
Fareportal	Starwood Hotels & Resorts Worldwide
Harrah's Entertainment	Travelocity
Hawaiian Airlines	United Airlines
Hilton Hotels	Virgin America
Hotwire	Virgin Atlantic
InterContinental Hotels Group	Walt Disney Parks & Resorts

As discussed in Note 8 to the accompanying consolidated financial statements, we did not have any advertisers that accounted for 10% or more of our total revenues during the years ended December 31, 2009, 2010 and 2011. The agreements with these advertisers are in the form of multiple insertion orders from groups of entities under common control. Although we did not have any advertisers that accounted for 10% or more of our total revenues during the year ended December 31, 2011, it is possible that we may have an advertiser or advertisers that account for 10% or more of our total revenues in future years because management believes there is a high concentration in the online travel agency industry.

Sales and Marketing

As of December 31, 2011, our advertising sales force and sales support staff consisted of 118 employees worldwide. We intend to grow our advertiser base by expanding the size of our sales force.

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

Technology

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

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

Our software is written using widely used standards, such as Visual Basic Script, and HTML, and interfaces with products from Microsoft. We have generally standardized our hardware platform on HP servers and Cisco switches.

Competition

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

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

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

Government Regulation and Legal Uncertainties

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

Privacy Concerns. Government agencies are considering adopting regulations regarding the collection and use of personal identifying information obtained from individuals when using Internet sites or e-mail services. While we have implemented and intend to implement additional programs designed to enhance the protection of the privacy of our users, these programs may not conform to any regulations which may be adopted by these agencies. In addition, these regulatory and enforcement efforts may adversely affect our ability to collect demographic and personal information from users, which could have an adverse effect on our ability to provide advertisers with demographic information. The European Union (the “EU”) has adopted a directive that imposes restrictions on the collection and use of personal data. The directive could impose restrictions that are more stringent than current Internet privacy standards in the U.S. The directive may adversely affect our operations in Europe.

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

Domain Names. Domain names are the user’s Internet “addresses.” The current system for registering, allocating and managing domain names has been the subject of litigation and of proposed regulatory reform. We have registered travelzoo.com, travelzoo.ca, travelzoo.co.jp, travelzoo.com.au, travelzoo.com.tw, travelzoo.co.uk, travelzoo.de, travelzoo.fr, travelzoo.org, travelzoo.net, weekend.com, and weekends.com, among other domain names, and have registered “Travelzoo” as a trademark in the United States, Canada, the EU, and in various countries in Asia Pacific. In January 2009, we purchased the domain name *Fly.com*. Because of these protections, it is unlikely, yet possible, that third parties may bring claims for infringement against us for the use of our domain name and trademark. In the event such claims are successful, we could lose the ability to use our domain names. There can be no assurance that our domain names will not lose their value, or that we will not have to obtain entirely new domain names in addition to or in lieu of our current domain names if changes in overall Internet domain name rules result in a restructuring in the current system of using domain names which include “.com,” “.net,” “.gov,” “.edu” and other extensions.

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

Intellectual Property

Our success depends to a significant degree upon the protection of our brand names, including *Travelzoo*® and *Top 20*®*.* If we were unable to protect the *Travelzoo* and *Top 20* brand names, our business could be materially adversely affected. We rely upon a combination of copyright, trade secret and trademark laws to protect our intellectual property rights. We have registered the *Travelzoo* and *Top 20* trademarks, among others, with the United States Patent and Trademark Office. We have registered the *Travelzoo* and *Travelzoo Top 20* trademarks with the Office for Harmonization in the Internal Market of the European Community. We have registered the *Travelzoo* trademark in Australia, Canada, China, Hong Kong, Japan, South Korea, and Taiwan. The steps we have taken to protect our proprietary rights, however, may not be adequate to deter misappropriation of proprietary information.

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

Employees

As of December 31, 2011, we had 350 employees in Europe and North America. None of our employees are represented under collective bargaining agreements. We consider our relations with our employees to be good. Because of our anticipated continued growth, we expect that the number of our employees will continue to increase for the foreseeable future.

Internet Access to Other Information

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

Item 1A. *Risk Factors*

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

Risks Related to Our Financial Condition and Business Model

We cannot assure you that we will be profitable.

In the years ended December 31, 2009, 2010 and 2011, we generated net income of $5.2 million, $13.2 million and $3.3 million. Although we were profitable in 2009, 2010 and 2011, there is no assurance that we will continue to be profitable in the future. We forecast our future expense levels based on our operating plans and our estimates of future revenues. We may find it necessary to significantly accelerate expenditures relating to our sales and marketing efforts or otherwise increase our financial commitment to creating and maintaining brand awareness among Internet users and advertisers. If our revenues grow at a slower rate than we anticipate, or if our spending levels exceed our expectations or cannot be adjusted to reflect slower revenue growth, we may not generate sufficient revenues to be profitable. Any of these developments could result in a significant decrease in the trading price of our common stock.

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

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

- mismatches between resource allocation and advertiser demand due to difficulties in predicting advertiser demand in a new market;
- changes in general economic conditions that could affect marketing efforts in general and online marketing efforts in particular;
- the magnitude and timing of marketing initiatives, including our acquisition of new subscribers and our expansion efforts in other regions;
- the introduction, development, timing, competitive pricing and market acceptance of our products and services and those of our competitors;
- our ability to attract and retain key personnel;
- our ability to manage our anticipated growth and expansion;
- our ability to attract traffic to our websites;
- technical difficulties or system downtime affecting the Internet generally or the operation of our products and services specifically;

- payments which we may make to previous stockholders of Travelzoo.com Corporation who failed to submit requests for shares in Travelzoo Inc. within the required time period, or escheat claims related to shares not issued in the Company's merger with Travelzoo.com Corporation; and
- volatility of our operating results in new markets.

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

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

Our expansion of our product offering to include Local Deals format may result in additional costs that exceed revenue and may trigger additional stock volatility.

During the third quarter of 2010, we launched our *Local Deals* format of advertising, under which we sell vouchers directly to consumers to advertise promotional deals provided by merchants. For example, a consumer could buy a voucher for $99 for a dinner for two at a merchant's restaurant that would normally be valued at $199, representing a promotional value of $100 to the consumer. This format involves several aspects that are new to us, and will require investments to maintain and grow the business including additional sales force hiring, building a customer service organization, marketing, technology tracking systems and payment processing. This format, introduced to the market in recent years, has resulted in many competitors entering the marketplace, thereby creating a very competitive marketplace. This competitive landscape along with the required investments to start, maintain and grow this format create a risk that our costs may exceed our revenues in the short and long term, which may materially impact our results of operation and financial condition. Operating this format may introduce additional volatility to our stock price due to the performance of this format by the Company and/or the overall market valuations that are being determined by the market for companies operating this format of advertising.

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

Our current revenue model depends on advertising fees paid primarily by travel, entertainment and local companies. If current advertisers decide not to continue advertising their offers with us and we are unable to replace them with new advertisers, our business may be adversely affected. To be successful, we must provide online marketing solutions that achieve broad market acceptance by travel, entertainment and local companies. In addition, we must attract sufficient Internet users with attractive demographic characteristics to our products. It is possible that we will be required to further adapt our business model in response to changes in the online advertising market or if our current business model is not successful. If we are not able to anticipate changes in the online advertising market or if our business model is not successful, our business could be materially adversely affected.

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

We depend on our ability to attract and retain advertisers (hotels, spas, restaurants, vacation packagers, airlines, etc.) that are prepared to offer products or services on compelling terms to our subscribers. We do not have long-term arrangements to guarantee the availability of deals that offer attractive quality, value and variety to consumers or favorable payment terms to us. We must continue to attract and retain advertisers in order to increase revenue and maintain profitability. If new advertisers do not find our marketing and promotional services effective, or if existing advertisers do not believe that utilizing our products provides them with a long-term increase in customers, revenue or profit, they may stop making offers through our marketplace. In addition, we may experience attrition in our advertisers in the ordinary course of business resulting from several factors, including losses to competitors and advertiser closures or bankruptcies. If we are unable to attract new advertisers in numbers sufficient to grow our business, or if too many advertisers are unwilling to offer products or services with compelling terms to our subscribers or offer favorable payment terms to us, we may sell less advertising, and our operating results will be adversely affected.

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

Existing advertisers may shift from one advertising service (e.g. *Top 20*) to another (e.g. *Local Deals* 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.

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

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

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

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

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

Our business depends on our reputation for providing high-quality deals, and our brand and reputation may be harmed by actions taken by advertisers that are outside our control. In particular, this is the case with our *Local Deals* and *Getaways* merchants, since we are selling vouchers , on behalf of the merchants, directly to our subscribers as opposed to the remainder of our business in which we are only collecting the advertising fee from the advertiser and the subscribers are booking the deal directly with the advertiser. Any shortcomings of one or more of our merchants, particularly with respect to an issue affecting the quality of the deal offered or the products or services sold, may be attributed by our subscribers to us, thus damaging our reputation, brand value and potentially affecting our results of operations. In addition, negative publicity and subscriber sentiment generated as a result of fraudulent or deceptive conduct by our merchants could damage our reputation, reduce our ability to attract new subscribers or retain our current subscribers, and diminish the value of our brand.

Our business relies heavily on email and other messaging services, and any restrictions on the sending of emails or messages or a decrease in subscriber willingness to receive messages could adversely affect our revenue and business.

Our business is highly dependent upon email and other messaging services. Deals offered through emails and other messages sent by us, or on our behalf by our affiliates, generate a substantial portion of our revenue. Because of the importance of email and other messaging services to our businesses, if we are unable to successfully deliver emails or messages to our subscribers or potential subscribers, or if subscribers decline to open our emails or messages, our revenue and profitability would be adversely affected. Actions by third parties to block, impose restrictions on, or charge for the delivery of, emails or other messages could also materially and adversely impact our business. From time to time, internet service providers block bulk email transmissions or otherwise experience technical difficulties that result in our inability to successfully deliver emails or other messages to third parties. In addition, our use of email and other messaging services to send communications about our website or other matters may result in legal claims against us, which if successful might limit or prohibit our ability to send emails or other messages. Any disruption or restriction on the distribution of emails or other messages or any increase in the associated costs would materially and adversely affect our revenue and profitability.

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

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

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

For the year ended December 31, 2011 our cash and cash equivalents decreased by $2.4 million to $38.7 million. We intend to continue to grow our business, and intend to fund our current operations and anticipated growth from the cash on hand. However, this may not be sufficient to meet our needs. We may not be able to obtain financing on commercially reasonable terms, or at all.

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

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

Our business may be sensitive to recessions.

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

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

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

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

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

We are subject to payments-related risks.

We accept payments for the sale of vouchers using a variety of methods, including credit cards and debit cards. We pay interchange and other fees, which may increase over time and raise our operating expenses and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards and debit cards, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. Moreover, under payment card rules and our contracts with our card processors, if there is a security breach of payment card information that we store, we could be liable to the payment card issuing banks for their cost of issuing new cards and related expenses. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments, process electronic funds transfers, or facilitate other types of online payments, and our business and results of operations could be adversely affected. If one or more of these agreements are terminated and we are unable to replace them on similar terms, or at all, it could adversely affect our results of operations.

Risks Related to Our Markets and Strategy

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

In May 2005, we began operations in the U.K. In 2006 we began operations in Canada, Germany and Spain. In 2007, we began operations in France.

Although our revenues in Europe increased 58% in 2011 compared to 2010, and our operations in Europe generated a profit of $4.9 million during the 2011 fiscal year, our operations in Europe incurred losses of $1.8 million in 2010, primarily as a result of significant expenses related to subscriber acquisition and the launch of *Fly.com*. We intend to continue adding a significant number of subscribers in selected countries in which we operate as we believe this is one of the factors that will allow us to increase our advertising rates and increase our revenues in Europe.

If we incur losses from our operations in Europe in the future, these losses may not have any recognizable tax benefit. We expect this will have a material negative impact on our net income and cash flows. Any of these developments could result in a significant decrease in the trading price of our common stock. In addition to uncertainty about our ability to generate net income from our foreign operations and expand our international market position, there are certain risks inherent in doing business internationally, including:

- trade barriers and changes in trade regulations;
- difficulties in developing, staffing and simultaneously managing foreign operations as a result of distance, language and cultural differences;
- stringent local labor laws and regulations;

- currency exchange rate fluctuations;
- risks related to government regulation; and
- potentially adverse tax consequences.

If current economic conditions in Europe do not improve or deteriorate further due to the adverse effects of the ongoing sovereign debt crisis, advertisers may delay or reduce advertising or marketing spending. This could result in reductions in sales of our services, longer sales cycles, and increased price competition.

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

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

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

We spent $12.2 million, $10.7 million and $7.6 million on online marketing initiatives relating to subscriber acquisition for the years ended December 31, 2009, 2010 and 2011 and expect to continue to spend significant amounts to acquire additional subscribers. We must continue to retain and acquire subscribers in order to maintain or increase revenue. We cannot assure you that the revenue from subscribers we acquire will ultimately exceed the cost of acquiring new subscribers. If subscribers do not perceive our offers to be of high value and quality or if we fail to introduce new and more relevant deals, we may not be able to acquire or retain subscribers. If we reduce our subscriber acquisition costs we cannot assure you that this will not adversely impact our ability to acquire new subscribers. If we are unable to acquire new subscribers who purchase our deals directly or indirectly in numbers sufficient to grow our business, or if subscribers cease to purchase our deals directly or indirectly through our advertisers, the revenue we generate may decrease and our operating results will be adversely affected. If the level of usage by our subscriber base declines or does not grow as expected, we may suffer a decline in subscriber growth or revenue. A significant decrease in the level of usage or subscriber growth would have an adverse effect on our business, financial condition and results of operations.

Our business may be sensitive to events affecting our advertisers in general.

Events like disturbances in the Middle East are likely to have a negative impact on the travel industry. Events like the recent recession or further financial crisis are likely to have a negative impact on travel, entertainment and local companies. We are not in a position to evaluate the net effect of these circumstances on our business. In the longer term, our business might be negatively affected by financial pressures on travel, entertainment and local companies. However, our business may also benefit if travel, entertainment and local companies increase their efforts to promote special offers or other marketing programs. If such events result in a long-term negative impact on the travel, entertainment and local companies, such impact could have a material adverse effect on our business.

We will not be able to attract advertisers or Internet users if we do not continually enhance and develop the content and features of our products and services.

To remain competitive, we must continually improve the responsiveness, functionality and features of our products and services. We may not succeed in developing features, functions, products or services that advertisers and Internet users find attractive. This could reduce the number of advertisers and Internet users using our products and materially adversely affect our business.

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

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

- rapidly changing technology in online advertising;
- evolving industry standards, including both formal and *de facto* standards relating to online advertising;
- developments and changes relating to the Internet;
- competing products and services that offer increased functionality; and
- changes in advertiser and Internet user requirements.

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

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

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

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

Since the commencement of our operations, we have experienced a period of rapid growth. In order to execute our business plan, we must continue to grow significantly. As of December 31, 2011, we had 350 employees, up from 255 employees as of December 31, 2010. We expect that the number of our employees will continue to increase for the foreseeable future. This growth has placed, and our anticipated future growth will continue to place, a significant strain on our management, systems and resources. We expect that we will need to continue to improve our financial and managerial controls and reporting systems and procedures. We will also need to continue to expand and maintain close coordination among our sales, production, marketing, IT, human resource and finance departments. We may not succeed in these efforts. Our inability to expand our operations in an efficient manner could cause our expenses to grow disproportionately to revenues, our revenues to decline or grow more slowly than expected and could otherwise have a material adverse effect on our business.

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

We compete for advertising dollars with large Internet portal sites, such as MSN and Yahoo! that offer listings or other advertising opportunities to travel, entertainment and local companies. These companies have significantly greater financial, technical, marketing and other resources and larger advertiser bases. We compete with search engines like Google and Bing that offer pay-per-click listings. We compete with travel meta-search engines like Kayak and online travel and entertainment deal publishers. We compete with large online travel agencies like Expedia and Priceline that also offer advertising placements and capture consumer interest. We compete with companies like Groupon and LivingSocial that sell vouchers for deals from local businesses such as spas, hotels and restaurants. We expect to face increased competition from other internet and technology-based businesses such as Google and Microsoft, each of which has launched initiatives which are directly competitive to our *Local Deals* and G*etaways* products. We also have seen that some competitors will accept lower margins, or negative margins, to attract attention and acquire new subscribers. If competitors engage in group buying initiatives in which merchants receive a higher percentage of the face value than we currently offer, we may be forced to pay a higher percentage of the face value than we currently offer, which may reduce our revenue. In addition, we compete with newspapers, magazines and other traditional media companies that operate websites which provide online advertising opportunities. We expect to face additional competition as other established and emerging companies, including print media companies, enter the online advertising market. Competition could result in reduced margins on our services, loss of market share or less use of *Travelzoo* by advertisers and consumers. If we are not able to compete effectively with current or future competitors as a result of these and other factors, our business could be materially adversely affected.

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

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

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

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

Risks Related to the Market for our Shares

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

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the twelve months ended December 31, 2011, the closing price of our common stock on the NASDAQ Global Select Market ranged from $21.02 to $101. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results; announcements of technological innovations or new products by us or our competitors; changes in financial estimates and recommendations by securities analysts; the operating and stock price performance of other companies that investors may deem comparable to us; and news reports relating to trends in our markets or general economic conditions.

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

We are controlled by a principal stockholder.

Ralph Bartel, who founded Travelzoo and who is a Director of Travelzoo, is our largest stockholder, holding beneficially, as of February 15, 2012, approximately 53.3% of our outstanding shares. Through his share ownership, he is in a position to control Travelzoo and to elect our entire board of directors.

Risks Related to Legal Uncertainty

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

Shareholder lawsuits for securities violations are often launched against companies whose stock price is volatile. Such lawsuits involving the Company would require management's attention to defend, which may distract attention from operating the Company. In addition, the Company may incur substantial costs to defend itself and/or settle such claims, which may be considered advisable to minimize the distraction and costs of defense. Such lawsuits could result in judgments against the Company requiring substantial payments to claimants. Such costs may materially impact our results of operations and financial condition. During the third quarter ended September 30, 2011, numerous class action and derivative lawsuits were filed against the Company. See further disclosure in Note 3 to the accompanying consolidated financial statements.

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

To date, governmental regulations have not materially restricted use of the Internet in our markets. However, the legal and regulatory environment that pertains to the Internet is uncertain and may change. Uncertainty and new regulations could increase our costs of doing business, prevent us from delivering our products and services over the Internet or slow the growth of the Internet. In addition to new laws and regulations being adopted, existing laws may be applied to the Internet. New and existing laws may cover issues which include:

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

We may be liable as a result of information retrieved from or transmitted over the Internet.

We may be sued for defamation, negligence, copyright or trademark infringement or other legal claims relating to information that is published or made available in our products. These types of claims have been brought, sometimes successfully, against online services in the past. The fact that we distribute information via e-mail may subject us to potential risks, such as liabilities or claims resulting from unsolicited e-mail or spamming, lost or misdirected messages, security breaches, illegal or fraudulent use of e-mail or interruptions or delays in e-mail service. In addition, we could incur significant costs in investigating and defending such claims, even if we ultimately are not liable. If any of these events occur, our business could be materially adversely affected.

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

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

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

In certain states and foreign jurisdictions, our *Local Deals* and *Getaways* vouchers may be considered a gift card. Some of these states and foreign jurisdictions include gift cards under their unclaimed and abandoned property laws which require companies to remit to the government the value of the unredeemed balance on the gift cards after a specified period of time (generally between one and five years) and impose certain reporting and recordkeeping obligations. We do not remit any amounts relating to unredeemed vouchers we sell based on our assessment of applicable laws. The analysis of the potential application of the unclaimed and abandoned property laws to our vouchers is complex, involving an analysis of constitutional and statutory provisions and factual issues, including our relationship with subscribers and merchants and our role as it relates to the issuance and delivery of a voucher. In the event that one or more states or foreign jurisdictions successfully challenges our position on the application of its unclaimed and abandoned property laws to vouchers, or if the estimates that we use in projecting the likelihood of vouchers being redeemed prove to be inaccurate, our liabilities with respect to unredeemed vouchers may be materially higher than the amounts shown in our financial statements. If we are required to materially increase the estimated liability recorded in our financial statements with respect to unredeemed gift cards, our net income could be materially and adversely affected. Moreover, a successful challenge to our position could subject us to penalties or interest on unreported and unremitted sums, and any such penalties or interest would have a further material adverse impact on our net income.

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

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

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

We may be sued for defamation, civil rights infringement, negligence, patent, copyright or trademark infringement, invasion of privacy, personal injury, product liability, breach of contract, unfair competition, discrimination, antitrust or other legal claims relating to information that is published or made available on our websites or service offerings we make available (including provision of an application programming interface platform for third parties to access our website, mobile device services and geolocation applications). This risk is enhanced in certain jurisdictions outside the United States, where our liability for such third-party actions may be less clear and we may be less protected. In addition, we could incur significant costs in investigating and defending such claims, even if we ultimately are not found liable. If any of these events occurs, our net income could be materially and adversely affected.

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

Claims may be asserted against us relating to shares not issued in our 2002 merger.

The merger of Travelzoo.com Corporation into the Company became effective on April 25, 2002. Stockholders of Travelzoo.com Corporation were allowed a period of two years following the effective date to receive shares in the Company. After April 25, 2004, two years following the effective date, we ceased issuing shares to the former stockholders of Travelzoo.com Corporation. Many of the "Netsurfer stockholders," who had applied to receive shares of Travelzoo.com Corporation in 1998 for no cash consideration, did not elect to receive their shares which were issuable in the merger prior to the end of the two-year period. A total of 4,115,532 of our shares which had been reserved for issuance in the merger were not claimed.

It is possible that claims may be asserted against us in the future by former stockholders of Travelzoo.com Corporation seeking to receive our shares, 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 under escheat statutes. As discussed above under Item 1. "Business — Overview," on April 21, 2011, we settled all claims by the State of Delaware relating to a previously-announced unclaimed property review relating to shares of Travelzoo which have not been claimed by former shareholders of Travelzoo.com Corporation. Unclaimed shares which were properly issuable would have been subject to escheat to the State of Delaware because the Company is organized under Delaware law. Under applicable law, unclaimed property held by a corporation is subject to escheat to the jurisdiction of incorporation if the address of the owner is unknown. In the case of those shown as former shareholders of Travelzoo.com Corporation, the addresses were generally unknown. Other jurisdictions may assert escheat claims in respect of unclaimed shares if they are able to identify persons shown as former shareholders of Travelzoo.com Corporation with addresses in those jurisdictions. The Company is subject to unclaimed property audits by most States in the U.S.; several States have notified the Company of their intention to perform an audit of unclaimed property. As of December 31, 2011, there is no significant asserted claim by any State in regards to unclaimed property liability for the Company. If such escheat claims are asserted, whether as result of such unclaimed property review or otherwise, we intend 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, we intend 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. We also expect to take the position, if escheat or similar claims are asserted in respect of the unissued shares in the future, that we are not required to issue such shares. Further, even if it were established that unissued shares were subject to escheat claims, we would assert that the claimant must establish that the original Netsurfer stockholders complied with the conditions to issuance of their shares. We are not able to predict the outcome of any future claims which might be asserted relating to the unissued shares. Since the total cost of the program is not reliably estimable, the amount of expense recorded in a period is equal to the actual number of valid claims received during the period multiplied by (i) the number of shares held by each individual former stockholder and (ii) the applicable settlement price based on the recent price of our common stock at the date the claim is received as stipulated by the program. Assuming 100% of the requests from 1998 were valid, and after taking into account the settlement with the State of Delaware referred to above, former stockholders of Travelzoo.com Corporation holding approximately 1.0 million had not submitted claims under the program as of December 31, 2011. If the Company were required to issue such shares for no additional payment, that would result in substantial dilution of the ownership interests of the other stockholders, and in our earnings per share, which could adversely affect the market price of the common stock.

On October 15, 2004, we announced a program under which we would make cash payments to people who establish that they were former stockholders of Travelzoo.com Corporation, and who failed to submit requests to convert shares into Travelzoo Inc. within the required time period. The accompanying consolidated financial statements include a charge in general and administrative expenses of $153,000 for these cash payments for the year ended December 31, 2011. 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 our common stock price. Our common stock price affects the liability because the amount of cash payments under the program is based in part on the recent level of the stock price at the date valid requests are received. We do not know how many of the requests for shares originally received by Travelzoo.com Corporation in 1998 were valid, but we believe 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 1.0 million shares (representing approximately $24.6 million based upon the Company's stock price at the end of 2011) had not submitted claims under the program as of December 31, 2011.

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

Various federal laws, such as the Bank Secrecy Act and the USA PATRIOT Act and foreign laws and regulations, such as the European Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, impose certain anti-money laundering requirements on companies that are financial institutions or that provide financial products and services. For these purposes, financial institutions are broadly defined to include money services businesses such as money transmitters, check cashers and sellers or issuers of stored value cards. Examples of anti-money laundering requirements imposed on financial institutions include subscriber identification and verification programs, record retention policies and procedures and transaction reporting. We do not believe that we are a financial institution subject to these laws and regulations based, in part, upon the characteristics of vouchers and our role with respect to the distribution of vouchers to subscribers. However, the Financial Crimes Enforcement Network, a division of the U.S. Department of the Treasury tasked with implementing the requirements of the Bank Secrecy Act, recently issued final rules regarding the scope and requirements for non-bank parties involved in stored value or prepaid access cards, including obligations on sellers or providers of "prepaid access". Under the final rule, closed loop vouchers, such as those offered through the Local Deals program, would only be subject to registration if they exceed $2000 in total value in any one day or if they are sold in aggregate amounts exceeding $10,000 to any single person in one day. Should the $2,000 limit be exceeded or should more than $10,000 in aggregate vouchers be sold to any individual person (sales to businesses for resale or distribution are excluded) then we may be deemed either a seller or provider of prepaid access subject to regulation. In the event that we become subject to the requirements of the Bank Secrecy Act or any other anti-money laundering law or regulation imposing obligations on us as a money services business, our regulatory compliance costs to meet these obligations would likely increase which could reduce our net income. In addition, the costs for third parties to sell vouchers would increase, which may restrict our ability to enlist third parties to issue vouchers

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

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

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

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

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

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

We cannot be certain that our products, content and brand names do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. While we have a trademark for "Travelzoo," many companies in the industry have similar names including the word "travel". We expect that infringement claims in our markets will increase in number as more participants enter the markets. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. We may incur substantial expenses in defending against these third party infringement claims, regardless of their merit, and such claims could result in a significant diversion of the efforts of our management personnel. Successful infringement claims against us may result in monetary liability or a material disruption in the conduct of our business.

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

None.

Item 2. ***Properties***

We are headquartered in New York, New York, where we occupy approximately 10,600 square feet of leased office space. In addition to our New York office, we have several leased offices throughout the U.S. and Canada for our North America operations, including offices in Chicago, Illinois, Austin, Texas, Dallas, Texas, Las Vegas, Nevada, Los Angeles, California, Miami, Florida, Mountain View, California, San Francisco, California, Toronto, Ontario and Vancouver British Columbia.

We also have leased offices for our Europe operations in France, Germany, Spain, and the U.K., including offices in Barcelona, Hamburg, London, Manchester, Munich, and Paris.

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

Item 3. ***Legal Proceedings***

The information set forth under "Note 3 — Commitments and Contingencies" to the condensed consolidated financial statements included in Part I, Item 1 of this report is incorporated herein by reference.

Item 4. ***(Removed and Reserved)***

PART II

Item 5. ***Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information

Since August 18, 2004, our common stock has been trading on the NASDAQ Global Select Market under the symbol "TZOO." From December 30, 2003 to August 17, 2004, our common stock was traded on the NASDAQ SmallCap Market under the symbol "TZOO." The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported by NASDAQ.

	High	Low
2011:		
Fourth Quarter	$ 33.28	$ 21.02
Third Quarter	$ 87.79	$ 21.99
Second Quarter	$ 101.00	$ 55.64
First Quarter	$ 68.48	$ 37.70
2010:		
Fourth Quarter	$ 45.16	$ 25.29
Third Quarter	$ 26.66	$ 11.68
Second Quarter	$ 20.18	$ 11.83
First Quarter	$ 15.03	$ 10.43

On February 15, 2012, the last reported sales price of our common stock on the NASDAQ Global Select Market was $25.26 per share.

As of February 15, 2012, there were approximately 124,000 stockholders of record.

Dividend Policy

Travelzoo has not declared or paid any cash dividends since inception and does not expect to pay cash dividends for the foreseeable future. The payment of dividends will be at the discretion of our board of directors and will depend upon factors such as future earnings, capital requirements, our financial condition and general business conditions.

Sales of Unregistered Securities

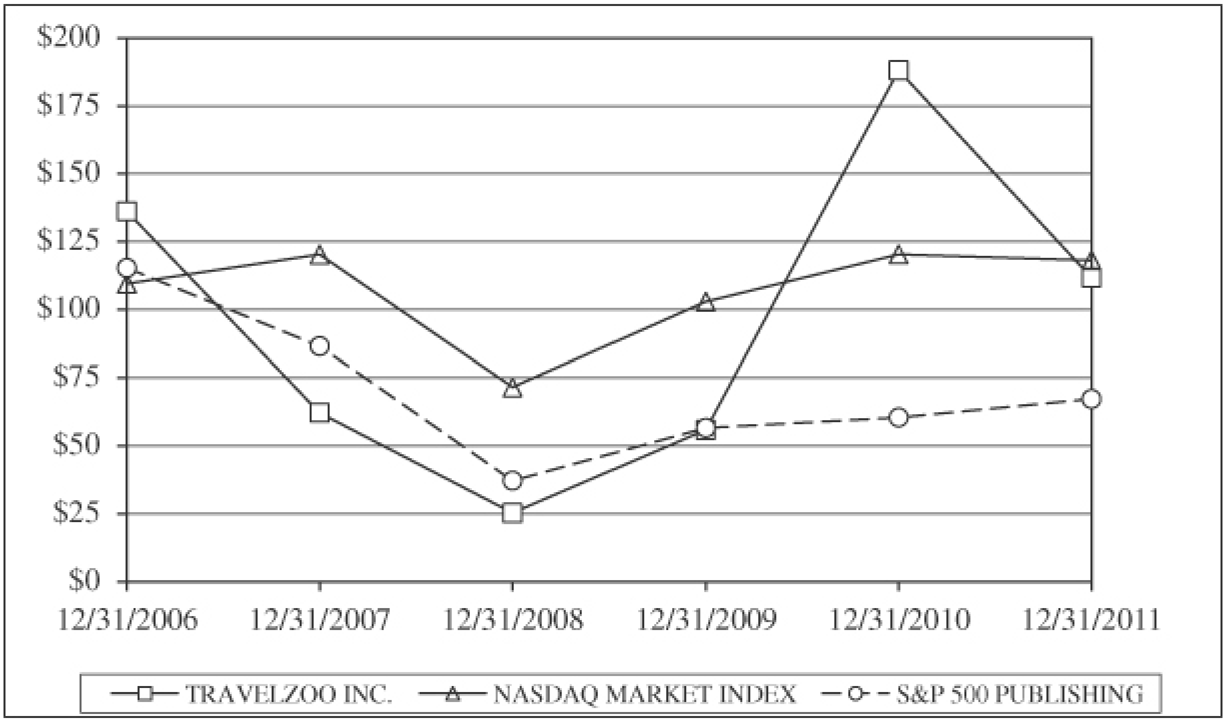
There were no unregistered sales of equity securities during fiscal year 2011.

Repurchases of Equity Securities

We did not purchase any of our equity securities during the fourth quarter of 2011.

Performance Graph

The following graph compares, for the dates specified, the cumulative total stockholder return for Travelzoo, the NASDAQ Stock Market (U.S. companies) Index (the “NASDAQ Market Index”), and the Standard & Poor’s 500 Publishing Index (the “S&P 500 Publishing”). Measurement points are the last trading day of each of the Company’s fiscal years ended December 31, 2005, December 31, 2006, December 31, 2007, December 31, 2008, December 31, 2009, and December 31, 2011. The graph assumes that $100 was invested on December 31, 2005 in the Common Stock of the Company, the NASDAQ Market Index and the S&P 500 Publishing and assumes reinvestment of any dividends. The stock price performance on the following graph is not indicative of future stock price performance.



Measurement Point	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Travelzoo Inc.	$ 136.14	$ 62.18	$ 25.27	$ 55.86	$ 188.09	$ 111.73
NASDAQ Market Index	$ 109.52	$ 120.27	$ 71.51	$ 102.89	$ 120.29	$ 118.13
S&P 500 Publishing	$ 115.31	$ 86.59	$ 37.18	$ 56.61	$ 60.46	$ 67.24

Item 6. *Selected Consolidated Financial Data*

The selected consolidated financial data set forth below are derived from audited consolidated financial statements. The following selected consolidated financial data is qualified in its entirety by, and should be read in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto included elsewhere herein.

Consolidated Statement of Operations Data:

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	(In thousands, except per share data)				
Revenues	$ 78,904	$ 80,817	$ 93,973	$ 112,784	$ 148,342
Income from continuing operations	23,679	13,312	13,708	23,512	15,022
Income from continuing operations, net of taxes	12,108	5,913	6,418	13,157	3,319
Loss from discontinued operations, net of taxes	(2,999)	(10,029)	(1,233)	—	—
Net income (loss)	9,109	(4,116)	5,185	13,157	3,319
Basic net income (loss) per share from:					
Continuing operations	$ 0.82	$ 0.41	$ 0.39	$ 0.80	$ 0.20
Discontinued operations	$ (0.20)	$ (0.70)	$ (0.08)	$ —	$ —
Net income (loss) per share	$ 0.61	$ (0.29)	$ 0.32	$ 0.80	$ 0.20
Diluted net income (loss) per share from:					
Continuing operations	$ 0.75	$ 0.37	$ 0.39	$ 0.80	$ 0.20
Discontinued operations	$ (0.19)	$ (0.62)	$ (0.08)	$ —	$ —
Net income (loss) per share	$ 0.57	$ (0.25)	$ 0.32	$ 0.80	$ 0.20
Shares used in per share calculation — basic	14,847	14,273	16,408	16,444	16,315
Shares used in per share calculation — diluted	16,074	16,190	16,416	16,453	16,414

Consolidated Balance Sheet Data:

	December 31,				
	2007	2008	2009	2010	2011
	(In thousands)				
Cash and cash equivalents	$ 22,641	$ 14,179	$ 19,776	$ 41,184	$ 38,744
Working capital	26,202	17,642	27,250	39,563	28,411
Total assets	37,286	35,322	46,132	66,002	68,348
Stockholders' equity	25,902	20,763	30,771	45,889	34,759

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

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

Overview

Travelzoo Inc. is a global Internet media company. We inform over 24 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 our 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 and compare the best prices on flights from hundreds of airlines and online travel agencies. We recently launched *Local Deals* and *Getaways*, a new service that allows our subscribers to purchase vouchers for deals from local businesses such as spas and restaurants through the *Travelzoo* website. Voucher promotional offers are redeemable at the local businesses during the promotional period. We receive a percentage of the face value of the voucher from the local business. More than 2,000 travel, entertainment and local companies use our services.

On October 31, 2009, we completed the sale of our Asia Pacific operating segment to Azzurro Capital Inc. and its wholly-owned subsidiaries, Travelzoo (Asia) Limited and Travelzoo Japan K.K. The results of operations of the Asia Pacific operating segment have been classified as discontinued operations for all periods presented. We have not had significant ongoing involvement with the operations of the Asia Pacific operating segment and have not had any economic interests in the Asia Pacific operating segment since the completion of the sale. Starting November 1, 2009, the *Travelzoo* 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 are 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. See Note 11 to the accompanying consolidated financial statements.

We have two operating segments based on geographic regions: North America and Europe. North America consists of our operations in Canada and the U.S. Europe consists of our operations in France, Germany, Spain, and the U.K. For the year ended December 31, 2011, our operations in Europe accounted for 27% of revenues and our operations in North America accounted for 73% of revenues.

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*, *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.

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. For example, we did not significantly increase our advertising rates in the U.S. due to intense competition during 2008, 2009 and 2010; however, we were able to increase rates in Europe during 2009 and 2010 due in part to the increase in the reach of our publications. 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.

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 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 assets are required or not, audits of previous 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 of 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 launch 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 of our operations for the years ended December 31, 2009, 2010 and 2011.

	Years Ended December 31,		
	2009	2010	2011
Revenues	100.0%	100.0%	100.0%
Cost of revenues	6.0	6.4	9.0
Gross profit	94.0	93.6	91.0
Operating expenses:			
Sales and marketing	52.9	48.3	44.1
General and administrative	26.5	24.4	23.3
Settlement with State of Delaware	—	—	13.5
Total operating expenses	79.4	72.7	80.9
Income from operations(1)	14.6	20.9	10.1
Other income and expenses, net	(0.1)	(0.1)	0.2
Income from continuing operations before income taxes	14.5	20.8	10.3
Income taxes	7.7	9.2	8.1
Income from continuing operations	6.8	11.6	2.2
Loss from discontinued operations, net of taxes	(1.3)	—	—
Net income (loss)	5.5%	11.6%	2.2%

(1) Operating margin decreased from 20.9% in 2010 to 10.1% in 2011 primarily due to the $20.0 million expense related to the settlement of the State of Delaware unclaimed property review.

Operating Metrics

The following table sets forth operating metrics in North America and Europe for the years ended December 31, 2009, 2010 and 2011:

	Year Ended December 31,		
	2009	2010	2011
North America			
Total Subscribers(1)	13,248,000	14,274,000	15,660,000
Page views of homepages of Travelzoo website(1)	36,445,000	37,772,000	37,268,000
Average cost per acquisition of a new subscriber	$ 1.97	$ 1.62	$ 1.15
Revenue per employee	$ 685	$ 636	$ 510
Revenue per subscriber(2)	$ 6.89	$ 6.62	$ 7.61

	Year Ended December 31,		
	2009	2010	2011
Europe			
Total Subscribers(1)	3,601,000	4,614,000	5,806,000
Page views of homepages of Travelzoo websites(1)	16,491,000	17,859,000	20,258,000
Average cost per acquisition of a new subscriber	$ 3.38	$ 3.55	$ 2.86
Revenue per employee	$ 245	$ 291	$ 322
Revenue per subscriber(2)	$ 7.32	$ 6.98	$ 8.62
Consolidated			
Total Subscribers(1)	16,849,000	18,888,000	21,466,000
Page views of homepages of Travelzoo websites(1)	52,936,000	55,631,000	57,526,000
Average cost per acquisition of a new subscriber	$ 2.44	$ 2.28	$ 1.76
Revenue per employee	$ 522	$ 504	$ 441
Revenue per subscriber(2)	$ 6.96	$ 6.69	$ 7.85

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

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

Revenues

The following table sets forth the breakdown of revenues by type and segment for the years ended December 31, 2009, 2010 and 2011. Travel revenue includes travel publications (*Top 20*, *Website*, *Newsflash*, *Network*) and *Getaway*s vouchers. Search revenue includes *SuperSearch* and *Fly.com*. Local revenue includes *Local Deals* vouchers and Entertainment non-vouchers.

	Years Ended December 31,		
	2009	2010	2011
	(In thousands, except percentage changes)		
North America			
Travel	$ 48,747	$ 53,693	$ 57,795
Search	23,778	24,914	23,980
Local	5,182	9,054	26,774
Total North America revenues	$ 77,707	$ 87,661	$ 108,549
Europe			
Travel	$ 14,646	$ 21,786	$ 27,434
Search	1,409	2,404	5,089
Local	211	933	7,270
Total Europe revenues	$ 16,266	$ 25,123	$ 39,793
Revenue			
Travel	$ 63,393	$ 75,479	$ 85,229
Search	25,187	27,318	29,069
Local	5,393	9,987	34,044
Total revenues	$ 93,973	$ 112,784	$ 148,342

North America

North America revenues increased $20.9 million from 2010 to 2011. This increase was primarily due to growth of Travel and Local revenues offset by a decrease in Search revenue. The increase in Travel revenue of $4.1 million was primarily due to the introduction of *Getaways* offset by lower *Top 20* and *Newsflash* revenue related to airline consolidation and increased competition. The decrease in Search revenue of $934,000 was primarily due to the reduced number of clicks that generate revenue as a result from our reduced spending on traffic acquisition as well as lower average cost-per-click paid by our advertisers. The increase in Local revenue of $17.7 million was primarily due to the increased number of *Local Deals* sold.

North America revenues increased $10.0 million from 2009 to 2010. This increase was primarily due to growth of Travel, Search and Local revenues. The increase in Travel revenue of $4.9 million was primarily due to the increased number of emails delivered to our audience driven by advertiser demand offset by a lower average cost-per-email. The increase in Search revenue of $1.1 million was primarily due to the growth of the *Fly.com* product launched in February 2009. The increase in Local revenue of $3.9 million was primarily due to the launch of our *Local Deals* in August 2010.

Europe

Europe revenues increased $14.7 million from 2010 to 2011. This increase was due to growth of Travel, Search and Local revenues. The increase in Travel revenue of $5.6 million was primarily due to the introduction of *Getaways*, increase in *Top 20* and *Newsflash* revenue from the increased number of emails delivered to our audience driven by advertiser demand and relatively stable average cost-per-email offset by some decrease due to increased competition and the economic uncertainty in Europe. The increase in Search revenue of $2.7 million was primarily due to the increased number of clicks that generate revenue as a result from increased spending on traffic acquisition as well as higher average cost-per-click paid by our advertisers. The increase in Local revenue of $6.3 million was primarily due to the launch of our *Local Deals* in late 2010.

Europe revenues increased $8.9 million from 2009 to 2010. This increase was primarily due to growth of Travel, Search and Local revenues. The increase in Travel revenue of $7.1 million was primarily due to the increased number of emails delivered to our audience driven by our growing audience with stable average cost-per-email. The increase in Search revenue of $996,000 was primarily due to the growth of the *Fly.com* product launched in Europe in the second half of 2009. The increase in Local revenue of $722,000 was primarily due to the increased number of emails delivered and the increase in average cost-per-email as well as the launch of our *Locals Deals* in late 2010.

Foreign currency movements relative to the U.S. dollar negatively impacted our revenues from our operations in Europe by approximately $703,000 and $1.7 million for 2010 and 2011, respectively.

Cost of Revenues

Cost of revenues consists primarily of network expenses, including fees we pay for co-location services, depreciation and maintenance of network equipment, payments made to third-party partners of the *Travelzoo Network*, fees we pay related to user searches on *Fly.com*, amortization of capitalized website development costs; credit card fees, certain estimated subscriber refunds and customer service costs associated with *Local Deals* and *Getaways* vouchers that we sell, and salary expenses associated with network operations staff. Costs of revenue were $5.6 million, $7.3 million and $13.3 million for 2009, 2010 and 2011, respectively.

Cost of revenues increased $6.1 million from 2010 to 2011. This increase was primarily due to an increase in *Local Deals* and *Getaways* costs including $2.0 million in credit card fees, $1.6 million in subscriber refunds and $1.2 million of customer service and professional services costs. In addition, there was an increase of $625,000 in payments made to third-party partners of the *Travelzoo Network*.

Cost of revenues increased $1.6 million from 2009 to 2010. This increase was primarily due to a $547,000 increase in payments to third-party partners of *Travelzoo Network*, a $496,000 increase in traffic acquisition costs related to our Search products and a $262,000 increase in credit card fees related to *Local Deals*.

Sales and Marketing

Sales and marketing expenses consist primarily of advertising and promotional expenses, salary expenses associated with sales, marketing, and production staff, expenses related to our participation in industry conferences, and public relations expenses. Sales and marketing expense was $49.7 million, $54.5 million and $65.5 million for 2009, 2010 and 2011, respectively. Advertising expenses accounted for 61%, 58%, and 49% respectively, of sales and marketing expenses and consisted primarily of online advertising referred to as traffic acquisition cost and subscriber acquisition costs. The goal of our advertising campaigns is to acquire new subscribers for our e-mail products, increase the traffic to our websites, and increase brand awareness.

Sales and marketing expenses increased $11.0 million from 2010 to 2011. This increase was primarily due to a $10.2 million increase in salary and employee related expenses due in part to an increase in headcount, a $2.0 million dollar increase in television brand advertising expense, a $1.3 million increase in Search traffic acquisition costs, offset by a $2.8 million decrease in subscriber acquisition costs. Despite reduced subscriber acquisition spending, we believe we continued to add new subscribers due to factors such as our website requiring visitor's to subscribe to view most deals and the traffic associated with the introduction for *Local Deals* and *Getaways*.

Sales and marketing expenses increased $4.7 million from 2009 to 2010. This increase was primarily due to a $2.6 million increase in salary and employee related expenses due in part to an increase in headcount, a $2.9 million increase in Search traffic acquisition costs due primarily to the growth of *Fly.com* launched during 2009, an $833,000 increase in trade and other marketing expenses, offset by a $1.5 million decrease in subscriber acquisition costs.

General and Administrative

General and administrative expenses consist primarily of compensation for administrative, executive, and software development staff, fees for professional services, rent, bad debt expense, amortization of intangible assets and general office expense. General and administrative expense was $24.9 million, $27.6 million and $34.5 million for 2009, 2010 and 2011, respectively.

General and administrative expenses increased $7.0 million from 2010 to 2011. This increase was primarily due to a $3.2 million increase in salary and employee related expenses due in part to an increase in headcount, a $2.3 million increase in rent, office and insurance expense due to the continuing expansion of our business, and a $1.1 million increase in professional services expense.

General and administrative expenses increased $2.6 million from 2009 to 2010. This increase was primarily due to a $757,000 increase in professional services expense, a $573,000 increase in rent, office and insurance expense, a $384,000 increase in salary and employee related expenses, a $251,000 increase in bank and merchant account fees, and a $251,000 increase in depreciation and amortization expense.

Settlement with State of Delaware

On April 21, 2011, the Company entered into an agreement with the State of Delaware resolving all claims relating to a previously-announced unclaimed property review. 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 shareholders of Travelzoo.com Corporation following a 2002 merger, as previously disclosed in the company's report on Form 10-K. 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 issuable only to persons who establish their eligibility as shareholders, the Company determined that it was in its best interest to promptly resolve all claims relating to the unclaimed property review. Under the terms of the agreement, 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. The $20.0 million payment was recorded as an operating expense in 2011 and is presented as a separate line item within operating expenses on the income statement.

Interest Income and Other

Interest income and other consisted primarily of interest earned on cash, cash equivalents and restricted cash as well as income from Travelzoo Asia Pacific. Interest income and other was $61,000, $166,000 and $383,000 for 2009, 2010 and 2011, respectively. Interest income consisted primarily of interest earned on cash, cash equivalents and restricted cash. Interest income and other increased $217,000 from 2010 to 2011. This increase was primarily due to income related to Travelzoo Asia Pacific offset by decreased interest income from lower cash balances. Interest income and other increased by $105,000 from 2009 to 2010. This increase was primarily due to income related to Travelzoo Asia Pacific offset by increased interest income from higher cash balances.

Income Taxes

Our income is generally taxed in the U.S., Canada and our income tax provisions reflect federal, state and country statutory rates applicable to our levels of income, adjusted to take into account expenses that are treated as having no recognizable tax benefit. Income tax expense was $7.3 million, $10.3 million and $12.0 million for 2009, 2010 and 2011, respectively. Our effective tax rate was 53%, 44% and 78% for 2009, 2010 and 2011, respectively.

Our effective tax rate increased in 2011 compared to 2010 due primarily to the $20.0 million expense for the settlement with the State of Delaware was treated as having no recognizable tax benefits. Our effective tax rate decreased from 2009 to 2010 primarily due to the change of geographic mix of our income driven by lower Europe losses in 2010. We expect that our effective tax rate in future periods may fluctuate depending on the total amount of expenses representing payments to former stockholders, losses or gains incurred by our operations in Canada and Europe, the use of accumulated losses to offset current taxable income and need for valuation allowances on certain tax assets, if any.

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 $1.2 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.

We file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. We are subject to U.S. federal and certain state tax examinations for years after 2007 and are subject to California tax examinations for years after 2004. We are under examination by federal and state taxing authorities. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations, although we cannot assure you that this will be the case given the inherent uncertainties in these examinations. Due to the ongoing tax examinations, we believe it is impractical to determine the amount and timing of these adjustments.

Discontinued Operations

On October 31, 2009, we completed the sale of our Asia Pacific operating segment to Azzurro Capital Inc. and its wholly-owned subsidiaries, Travelzoo (Asia) Limited and Travelzoo Japan K.K. The results of operations of the Asia Pacific operating segment have been classified as discontinued operations for all periods presented. We received $2.1 million, net of cash provided, and had a net receivable from Travelzoo (Asia) Limited and Travelzoo Japan K.K. of $1.1 million, which was paid in 2011. For the year ended December 31, 2009, we realized a gain of $3.4 million related to the sale of the net assets of the Asia Pacific business segment to Azzurro Capital Inc. The resulting gain on the sale was reflected as an addition to additional paid-in capital as both the Company and Azzurro Capital Inc. were under the common control of Ralph Bartel. For the year ended December 31, 2009, we recorded a tax benefit of $4.4 million in discontinued operations for the tax benefit associated with the loss on investments in our Asia Pacific subsidiaries as a result of their dissolution.

Segment Information

North America

	Year Ended December 31,		
	2009	2010	2011
		(In thousands)	
Net revenues	$ 77,967	$ 87,858	$ 109,015
Income from operations	19,227	24,998	10,110
Income from operations as % of revenues	25%	28%	9%

North America revenues increased $21.2 million from 2010 to 2011 (see “Revenues” above). North America expenses increased $36.0 million from 2010 to 2011. This increase was primarily due to $20.0 million expense related to the settlement of the State of Delaware unclaimed property review, a $5.3 million increase in cost of revenue primarily related to *Local Deals* and *Getaways* credit card fees, customer service and certain subscriber refunds, a $2.0 million dollar increase in television brand advertising expense and a $8.3 million salary and employee related expense due in part to a head count increase; offset by a $403,000 decrease in search traffic acquisition costs and $1.7 million decrease in subscriber acquisition cost.

North America revenues increased $9.9 million from 2009 to 2010 (see “Revenues” above). North America expenses increased $4.1 million from 2009 to 2010. This increase was primarily due to a $1.0 million increase in cost of revenue related to *Local Deals* and *Getaways* credit card fees and payments to third-party partners of the *Travelzoo Network*, a $901,000 increase in Search traffic acquisition costs and marketing, a $2.3 million increase in salary and employee related expense due in part to a head count increase; offset by a $1.5 million decrease in subscriber acquisition cost.

Europe

	Year Ended December 31,		
	2009	2010	2011
		(In thousands)	
Net revenues	$ 16,339	$ 25,230	$ 39,927
Income (loss) from operations	(5,463)	(1,489)	4,912
Income (loss) from operations as % of revenues	(33)%	(6)%	12%

Europe revenues increased $14.7 million from 2010 to 2011 (see “Revenues” above). Europe expenses increased $8.3 million from 2010 to 2011. This increase was primarily due to a $1.3 million increase in cost of revenue primarily related to *Local Deals* and *Getaways* credit card fees, customer service and certain subscriber refunds, a $1.7 million increase in Search traffic acquisition costs and a $5.1 million salary and employee related expense due in part to a head count increase; offset by a $1.1 million decrease in subscriber acquisition cost.

Europe revenues increased $8.9 million from 2009 to 2010 (see “Revenues” above). Europe expenses increased $4.9 million from 2009 to 2010. This increase was primarily due to a $587,000 increase in cost of revenue related to Search costs related to *Fly.com* launched during 2009, a $2.0 million increase in Search traffic acquisition costs and marketing, a $686,000 increase in salary and employee related expense due in part to a head count increase and a $468,000 increase in professional services expenses.

Foreign currency movements relative to the U.S. dollar negatively impacted our income (loss) from our operations in Europe by approximately $71,000 and $119,000 for 2010 and 2011, respectively.

Liquidity and Capital Resources

As of December 31, 2011 we had $38.7 million in cash and cash equivalents. Cash and cash equivalents decreased from $41.2 million on December 31, 2010 primarily as a result of cash provided by operating activities, used in investing and financing activities as explained below. We expect that cash on hand will be sufficient to provide for working capital needs for at least the next 12 months.

	Year Ended December 31,		
	2009	2010	2011
		(In thousands)	
Net cash provided by operating activities	$ 5,125	$ 23,925	$ 15,631
Net cash (used) in investing activities	(3,752)	(3,527)	(2,460)
Net cash provided by (used in) financing activities	4,219	1,076	(14,816)
Effect of exchange rate changes on cash and cash equivalents	5	(66)	(795)
Net increase (decrease) in cash and cash equivalents	$ 5,597	$ 21,408	$ (2,440)

Cash provided by or used in operating activities is net income or net loss adjusted for certain non-cash items and changes in assets and liabilities. Net cash provided by operating activities decreased by $8.3 million from 2010 to 2011. This decrease in cash provided by operating activities was primarily due to a $9.8 million decrease in net income, resulting primarily from a $20.0 million settlement to the State of Delaware related to an unclaimed property review, and a $8.9 million decrease in our income tax receivable; offset by a $7.3 million increase in accounts payable and accrued expenses and a $2.2 million increase in accounts receivable.

Net cash provided by operating activities increased by $18.8 million from 2009 to 2010. This increase in cash provided by operating activities was primarily due to an $8.0 million increase in net income and a $10.1 million decrease in income tax receivable.

Net cash used in investing activities decreased by $1.0 million from 2010 to 2011. This decrease in net cash used in investing activities was primarily due to a $2.2 million decrease in purchases of restricted cash, offset by a $1.2 million increase in purchases of property and equipment.

Net cash used in investing activities decreased by $225,000 from 2009 to 2010. This decrease in net cash used in investing activities was primarily due to a $713,000 decrease in purchases of property and equipment and we used $1.8 million to purchase the *Fly.com* domain name in 2009; offset by a $2.2 million increase in the purchase of restricted cash.

Net cash used by financing activities was $14.8 million for 2011. Net cash provided by financing activities was $1.1 million for 2010. Net cash used by financing activities in 2011 was due to a $15.1 million repurchase of our common stock offset by proceeds from the exercise of stock options and the excess tax benefit from exercise of stock options. The net cash used by financing activities in 2010 was from the cash received from the sale of our Asia Pacific business segment and the cash received from the exercise of stock options. The net cash provided by financing activities in 2010 resulted from the cash received from the sale of our Asia Pacific business segment.

On April 21, 2011, the Company entered into an agreement which required a $20.0 million cash payment to the State of Delaware resolving all claims relating to the State of Delaware's unclaimed property review. If additional escheat claims are asserted in the future, 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. The Company is not able to predict the amount or outcome of any future claims which might be asserted related to the unissued shares. The Company is continuing its program under which it makes cash payments to people who establish that they were former stockholders of Travelzoo.com Corporation, and who failed to submit requests to convert their shares into shares of Travelzoo Inc. within the required time period. See Note 1 to the accompanying financial statements for further details.

In August 2011, our Board authorized a stock repurchase program that provided for the repurchase of up to 500,000 shares of our common stock. During the third quarter of 2011, we repurchased approximately $15.1 million of our common stock representing the entire authorized stock repurchases. Although no further stock repurchases are authorized by the Board, from time to time, the Board may authorize further stock repurchases.

Our capital requirements depend on a number of factors, including market acceptance of our products and services, the amount of our resources we devote to development of new products, cash payments to former stockholders of Travelzoo.com Corporation, expansion of our operations, and the amount of our resources we devote to promoting awareness of the *Travelzoo* brand. Since the inception of the program under which we would make cash payments to people who establish that they were former stockholders of Travelzoo.com Corporation, and who failed to submit requests to convert shares into Travelzoo Inc. within the required time period, we have incurred expenses of $2.9 million. While future payments for this program are expected to decrease, the total cost of this program is still undeterminable because it is dependent on our stock price and on the number of valid requests ultimately received. Consistent with our growth, we have experienced a substantial increase in our sales and marketing and general and administrative expenses, and we anticipate that these increases will continue for the foreseeable future. We believe cash on hand will be sufficient to pay such costs. In addition, we will continue to evaluate possible investments in businesses, products and technologies, the consummation of any of which would increase our capital requirements.

Although we currently believe that we have sufficient capital resources to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months, unanticipated events or a less favorable than expected development of our business may require us to sell additional equity or debt securities or establish credit facilities to raise capital in order to meet our capital requirements.

If we sell additional equity or convertible debt securities, the sale could dilute the ownership of our existing stockholders. If we issue debt securities or establish a credit facility, our fixed obligations could increase, and we may be required to agree to operating covenants that would restrict our operations. We cannot be sure that any such financing will be available in amounts or on terms acceptable to us.

If the development of our business is less favorable than expected, we may decide to significantly reduce the size of our operations and marketing expenses in certain markets with the objective of reducing cash outflow.

On October 31, 2009, the Company completed the sale of its Asia Pacific operating segment to Azzurro Capital Inc. pursuant to the terms of the Asset Purchase Agreements. The results of operations of the Asia Pacific operating segment have been classified as discontinued operations for all periods presented. The Company has not had significant ongoing involvement with the operations of the Asia Pacific operating segment and has not had any economic interests in the Asia Pacific operating segment following the sale. For the 10 months ended October 31, 2009, cash used in operating activities in Asia Pacific was $3.4 million. Further information concerning the transaction is provided in the Company's reports on Form 8-K filed on October 5 and November 3, 2009 and in Note 12 to the accompanying consolidated financial statements.

The following summarizes our principal contractual commitments as of December 31, 2011 (in thousands):

	2012	2013	2014	2015	2016	Thereafter	Total
Operating lease obligations	$ 4,493	$ 3,298	$ 1,622	$ 1,493	$ 1,137	$ 1,534	$ 13,577
Purchase obligations	733	17	—	—	—	—	750
Total commitments	$ 5,226	$ 3,315	$ 1,622	$ 1,493	$ 1,137	$ 1,534	$ 14,327

We also have contingencies related to net unrecognized tax benefits of approximately $1.9 million as of December 31, 2011, which we are unable to make reasonably reliable estimates on the timing of the cash settlements with the respective taxing authorities.

Critical Accounting Policies

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

Revenue Recognition

We recognize revenue on arrangements in accordance with the SEC Staff Accounting Bulletin for revenue recognition. We recognize advertising revenues in the period in which the advertisement is displayed, provided that evidence of an arrangement exists, the fees are fixed or determinable and collection of the resulting receivable is reasonably assured. Effective January 1, 2011, we adopted ASU 2009-13. The adoption of this new accounting standard had no material impact on the Company's consolidated results of operations. If fixed-fee advertising is displayed over a term greater than one month, revenues are recognized ratably over the period as described below. The majority of insertion orders have terms that begin and end in a quarterly reporting period. In the cases where at the end of a quarterly reporting period the term of an insertion order is not complete, the Company allocates the total arrangement fee to each element based on the relative estimated selling price of each element. The Company uses prices stated on its internal rate card, which represents stand-alone sales prices, to establish estimated selling prices. The stand-alone price is the price that would be charged if the advertiser purchased only the individual insertion. Fees for variable-fee advertising arrangements are recognized based on the number of impressions displayed, number of clicks delivered, or number of referrals generated during the period. Under these policies, no revenue is recognized unless persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is deemed reasonably assured. The Company evaluates each of these criteria as follows:

- *Evidence of an arrangement.* We consider an insertion order signed by the advertiser or its agency to be evidence of an arrangement.
- *Delivery.* Delivery is considered to occur when the advertising has been displayed and, if applicable, the click-throughs have been delivered.
- *Fixed or determinable fee.* We consider the fee to be fixed or determinable if the fee is not subject to refund or adjustment and payment terms are standard.
- *Collection is deemed reasonably assured.* We conduct a credit review for all transactions at the time of the arrangement to determine the creditworthiness of the advertiser. Collection is deemed reasonably assured if we expect that the advertiser will be able to pay amounts under the arrangement as payments become due. If we determine that collection is not reasonably assured, then we defer the revenue and recognize the revenue upon cash collection. Collection is deemed not reasonably assured when a advertiser is perceived to be in financial distress, which may be evidenced by weak industry conditions, a bankruptcy filing, or previously billed amounts that are past due.

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

During the third quarter of 2010, the Company started selling vouchers for *Local Deals* and *Getaways* from local businesses such as spas, hotels and restaurants. 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.

Reserve for Subscriber Refunds

We record an estimated reserve for subscriber refunds based on our historical experience at the time revenue is recorded for *Local Deals* and *Getaways* voucher sales. We accrue costs associated with refunds in accrued expenses on the consolidated balance sheets. We consider many key factors such as the historical refunds based upon the time lag since the sale, historical reasons for refunds, time period that remains until the deal expiration date, any changes in refund procedures and estimates of redemptions and breakage. Should any of these factors change, the estimates made by management will also change, which could impact the level of our future reserves for subscriber refunds. Specifically, if the financial condition of our advertisers, the business that is providing the vouchered service, were to deteriorate, affecting their ability to provide the services to our subscribers, additional reserves for subscriber refunds may be required.

Estimated subscriber refunds that are determined to be recoverable from the merchant are recorded in the consolidated statements of operations as a reduction to revenue. Estimated subscriber refunds that are determined not to be recoverable from the merchant, are presented as a cost of revenue. If our judgments regarding estimated subscriber refunds are inaccurate, reported results of operations could differ from the amount we previously accrued.

Allowance for Doubtful Accounts

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

Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

Our effective tax rates have differed from the statutory rate primarily due to the tax impact of foreign operations, state taxes, certain benefits realized related to stock option activities, and research and experimentation tax credits. Our effective tax rate was 53%, 44% and 78% for 2009, 2010 and 2011, respectively. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws, regulations, and accounting principles. In addition, we are subject to the continuous examination of our income tax returns by the IRS and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Loss Contingencies

We are involved in claims, suits, and proceedings arising from the ordinary course of our business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. Such claim proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and cash flows. We have several known loss contingencies such as our liability to former stockholders of Travelzoo.com Corporation that may be realized as a result of our cash program for these claimants, State unclaimed property claims or otherwise and several lawsuits, both class actions and derivative suits. Please refer to Note 3 to the consolidated financial statements for further details about our loss contingencies.

Recent Accounting Pronouncements

See “Note 1 — Summary of Significant Accounting Policies” to the consolidated financial statements included in this report, regarding the impact of certain recent accounting pronouncements on our consolidated financial statements

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

We believe that our potential exposure to changes in market interest rates is not material. The Company has no outstanding debt and is not a party to any derivatives transactions. We invest in highly liquid investments with short maturities. Accordingly, we do not expect any material loss from these investments.

Our operations in Canada expose us to foreign currency risk associated with agreements being denominated in Canadian Dollars. Our operations in Europe expose us to foreign currency risk associated with agreements being denominated in British Pound Sterling and Euros. We are exposed to foreign currency risk associated with fluctuations of these currencies as the financial position and operating results of our operations in Canada and Europe will be translated into U.S. Dollars for consolidation purposes. We do not use derivative instruments to hedge these exposures. We are a net receiver of U.S. Dollars from our foreign subsidiaries and therefore benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currencies used by the foreign subsidiaries as their functional currency. We have performed a sensitivity analysis as of December 31, 2011, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of applicable foreign currency exchange rates relative to the U.S. dollar with all other variables held constant. The foreign currency exchange rates we used were based on market rates in effect at December 31, 2011. The sensitivity analysis indicated that a hypothetical 10% adverse movement in such foreign currency exchange rates would have resulted in an incremental $79,000 foreign exchange loss for the twelve month period ended December 31, 2011.

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

TRAVELZOO INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Travelzoo Inc.:

We have audited the accompanying consolidated balance sheets of Travelzoo Inc. and subsidiaries (Travelzoo) as of December 31, 2010 and 2011, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited Travelzoo's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Travelzoo's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on Travelzoo's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Travelzoo Inc. and subsidiaries as of December 31, 2010 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Travelzoo maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

/s/ KPMG LLP

Santa Clara, California
February 17, 2012

TRAVELZOO INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2011
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,184	$ 38,744
Accounts receivable, less allowance for doubtful accounts of $386 and $400 at 2010 and 2011, respectively	13,290	13,340
Income tax receivable	264	3,625
Deposits	129	278
Prepaid expenses and other current assets	1,489	2,123
Deferred tax assets	1,411	1,754
Total current assets	57,767	59,864
Deposits, less current portion	279	776
Deferred tax assets, less current portion	349	344
Restricted cash	3,124	3,103
Property and equipment, net	3,425	3,557
Intangible assets, net	1,058	704
Total assets	$ 66,002	$ 68,348
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,931	$ 21,731
Accrued expenses	6,080	6,311
Deferred revenue	1,325	2,168
Deferred rent	218	114
Income tax payable	650	279
Total current liabilities	18,204	30,603
Long-term tax liabilities	1,449	2,225
Deferred rent, less current portion	460	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 per share (40,000 shares authorized; 16,444 shares issued and outstanding as of December 31, 2010, 16,462 shares issued and 15,962 shares outstanding as of December 31, 2011)	164	164
Treasury stock (at cost, 500 shares at December 31, 2011)	—	(15,123)
Additional paid-in capital	6,598	7,656
Retained earnings	40,165	43,484
Accumulated other comprehensive loss	(1,038)	(1,422)
Total stockholders' equity	45,889	34,759
Total liabilities and stockholders' equity	$ 66,002	$ 68,348

See accompanying notes to consolidated financial statements

TRAVELZOO INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2009	2010	2011
	(In thousands, except per share amounts)		
Revenues	$ 93,973	$ 112,784	$ 148,342
Cost of revenues	5,628	7,253	13,283
Gross profit	88,345	105,531	135,059
Operating expenses:			
Sales and marketing	49,707	54,454	65,490
General and administrative	24,930	27,565	34,547
Settlement with State of Delaware	—	—	20,000
Total operating expenses	74,637	82,019	120,037
Income from continuing operations	13,708	23,512	15,022
Interest income and other income	61	166	383
Gain (loss) on foreign currency	(78)	(197)	(81)
Income from continuing operations before income tax expense	13,691	23,481	15,324
Income tax expense	7,273	10,324	12,005
Income from continuing operations	6,418	13,157	3,319
Loss from discontinued operations, net of tax	(5,642)	—	—
Income tax benefit related to dissolution of Asia Pacific business segment	4,409	—	—
Loss from discontinued operations	(1,233)	—	—
Net Income	$ 5,185	$ 13,157	$ 3,319
Basic net income (loss) per share from:			
Continuing operations	$ 0.39	$ 0.80	$ 0.20
Discontinued operations	$ (0.08)	$ —	$ —
Net income	$ 0.32	$ 0.80	$ 0.20
Diluted net income (loss) per share from:			
Continuing operations	$ 0.39	$ 0.80	$ 0.20
Discontinued operations	$ (0.08)	$ —	$ —
Net income	$ 0.32	$ 0.80	$ 0.20
Shares used in computing basic net income (loss) per share	16,408	16,444	16,315
Shares used in computing diluted net income (loss) per share	16,416	16,453	16,414

See accompanying notes to consolidated financial statements

TRAVELZOO INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Common Stock						
	Shares	Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, December 31, 2008	14,286	143	—	185	21,823	(1,388)	20,763
Proceeds from exercises of stock options	2,158	21	—	2,137	—	—	2,158
Stock-based compensation expense	—	—	—	94	—	—	94
Capital contribution from majority shareholder, net of receivable of $1.1 million	—	—	—	2,356	—	—	2,356
Comprehensive income:							
Foreign currency translation adjustment	—	—	—	—	—	215	215
Net income	—	—	—	—	5,185	—	5,185
Total comprehensive income	—	—	—	—	—	—	5,400
Balances, December 31, 2009	16,444	164	—	4,772	27,008	(1,173)	30,771
Stock-based compensation expense	—	—	—	750	—	—	750
Capital contribution from majority shareholder	—	—	—	1,076	—	—	1,076
Comprehensive income:			—				
Foreign currency translation adjustment	—	—		—	—	135	135
Net income	—	—	—	—	13,157	—	13,157
Total comprehensive income	—	—	—	—	—	—	13,292
Balances, December 31, 2010	16,444	164	—	6,598	40,165	(1,038)	45,889
Stock-based compensation expense	—	—	—	750	—	—	750
Proceeds from exercise of stock options	18	—	—	40	—	—	40
Repurchase of common stock	(500)	—	(15,123)	—	—	—	(15,123)
Tax benefit from stock option exercise	—	—	—	268	—	—	268
Comprehensive income:							
Foreign currency translation adjustment	—	—	—	—	—	(384)	(384)
Net income	—	—	—	—	3,319	—	3,319
Total comprehensive income	—	—	—	—	—	—	2,935
Balances, December 31, 2011	15,962	$ 164	$ (15,123)	$ 7,656	$ 43,484	$ (1,422)	$ 34,759

See accompanying notes to consolidated financial statements

TRAVELZOO INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2009	2010	2011
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 5,185	$13,157	$ 3,319
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,992	2,389	2,725
Deferred income taxes	139	(1,276)	(337)
Stock-based compensation	94	750	750
Provision for losses on accounts receivable	258	199	52
Tax benefit of stock option exercises	—	—	(268)
Foreign currency translation loss related to dissolution of Asia Pacific business segment	110	—	—
Net foreign currency effects	78	197	81
Changes in operating assets and liabilities:			
Accounts receivable	(197)	(2,323)	(146)
Deposits	(15)	20	(667)
Income tax receivable	(4,352)	5,797	(3,093)
Prepaid expenses and other current assets	(357)	(413)	(584)
Accounts payable	877	3,232	12,074
Accrued expenses	77	1,830	256
Deferred revenue	160	498	853
Deferred rent	(163)	(72)	209
Income tax payable	—	630	(369)
Other non-current liabilities	1,239	(690)	776
Net cash provided by operating activities	5,125	23,925	15,631
Cash flows from investing activities:			
Purchases of property and equipment	(1,992)	(1,279)	(2,460)
Purchases of restricted cash	—	(2,248)	—
Purchases of intangible assets	(1,760)	—	—
Net cash (used in) investing activities	(3,752)	(3,527)	(2,460)
Cash flows from financing activities:			
Proceeds from stock option exercises	2,158	—	40
Tax benefit from exercise of stock options	—	—	268
Repurchase of common stock	—	—	(15,123)
Proceeds from sale of Asia Pacific business segment, net of cash provided	2,061	1,076	—
Net cash provided by (used in) financing activities	4,219	1,076	(14,815)
Effect of exchange rate changes on cash and cash equivalents	5	(66)	(796)
Net increase (decrease) in cash and cash equivalents	5,597	21,408	(2,440)
Cash and cash equivalents at beginning of year	14,179	19,776	41,184
Cash and cash equivalents at end of year	$19,776	$41,184	$ 38,744
Supplemental disclosure of cash flow information:			
Cash paid for income taxes, net of refunds received	$ 5,760	$ 5,857	$ 15,025

See accompanying notes to consolidated financial statements

TRAVELZOO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009, 2010, and 2011

(1) Summary of Significant Accounting Policies

(a) The Company and Basis of Presentation

Travelzoo Inc. (the "Company" or "Travelzoo") is a global Internet media company. We inform over 24 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 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.

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., 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 February 15, 2012.

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 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.

Certain prior period amounts have been reclassified to conform to current year presentation. Specifically, as described in Note 11, "Discontinued Operations", the Company has classified the financial results of its Asia Pacific operating segment as discontinued operations for all periods presented due to the sale of the assets of its Asia Pacific subsidiaries, which constituted the Company's Asia Pacific operating segment, to Travelzoo (Asia) Limited and Travelzoo Japan K.K., wholly-owned subsidiaries of Azzurro Capital Inc. The notes to the Company's consolidated financial statements relate to continuing operations only, unless otherwise indicated.

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* 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.

In April 2002, Travelzoo.com Corporation was merged into 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 one share of Travelzoo Inc. in exchange for each outstanding 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 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 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 December 31, 2011, 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 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 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.

The Company is subject to unclaimed property audits by most States in the U.S.; several States have notified the Company of their intention to perform an audit of unclaimed property. As of December 31, 2011, there is no significant asserted claim by any State in regards to unclaimed property liability for the Company.

If additional escheat claims are asserted in the future, the Company intends to challenge the applicability of escheat rights related to shares of Travelzoo, which have not been claimed by former stock holders of Travelzoo.com; 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 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 amount or outcome of any future claims which 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 were former stockholders 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 $153,000 for these cash payments for the twelve months ended December 31, 2011. 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. Since the total cost of the program is not reliably estimable, the amount of expense recorded in a period is equal to the actual number of valid claims received during the period multiplied by (i) the number of shares held by each individual former stockholder and (ii) the applicable settlement price based on the recent price of our common stock at the date the claim is received as stipulated by the program. Assuming 100% of the requests from 1998 were valid, and after taking into account the settlement with the State of Delaware referred to above, former stockholders of Travelzoo.com Corporation holding approximately 1.0 million shares (representing approximately $24.6 million based upon the Company's stock price at the end of 2011) had not submitted claims under the program as of December 31, 2011.

(b) Revenue Recognition

The Company's revenue consists primarily of advertising sales. Advertising revenues are principally derived from the sale of advertising in North America and Europe on the *Travelzoo* website, in the *Travelzoo Top 20* e-mail newsletter, in *Newsflash*, from *SuperSearch*, from the *Travelzoo Network*, and from *Fly.com*. The Company also generates revenue from the sale of vouchers through our *Local Deals* and *Getaways* e-mail alert services.

The Company recognizes revenues in accordance with the SEC Staff Accounting Bulletin for 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. Effective January 1, 2011, we adopted ASU 2009-13. The adoption of this new accounting standard had no material impact on the Company's consolidated results of operations.

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, with the exception of *Travelzoo Top 20* or *Newsflash* insertions, which are recognized upon delivery. The majority of insertion orders have terms that begin and end in a quarterly reporting period. In the cases where at the end of a quarterly reporting period the term of an insertion order is not complete, the Company allocates the total arrangement fee to each element based on the relative estimated selling price of each element. The Company recognizes revenue for the period based on elements delivered during the period. The Company uses prices stated on its internal rate card, which represents stand-alone sales prices, to establish estimated selling prices. The stand-alone price is the price that would be charged if the advertiser purchased only the individual insertion. Fees for variable-fee advertising arrangements are recognized based on the number of impressions displayed, number of clicks delivered, or number of referrals generated during the period.

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

- *Evidence of an arrangement.* The Company considers an insertion order signed by the advertiser or its agency to be evidence of an arrangement.
- *Delivery.* Delivery is considered to occur when the advertising has been displayed 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 advertiser. Collection is deemed reasonably assured if it is expected that the advertiser will be able to pay amounts under the arrangement as payments become due. 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 advertiser is perceived to be in financial distress, which may be evidenced by weak industry condition, bankruptcy filing, or previously billed amounts that are past due.

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

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

During the third quarter of 2010, the Company started selling vouchers for deals from local businesses such as spas and restaurants. 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.

(c) Reserve for Subscriber Refunds

We record an estimated reserve for subscriber refunds based on our historical experience at the time revenue is recorded for Local Deals and Getaway voucher sales. We accrue costs associated with refunds in accrued expenses on the consolidated balance sheets. We consider many key factors such as the historical refunds based upon the time lag since the sale, historical reasons for refunds, time period that remains until the deal expiration date, any changes in refund procedures and estimates of redemptions and breakage. Should any of these factors change, the estimates made by management will also change, which could impact the level of our future reserves for subscriber refunds. Specifically, if the financial condition of our advertisers, the business that is providing the vouchered service, were to deteriorate, affecting their ability to provide the services to our subscribers, additional reserves for subscriber refunds may be required.

Estimated subscriber refunds that are determined to be recoverable from the merchant are recorded in the consolidated statements of operations as a reduction to revenue. Estimated subscriber refunds that are determined not to be recoverable from the merchant, are presented as a cost of revenue. If our judgments regarding estimated subscriber refunds are inaccurate, reported results of operations could differ from the amount we previously accrued.

(d) Allowance for Doubtful Accounts

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

(e) Net Income (Loss) Per Share

Net income (loss) per share has been calculated in accordance with FASB accounting guidance for earnings 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 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):

	Year Ended December 31,		
	2009	2010	2011
Net income (loss):			
Net income from continuing operations, net of tax	$ 6,418	$ 13,157	$ 3,319
Loss from discontinued operations, net of tax	(1,233)	—	—
Net income	$ 5,185	$ 13,157	$ 3,319
Weighted average common shares	16,408	16,444	16,315
Effect of dilutive securities — stock options	8	9	99
Diluted weighted average common shares	16,416	16,453	16,414
Basic net income (loss) per share from:			
Continuing operations	$ 0.39	$ 0.80	$ 0.20
Discontinued operations	$ (0.08)	$ —	$ —
Net income	$ 0.32	$ 0.80	$ 0.20
Diluted net income (loss) per share from:			
Continuing operations	$ 0.39	$ 0.80	$ 0.20
Discontinued operations	$ (0.08)	$ —	$ —
Net income	$ 0.32	$ 0.80	$ 0.20

Options to purchase 300,000 and 75,000 shares of common stock have been excluded from the computation of diluted net income (loss) per share for the years ended December 31, 2009 and December 31, 2010, respectively, as their effect was anti-dilutive. All options outstanding as of December 31, 2011 were included in the computation of diluted net income per share for the year ended December 31, 2011.

(f) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ materially from those estimates.

(g) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Additions, improvements and major renewals are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. The Company also includes in fixed assets the capitalized cost of internal-use software and website development, including software used to upgrade and enhance its website and processes supporting the Company's business in accordance with the framework established by the FASB accounting guidance for accounting for the cost of computer software developed or obtained for internal use and accounting for website development costs. Costs incurred in the planning stage and operating stage are expensed as incurred while costs incurred in the application development stage and infrastructure development stage are capitalized, assuming such costs are deemed to be recoverable.

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

	December 31,	
	2010	2011
Computer hardware and software	$ 2,687	$ 2,952
Office equipment and office furniture	2,834	4,760
Capitalized internal-use software and website development	1,319	1,319
Leasehold improvements	1,182	1,301
	8,022	10,332
Less accumulated depreciation and amortization	(4,597)	(6,775)
Total	$ 3,425	$ 3,557

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 3 to 5 years for computer hardware and software, capitalized internal-use software and website development costs, and office equipment and office furniture. The Company depreciates leasehold improvements over the term of the lease or the estimated useful life of the asset, whichever is shorter. Depreciation expense was $1.5 million, $2.0 million, and $2.4 million for the years ended December 31, 2009, 2010 and 2011, respectively.

As of December 31, 2009, 2010 and 2011, our capitalized internal-use software and website development costs, net of accumulated amortization, were $905,000, $465,000 and $31,000, respectively. For the years ended December 31, 2009, 2010 and 2011, we recorded amortization of capitalized internal-use software and website development costs of $409,000, $440,000 and $434,000, respectively.

(h) Intangible Assets

Intangible assets consist of the following (in thousands):

	December 31,	
	2010	2011
Acquired amortized intangible assets:		
Internet domain names	$ 2,117	$ 2,117
Less accumulated amortization	(1,059)	(1,413)
Total	$ 1,058	$ 704

Intangible assets have a useful life of 5 years. Amortization expense was $357,000, $354,000 and $354,000 for the years ended December 31, 2009, 2010 and 2011, respectively.

In January 2009, the Company purchased the *Fly.com* domain name for $1.8 million.

Future amortization expense related to intangible assets at December 31, 2011 is as follows (in thousands):

Year ended December 31,	
2012	$ 354
2013	350
	$ 704

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.

(i) Cash and Cash Equivalents

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

(j) Advertising Costs

Advertising production costs are expensed as incurred. Online advertising is expensed as incurred over the period the advertising is displayed. Advertising costs amounted to $30.4 million, $31.6 million and $32.0 million for the years ended December 31, 2009, 2010, and 2011, respectively. In the years ended December 31, 2009, 2010 and 2011, approximately $14.9 million, $16.1 million, and $19.5 million, respectively, of advertising services was purchased from the Company's advertisers under non-barter agreements and recorded in sales and marketing expense.

(k) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized for deductible temporary differences, along with net operating loss carryforwards and credit carryforwards, if it is more likely than not that the tax benefits will be realized. To the extent a deferred tax asset cannot be recognized under the preceding criteria, valuation allowances must be established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(l) Comprehensive Income (Loss)

Comprehensive income (loss) consists of two components, net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to gains and losses that under generally accepted accounting principles are recorded as an element of stockholders' equity but are excluded from net income (loss). The Company's other comprehensive income (loss) is comprised of foreign currency translation adjustments.

The following are components of comprehensive income (in thousands):

	Year Ended December 31,		
	2009	2010	2011
Net income	$ 5,185	$ 13,157	$ 3,319
Other comprehensive income:			
Foreign currency translation adjustments	215	135	(384)
Total comprehensive income	$ 5,400	$ 13,292	$ 2,935

Accumulated other comprehensive loss, as reflected in the consolidated balance sheets, consists of cumulative foreign currency translation adjustments.

(m) Impairment of Long-Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of the FASB accounting standard relating to impairment of long-lived assets, which requires an impairment loss to be recognized on assets to be held and used if the carrying amount of a long-lived asset group is not recoverable from its undiscounted cash flows. The amount of the impairment loss is measured as the difference between the carrying amount and the fair value of the asset group. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. No impairment loss was recognized during the years ended December 31, 2009, 2010 and 2011.

(n) Stock-Based Compensation

The Company accounts for its employee stock options under the fair value method, which requires stock-based compensation to be estimated using the fair value on the date of grant using an option-pricing model. The value of the portion of the award that is expected to vest is recognized as expense over the related employees' requisite service periods in the Company's consolidated statements of operations. Total stock-based compensation for the years ended December 31, 2009, 2010 and 2011 was $94,000, $750,000 and $750,000, respectively. See Note 6 for a further discussion on stock-based compensation.

(o) Foreign Currency

All foreign subsidiaries use the local currency of their respective countries as their functional currency. Assets and liabilities are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates. Revenues, costs and expenses are translated into U.S. dollars at average exchange rates for the period. Gains and losses resulting from translation are recorded as a component of accumulated other comprehensive income (loss).

Realized gains and losses from foreign currency transactions are recognized as gain or loss on foreign currency in the consolidated statements of operations.

(p) Certain Risks and Uncertainties

The Company's cash, cash equivalents and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents are placed with financial institutions that management believes are of high credit quality. The accounts receivable are derived from revenue earned from customers located in the U.S. and internationally. As of December 31, 2010 and December 31, 2011, the Company did not have any customers that accounted for 10% or more of its accounts receivable.

(q) Recent Accounting Pronouncements

In May 2011, the FASB issued ASU 2010-06, a new accounting standard, which amends the fair value measurement guidance and includes some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standard is effective for fiscal years beginning after December 15, 2011. The Company will adopt this new accounting standard on January 1, 2012 and does not expect the adoption of this new accounting standard will have a material impact on the Company's consolidated results of operations and financial condition.

In June 2011, the FASB issued ASU 2011-05, a new accounting standard update, which eliminates the current option to report other comprehensive income and its components in the statement of stockholders' equity. Instead, an entity will be required to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The standard is effective for fiscal years beginning after December 15, 2011. The Company will adopt this new standard effective January 1, 2012 and does not expect the adoption of this new accounting standard will have a material impact on the Company's consolidated results of operations and financial condition.

(2) Financial Instruments

At December 31, 2011, restricted cash consisted of a certificate of deposit for $875,000 serving as collateral for a standby letter of credit for the security deposit 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. The fair value of these financial assets was determined using the following inputs at 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)
Assets:				
Money market funds	$ 5,665	$ 5,665	$ —	$ —
Total	$ 5,665	$ 5,665	$ —	$ —

There have been no changes in level 2 and level 3 investments for the period ending December 31, 2011.

(3) Commitments and Contingencies

On August 9, 2011, a purported class action lawsuit in the United States District Court for the Southern District of New York, *Tomlinson v. Travelzoo Inc., et al*., was commenced against the Company and certain former and current officers and directors. Another putative class action lawsuit, *Steamfitters Local 449 Pension Fund v. Travelzoo Inc., et al*., was also filed in that court and asserted substantially similar claims against the same defendants. Pursuant to the Private Securities Litigation Reform Act of 1995 ("PSLRA"), the two putative class action lawsuits were consolidated and a lead plaintiff was selected. 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. On October 19, 2011, the *Blatt* action was voluntarily dismissed. The Court consolidated all of the pending derivative actions and appointed lead counsel. 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.

The Company leases office space in Canada, France, Germany, Spain, the U.K., and the U.S. under operating lease agreements which expire between February 29, 2012 and March 15, 2022. Rent expense was $3.8 million, $4.0 million and $4.7 million for the years ended December 31, 2009, 2010, and 2011, respectively. We are committed to pay a portion of the related operating expenses under certain of these lease agreements. These operating expenses are not included in the table below. Certain of these lease agreements have free or escalating rent payment provisions. We recognize rent expense under such arrangements on a straight line basis. The future minimum rental payments under these operating leases as of December 31, 2011 were as follows (in thousands):

	2012	2013	2014	2015	2016	Thereafter	Total
Minimum rental payments	$ 4,493	$ 3,298	$ 1,622	$ 1,493	$ 1,137	$ 1,534	$ 13,577

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 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 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.

The Company is subject to unclaimed property audits by most States in the U.S.; several States have notified the Company of their intention to perform an audit of unclaimed property. As of December 31, 2011, there is no significant asserted claim by any State in regards to unclaimed property liability for the Company.

If additional escheat claims are asserted in the future, the Company intends to challenge the applicability of escheat rights related to shares of Travelzoo, which have not been claimed by former stockholders of Travelzoo.com; 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 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 amount or outcome of any future claims which 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 were former stockholders 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 $153,000 for these cash payments for the twelve months ended December 31, 2011. 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. Since the total cost of the program is not reliably estimable, the amount of expense recorded in a period is equal to the actual number of valid claims received during the period multiplied by (i) the number of shares held by each individual former stockholder and (ii) the applicable settlement price based on the recent price of our common stock at the date the claim is received as stipulated by the program. Assuming 100% of the requests from 1998 were valid, and after taking into account the settlement with the State of Delaware referred to above in Note 1, former stockholders of Travelzoo.com Corporation holding approximately 1.0 million shares (representing approximately $24.6 million based upon the Company's stock price at the end of 2011) had not submitted claims under the program as of December 31, 2011.

(4) Other Balance Sheet Items

The details of prepaid expenses and other current assets as of December 31, 2010 and 2011 were as follows (in thousands):

	December 31, 2010	December 31, 2011
Prepaid expenses	$ 1,384	$ 1,642
Other current assets	105	481
Total prepaid expenses and other current assets	$ 1,489	$ 2,123

The details of changes to the allowance for doubtful accounts and reserve for subscriber refunds are as follows (in thousands):

	Allowance for doubtful accounts	Reserve for subscriber refunds
Balance at December 31, 2008	$ 357	$ —
Additions — charged to costs and expenses, net	159	—
Additions — recoveries of amounts previously charged-off	99	—
Deductions — write-offs	(114)	—
Balance at December 31, 2009	501	—
Additions — charged to costs and expenses, net	139	70
Additions — recoveries of amounts previously charged-off	60	—
Deductions — write-offs	(314)	—
Balance at December 31, 2010	386	70
Additions — charged to costs and expenses, or contra revenue, net	173	1,931
Additions — recoveries of amounts previously charged-off	(123)	—
Deductions — write-offs	(36)	(1,108)
Balance at December 31, 2011	$ 400	$ 893

Local Deals and Getaway merchant payable included in accounts payable was zero and $16.0 million, as of December 31, 2010 and 2011, respectively.

The details of accrued expenses as of December 31, 2010 and 2011 were as follows (in thousands):

	December 31, 2010	December 31, 2011
Accrued advertising expense	$ 2,077	$ 1,148
Accrued compensation expense	1,899	2,923
Accrued payments to merchants	1,353	244
Other accrued expenses	681	1,103
Reserve for subscriber refunds	70	893
Total accrued expenses	$ 6,080	$ 6,311

(5) Income Taxes

The components of income (loss) from continuing operations before income tax expense for the years ended December 31, 2009, 2010 and 2011 were as follows (in thousands):

	2009	2010	2011
U.S.	$ 17,879	$ 23,108	$ 7,252
Foreign	(4,188)	373	8,072
	$ 13,691	$ 23,481	$ 15,324

Income tax expense (benefit) from continuing operations for the years ended December 31, 2009, 2010, and 2011 consisted of the following current and deferred components categorized by federal, state and foreign jurisdictions. The current provision is generally that portion of income tax expense that is currently payable to the taxing authorities. The Company makes estimated payments of these amounts during the year. The deferred tax provision results from changes in the Company's deferred tax assets (future deductible amounts) and tax liabilities (future taxable amounts), which are presented in the table below:

	Current	Deferred (In thousands)	Total
2009:			
Federal	$ 5,872	$ (144)	$ 5,728
State	1,638	(93)	$ 1,545
	$ 7,510	$ (237)	$ 7,273
2010:			
Federal	$ 8,512	$ (1,102)	$ 7,410
State	2,458	(174)	2,284
Foreign	630	—	630
	$ 11,600	$ (1,276)	$ 10,324
2011:			
Federal	$ 10,820	$ (357)	$ 10,463
State	591	1	592
Foreign	950	—	950
	$ 12,361	$ (356)	$ 12,005

During 2011, an income tax benefit of $268,000 was recorded in stockholders' equity for the tax benefit of stock option exercises.

Income tax expense from continuing operations for the years ended December 31, 2009, 2010 and 2011 differed from the amounts computed by applying the U.S. federal statutory tax rate applicable to the Company's level of pretax income as a result of the following (in thousands):

	2009	2010	2011
Federal tax at statutory rates	$ 4,792	$ 8,218	$ 5,363
State taxes, net of federal income tax benefit	1,004	1,488	385
Foreign losses not benefited	1,434	500	—
Utilization of net operating loss with a full valuation allowance	—	—	(1,235)
Settlement with the State of Delaware	—	—	7,000
Non-deductible expenses and other	43	118	492
Total income tax expense	$ 7,273	$ 10,324	$ 12,005

Operating losses incurred in the foreign subsidiaries were treated as having no recognizable tax benefit.

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and liabilities as of December 31, 2010 and 2011, are as follows (in thousands):

	2010	2011
Deferred tax assets:		
Foreign net operating loss carryforwards	$ 6,246	$ 4,762
State income taxes	858	651
Accruals and allowances	622	1,118
Capital loss	1,787	1,754
Deferred revenue	342	631
Deferred rent	279	219
Total deferred tax assets	10,134	9,135
Valuation allowance	(8,033)	(6,516)
Total deferred tax assets net of valuation allowance	2,101	2,619
Deferred tax liabilities:		
US tax on undistributed earnings	(77)	(251)
Property, equipment and intangible assets	(263)	(270)
Total deferred tax liabilities	(340)	(521)
Net deferred tax assets	$ 1,761	$ 2,098

The Company has a valuation allowance of approximately $4.8 million as of December 31, 2011 related to foreign net operating loss carryforwards of approximately $18.3 million for which it is more likely than not that the tax benefit will not be realized. These net operating loss carryforwards do not expire. The Company also has a valuation allowance of $1.8 million as of December 31, 2011 related to the capital loss carryforward of $4.5 million for which it is more likely than not that the tax benefit will not be realized. If not utilized, the capital loss carryforward will expire in 2014. The total amount of the valuation allowance represented a decrease of approximately $1.5 million from the amount recorded as of December 31, 2010 and was primarily due to the utilization of foreign net operating loss carryforwards and a decrease in valuation allowance recorded against the net operating loss carryforwards and capital loss carryforwards due to the change in tax rates in 2011.

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 $1.2 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 December 31, 2011, the Company had approximately $1.9 million in total unrecognized tax benefits, approximately $321,000 in accrued interest, of which $238,000 accrued in 2011, and approximately $70,000 in accrued penalties, of which $70,000 accrued in 2011. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Unrecognized tax benefits balance at January 1, 2009	$ 788
Increase related to prior year tax positions	44
Decrease related to prior year tax positions	—
Increase related to current year tax positions	1,210
Settlements	—
Lapse of statute of limitations	(39)
Unrecognized tax benefits balance at December 31, 2009	2,003
Increase related to prior year tax positions	—
Decrease related to prior year tax positions	(224)
Increase related to current year tax positions	—
Settlements	(413)
Lapse of statute of limitations	—
Unrecognized tax benefits balance at December 31, 2010	1,366
Increase related to prior year tax positions	510
Decrease related to prior year tax positions	—
Increase related to current year tax positions	—
Settlements	(42)
Lapse of statute of limitations	—
Unrecognized tax benefits balance at December 31, 2011	$ 1,834

At December 31, 2011, unrecognized tax benefits of approximately $221,000, if recognized, would favorably affect the Company's effective income tax rate. Unrecognized tax benefits of approximately $1.6 million, if recognized, would be recorded in discontinued operations. 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.

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.

(6) Stock-based Compensation and Stock Options

The Company accounts for its employee stock options under the fair value method, which requires stock-based compensation to be estimated using the fair value on the date of grant using an option-pricing model. The value of the portion of the award that is expected to vest is recognized as expense over the related employees' requisite service periods in the Company's Condensed Consolidated Statements of Income. Cash flows resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as financing cash flows. For fiscal year 2011, the Company recorded $268,000 of excess tax benefit.

In October 2001, the Company granted to each director fully vested and exercisable options to purchase 30,000 shares of common stock with an exercise price of $2.00 per share for their services as a director in 2000 and 2001. A total of 210,000 options were granted. The options expired in October 2011. During the years ended December 31, 2004, 2005, 2008 and 2011, 150,000 options, 17,275 options, 30,000 options and 12,725 options, respectively, were exercised.

In March 2002, Travelzoo Inc. granted to each director options to purchase 5,000 shares of common stock with an exercise price of $3.00 per share that vested in connection with their services as a director in 2002. A total of 35,000 options were granted. In October 2002, 1,411 options were cancelled upon the resignation of a director. The options expire in March 2012. During the years ended December 31, 2004, 2008 and 2011, 23,589 options, 5,000 options and 5,000 options, respectively, were exercised.

In January 2009, 2,158,349 options were exercised at $1.00 per share. As described in Note 1, these options were granted in 2001 as part of the combination and merger of entities founded by the Company's majority stockholder, Ralph Bartel.

In November 2009, the Company granted to one if its employees options to purchase 300,000 shares of common stock with an exercise price of $14.97. 75,000 options vest and become exercisable annually starting in July 1, 2011. The options expire in November 2019. As of December 31, 2011, 75,000 of the options are vested and 300,000 options are outstanding. Total stock-based compensation for fiscal years 2009, 2010 and 2011 was $94,000, $750,000 and $750,000, respectively.

The Company utilized the Black-Scholes option pricing model to value the stock options granted in 2009. The Company does not have enough historical exercise data to estimate the expected life of the options and therefore used an expected life of 6.25 years, as defined under the simplified method. The risk-free interest rate used for the award is based on the U.S. Treasury yield curve in effect at the time of grant. The Company 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 different from what we have anticipated, stock-based compensation related to these options will be different from our expectations

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

	2009
Weighted-average fair value of options granted per share	$ 11.56
Historical volatility	93%
Risk-free interest rate	2.56%
Dividend yield	—
Expected life in years	6.25

As of December 31, 2011, there was approximately $1.9 million of unrecognized stock-based compensation expense related to outstanding stock options. This amount is expected to be recognized over 2.5 years. To the extent the actual forfeiture rate is different from what we have anticipated, stock-based compensation related to these options will be different from our expectations.

Option activity as of December 31, 2011 and changes during the years ended December 31, 2009, 2010, and 2011 were as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2009	2,176,074	$ 1.01	2.09 years	$ 9,900
Options granted	300,000	$ 14.97		
Exercised	(2,158,349)	$ 1.00		
Outstanding at December 31, 2009	317,725	$ 14.26	9.44 years	$ 177
Exercisable and fully vested at December 31, 2009	17,725	$ 2.28	1.95 years	$ 177
Outstanding at January 1, 2010	317,725	$ 14.26		
Outstanding at December 31, 2010	317,725	$ 14.26	8.44 years	$ 8,616
Exercisable and fully vested at December 31, 2010	17,725	$ 2.28	0.95 years	$ 693
Outstanding at January 1, 2011	317,725	$ 14.26		
Exercised	(17,725)	$ 2.28		
Outstanding at December 31, 2011	300,000	$ 14.97	7.89 years	$ 2,883
Exercisable and fully vested at December 31, 2011	75,000	$ 14.97	7.89 years	$ 721

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 fiscal year 2009, 2010, and 2011 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2009, 2010, and 2011. 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.

The total intrinsic value of options exercised in the year ended December 31, 2009 was $9.1 million and the total intrinsic value of options exercised in the year ended December 31, 2011 was $628,000.

Outstanding options at December 31, 2011 were as follows:

	Options Outstanding			Options Exercisable		
Exercise Price	Shares Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares Outstanding and Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$14.97	300,000	7.89 years	$ 14.97	75,000	7.89 years	$ 14.97

In January 2012, the Company granted, subject to shareholder approval, certain employees options to purchase 100,000 shares of common stock with an exercise price of $28.98, of which 25,000 options vest and become exercisable annually starting in January 23, 2013. The options expire in November 2022.

(7) Stock Repurchase Program

In August 2011, the Company announced a share repurchase program authorizing the repurchase of up to 500,000 shares of common stock. The repurchase program assists in offsetting the impact of dilution from employee equity compensation and was based upon market conditions and consideration of capital allocation. During the three months ended September 30, 2011, the Company purchased 500,000 shares of common stock for an aggregate purchase price of $15.1 million and completed the share repurchases under this program. The 500,000 shares repurchased are recorded as part of treasury stock as of December 31, 2011.

(8) 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 Canada and the U.S. Europe consists of the Company's operations in France, Germany, Spain, and the U.K. 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:

Year Ended December 31, 2011:	North America	Europe	Elimination	Consolidated
Revenues from unaffiliated customers	$ 108,549	$ 39,793	$ —	$ 148,342
Intersegment revenues	466	134	(600)	—
Total net revenues	109,015	39,927	(600)	148,342
Operating income (loss)	10,110	4,912	—	15,022

Year Ended December 31, 2010:	North America	Europe	Elimination	Consolidated
Revenues from unaffiliated customers	$ 87,661	$ 25,123	$ —	$ 112,784
Intersegment revenues	197	107	(304)	—
Total net revenues	87,858	25,230	(304)	112,784
Operating income (loss)	24,998	(1,489)	3	23,512

Year Ended December 31, 2009:	North America	Europe	Elimination	Consolidated
Revenues from unaffiliated customers	$ 77,707	$ 16,266	$ —	$ 93,973
Intersegment revenues	260	73	(333)	—
Total net revenues	77,967	16,339	(333)	93,973
Operating income (loss)	19,227	(5,463)	(56)	13,708

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

As of December 31, 2010:	North America	Europe	Elimination	Consolidated
Long-lived assets:	$ 4,329	$ 154	$ —	$ 4,483
Total assets	85,658	10,490	(30,146)	66,002

Revenue for each segment is recognized from the locations within a designated geographic region. Property and equipment are attributed to the geographic region in which the assets are located.

For the years ended December 31, 2009, 2010 and 2011, the Company did not have any customers that accounted for 10% or more of revenue. As of December 31, 2011 and 2010, 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 years ended December 31, 2009, 2010 and 2011. Travel revenue includes travel publications (*Top 20*, *Website*, *Newsflash, Network*) and *Getaways* vouchers. Search revenue includes *SuperSearch* and *Fly.com*. Local revenue includes *Local Deals* vouchers and Entertainment non-vouchers.

	Year Ended December 31,		
	2009	2010	2011
	(In thousands, except percentage changes)		
North America			
Travel	$ 48,747	$ 53,693	$ 57,795
Search	23,778	24,914	23,980
Local	5,182	9,054	26,774
Total North America revenues	$ 77,707	$ 87,661	$ 108,549
Europe			
Travel	$ 14,646	$ 21,786	$ 27,434
Search	1,409	2,404	5,089
Local	211	933	7,270
Total Europe	$ 16,266	$ 25,123	$ 39,793
Revenue			
Travel	$ 63,393	$ 75,479	$ 85,229
Search	25,187	27,318	29,069
Local	5,393	9,987	34,044
Total revenues	$ 93,973	$ 112,784	$ 148,342

(9) Employee Benefit Plan

The Company maintains a 401(k) Profit Sharing Plan & Trust (the “401(k) Plan”) for its employees in the United States. The 401(k) Plan allows employees of the Company to contribute up to 80% of their eligible compensation, subject to certain limitations. Since 2006, the Company matches employee contributions up to $1,500 per year. Employee contributions are fully vested upon contribution, whereas the Company’s matching contributions are fully vested after the first year of service. The Company also has various defined contribution plans for our international employees. The Company’s contributions to these benefit plans were approximately $705,000, $902,000 and $1.2 million for the years ended December 31, 2009, December 31, 2010 and December 31, 2011, respectively.

(10) Related Party Transaction

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 for the year ended December 31, 2010 totaled approximately $275,000. Fees for these services rendered during the 9 months ended September 30, 2011 totaled approximately $311,000. On October 1, 2011, Holger Bartel became a full time employee of Travelzoo Inc.

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 a member of the board of directors of Azzurro Capital Inc. and 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 $89,000 and $422,000 as of December 31, 2010 and 2011, respectively, and were related primarily to fees under the Hosting Agreement and Referral Agreement. The $89,000 and $422,000 are part of prepaid expenses and other current assets in the accompanying Consolidated Balance Sheets. See Note 11 to the accompanying consolidated financial statements for a further discussion on the sale of the Company's Asia Pacific operating segment.

(11) Discontinued Operations

On September 30, 2009, the Company and its principal Asia Pacific subsidiaries entered into two definitive Asset Purchase Agreements ("Asset Purchase Agreements") with Azzurro Capital Inc. and it's newly formed wholly-owned subsidiaries, Travelzoo (Asia) Limited and Travelzoo Japan K.K. to acquire substantially all of the assets, and with the exception of intercompany loans, assume substantially all of the liabilities of Travelzoo's principal Asia Pacific subsidiaries, which constitute Travelzoo's Asia Pacific operating segment. The aggregate purchase price under the Asset Purchase Agreements was $3,600,000, subject to a working capital adjustment, as defined in the Asset Purchase Agreements, based on unaudited balance sheets as of October 31, 2009.

As part of the transaction, the Company and Azzurro Capital Inc., Travelzoo (Asia) Limited and Travelzoo Japan K.K. entered into the following additional agreements:

- A License Agreement providing for a limited, nontransferable (except as provided therein), perpetual, exclusive (except as provided therein) fully paid-up license to perform the Licensed Services and Licensed Business Processes (as defined in the License Agreement), and to use the Licensed Marks, the Licensed Software, the Licensed Trade Secrets, and the Licensed Works (as defined in the License Agreements) in connection with the Licensed Services and Licensed Business Processes within the Territory, which is defined as all countries located in those time zones that are more than five hours ahead of Greenwich Mean Time, based on Standard time, including India and Pakistan, but excluding Russia.
- A Hosting Agreement under which Travelzoo agrees to host, transact, process, store, implement, operate, manage, maintain and provide access to licensed software and to data files and content provided by Travelzoo (Asia) Limited and Travelzoo Japan K.K. for use in connection with the Licensed Services and the Licensed Business Processes referred to in the Hosting Agreement.
- A Referral Agreement pursuant to which each party will, on a non-exclusive basis, make customer referrals to each other, in consideration for receiving a specified percentage of the revenues derived from such referrals.
- A Transition Services Agreement under which Travelzoo agrees to provide, at the option of the Travelzoo (Asia) Limited and Travelzoo Japan K.K., certain services on a temporary basis, at the prices and on other terms to be determined as provided in the Transition Services Agreement.

The Company and Azzurro Capital Inc. also entered into an Option Agreement (the "Option Agreement") on September 30, 2009, under which the Company will have an option (the "Option") to acquire the assets or shares of the Travelzoo (Asia) Limited and Travelzoo Japan K.K., exercisable during the month of June in any year from 2011 to 2020. The Option is also exercisable upon receipt by Travelzoo of a notice delivered under the Option Agreement of (a) the intent for either of both of the Travelzoo (Asia) Limited and Travelzoo Japan K.K. to cease operations or (b) an intention to effect an initial public offering of the shares of either of Travelzoo (Asia) Limited or Travelzoo Japan K.K. The purchase price under the Option will be the fair market value of the assets and business being acquired, determined by third party appraisal under the procedures set forth in the Option Agreement.

A voting agreement was also reached between the Company and Ralph Bartel with the intent to avoid any future conflicts of interest relating to the dealings between the Company and Azzurro Capital Inc. and their affiliates. Under the voting agreement, Mr. Bartel agrees to vote (or cause to be voted) any shares of the Company over which he has voting control, with respect to any proposal relating the Asia Pacific business, Azzurro Capital Inc., Travelzoo (Asia) Limited, or Travelzoo Japan K.K., in the same manner and in the same proportion that all other securities of the same class are voted at any meeting of the stockholders of the Company, and included provisions relating to the exercise of his voting rights as a shareholder or director of the Company in respect of matters between the Company and Azzurro Capital Inc. As a member of the Company's Board of Directors, Mr. Bartel also agrees to abstain from all deliberations and decisions of the Board of Directors with respect to any matters relating to any dealings, agreements or arrangements between the Company or any of its affiliates and Azzurro Capital Inc. or any of its affiliates, including with respect to the exercise of the Option, as mentioned above, except to the extent his vote shall be required to constitute a quorum or otherwise to permit the Board of Directors to take action, in which case he shall vote with the majority of the other members of the Board of Directors (or shall abstain in the case of a tie).

On October 31, 2009, the Company completed the sale of its Asia Pacific operating segment to Azzurro Capital Inc. pursuant to the terms of the Asset Purchase Agreements. The results of operations of the Asia Pacific operating segment have been classified as discontinued operations for all periods presented. The Company has not had significant ongoing involvement with the operations of the Asia Pacific operating segment and has not had any economic interests in the Asia Pacific operating segment since the completion of the sale. Accordingly, the sale of the Asia Pacific operating segment is treated as a discontinued operation under the relevant accounting literature.

At the completion of the sale, the Company received $2.1 million, net of cash provided, and had a net receivable from Travelzoo (Asia) Limited and Travelzoo Japan K.K. of $1.1 million, which was paid in 2010. The Company realized a gain of $3.4 million related to the sale of the net assets of the Asia Pacific business segment to Azzurro Capital Inc. The resulting gain on the sale is reflected as an addition to additional paid-in capital in the accompanying Consolidated Statements of Stockholders' Equity as both the Company and Azzurro Capital Inc. are under the common control of Ralph Bartel. The Company recorded a tax benefit of $4.4 million in discontinued operations for the tax benefit associated with the loss on investments in the Asia Pacific subsidiaries as a result of their dissolution.

The following table presents the revenues and the components of loss from discontinued operations, net of tax (in thousands):

	Twelve Months Ended December 31		
	2009	2010	2011
Revenues	$ 2,134	$ —	$ —
Cost of revenues	173	—	—
Gross profit	1,961	—	—
Operating expenses:			
Sales and marketing	3,821	—	—
General and administrative	3,828	—	—
Total operating expenses	7,649	—	—
Operating loss from discontinued operations	(5,688)	—	—
Other income and (expense)	(33)	—	—
Income tax benefit	79	—	—
Loss from discontinued operations	(5,642)	—	—
Income tax benefit related to dissolution of Asia Pacific business segment	4,409	—	—
Loss from discontinued operations, net of tax	$ (1,233)	$ —	$ —

(12) Unaudited Quarterly Information

The following represents unaudited quarterly financial data for 2010 and 2011:

	Quarters Ended							
	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011
	(In thousands, except per share amounts)							
Revenues	28,518	$ 28,106	$ 27,693	$ 28,468	$ 36,960	$ 37,565	$ 38,661	$ 35,156
Cost of revenues	1,653	1,616	1,742	2,241	2,442	2,940	4,221	3,680
Gross profit	26,865	26,490	25,951	26,227	34,518	34,625	34,440	31,476
Operating expenses:								
Sales and marketing	14,993	14,049	13,630	11,783	16,131	18,701	16,737	13,921
General and administrative	6,712	6,505	6,616	7,732	8,394	8,295	8,478	9,380
Settlement with State of Delaware	—	—	—	—	20,000	—	—	—
Total operating expenses	21,705	20,554	20,246	19,515	44,525	26,996	25,215	23,301
Operating income(loss) from continuing operations	5,160	5,936	5,705	6,712	(10,007)	7,629	9,225	8,175
Interest income and other income	42	45	45	34	32	43	52	255
Gain (loss) on foreign currency	(209)	—	20	(8)	31	(1)	(52)	(58)
Income (loss) from continuing operations before income tax expense	4,993	5,981	5,770	6,738	(9,944)	7,671	9,225	8,372
Income tax expense	2,519	2,734	2,120	2,951	4,011	2,752	3,298	1,944
Income (loss) from continuing operations, net of tax	2,474	3,247	3,650	3,787	(13,955)	4,919	5,927	6,428
Income (loss) from discontinued operations, net of tax	—	—	—	—	—	—	—	—
Net income (loss)	$ 2,474	$ 3,247	$ 3,650	$ 3,787	$ (13,955)	$ 4,919	$ 5,927	$ 6,428
Basic net income (loss) per share from								
Continuing operations	$ .15	$ .20	$ .22	$ .23	$ (.85)	$ .30	$ .36	$ .40
Discontinued operations	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Net income (loss) per share	$ .15	$ .20	$ .22	$ .23	$ (.85)	$ .30	$ .36	$ .40
Diluted net income (loss) per share from:								
Continuing operations	$ .15	$ .20	$ .22	$ .23	$ (.85)	$ .30	$ .36	$ .40
Discontinued operations	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Net income (loss) per share	$ .15	$ .20	$ .22	$ .23	$ (.85)	$ .30	$ .36	$ .40

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

None.

Item 9A. *Controls and Procedures*

As of December 31, 2011, we carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of December 31, 2011 to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act, including this report, is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and to ensure that information required to be disclosed in such reports is accumulated and communicated to management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, to allow timely decisions regarding required disclosure. For these purposes, "disclosure controls and procedures" means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. "Disclosure controls and procedures" include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended December 31, 2011, there was no change in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Travelzoo's management is responsible for establishing and maintaining adequate internal control over financial reporting for Travelzoo Inc. Travelzoo's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Travelzoo's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Travelzoo; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of Travelzoo are being made only in accordance with authorizations of management and directors of Travelzoo; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Travelzoo's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Travelzoo's management assessed the effectiveness of Travelzoo's internal control over financial reporting as of December 31, 2011, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework.* Based on the assessment by Travelzoo's management, we determined that Travelzoo's internal control over financial reporting was effective as of December 31, 2011. The effectiveness of Travelzoo's internal control over financial reporting as of December 31, 2011 has been audited by KPMG LLP, Travelzoo's independent registered public accounting firm, as stated in their report which appears in Part II, Item 8 of this Annual Report on Form 10-K.

/s/ CHRISTOPHER LOUGHLIN
Christopher Loughlin
Chief Executive Officer

/s/ GLEN CEREMONY
Glen Ceremony
Chief Financial Officer

February 16, 2012

Item 9B. *Other Information*

Not applicable.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance of the Registrant***

Information required by this item is incorporated by reference to Travelzoo's Definitive Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of Travelzoo's fiscal year ended December 31, 2011 and is incorporated herein by reference.

The following table sets forth certain information with respect to the executive officers of Travelzoo as of February 15, 2012.

Name	Age	Position
Christopher Loughlin	38	Chief Executive Officer
Glen Ceremony	44	Chief Financial Officer
Shirley Tafoya	48	President, North America

Christopher Loughlin, has served as Chief Executive Officer since July 2010 after service as Executive Vice President, Europe from May 2005 to June 2011 and Vice President of Business Development from 2001 to April 2005. From 1999 to 2001, he was Chief Operating Officer of Weekends.com. Mr. Loughlin holds a BSc(Hons) in Technology Management from Staffordshire University and an MBA from Columbia University Graduate School of Business in New York.

Glen Ceremony, has served as Chief Financial Officer since June 2011. From October 2004 to June 2011, Mr. Ceremony worked at Ebay, Inc. and most recently served as Corporate Controller. In 2004, Mr. Ceremony was Senior Director of Global Finance Audit at Electronic Arts Inc. From 1998 to 2004 Mr. Ceremony worked at PWC LLP and from 1990 to 1998 he was at Coopers & Lybrand LLP. Mr. Ceremony received his B.S. in Business Administration from California State University, Sacramento.

Shirley Tafoya has served as Senior Vice President of Sales since 2001 and was appointed as President, North America in July 2008. From 1999 to 2001, Ms. Tafoya was the Director of Western Sales at Walt Disney Internet Group. From 1998 to 1999, Ms. Tafoya was a Sales Manager at IDG/International Data Group. Ms. Tafoya holds a bachelor's degree in Business Administration from Notre Dame de Namur University.

Item 11. ***Executive Compensation***

Information regarding executive compensation and compensation committee interlocks is incorporated by reference to the information in the definitive Proxy Statement relating to our 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2011, which is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Information regarding security ownership of certain beneficial owners and management and related stockholder matters is incorporated by reference to the information in the definitive Proxy Statement relating to our 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2011, which is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

Information regarding certain relationships and related transactions, and director independence is incorporated by reference to the information set forth in the definitive Proxy Statement relating to our 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2011, which is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

Information regarding principal accountant fees and services is set forth in the definitive Proxy Statement relating to our 2012 Annual Meeting of Stockholders, which is incorporated herein by reference.

PART IV

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

The following documents are filed as part of this report:

(1) *Our Consolidated Financial Statements are included in Part II, Item 8:*

(2) Supplementary Consolidated Financial Statement Schedules:

All schedules are omitted because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits:

See attached Exhibit Index.

SIGNATURES

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

TRAVELZOO INC.

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

Date: February 16, 2012

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

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

Signature	Title(s)	Date
/s/ HOLGER BARTEL Holger Bartel	Chairman of the Board	February 16, 2012
/s/ CHRISTOPHER LOUGHLIN Christopher Loughlin	Chief Executive Officer	February 16, 2012
/s/ GLEN CEREMONY Glen Ceremony	Chief Financial Officer and Principal Accounting Officer	February 16, 2012
/s/ RALPH BARTEL Ralph Bartel	Director	February 16, 2012
/s/ DAVID J. EHRLICH David J. Ehrlich	Director	February 16, 2012
/s/ DONOVAN NEALE-MAY Donovan Neale-May	Director	February 16, 2012
/s/ KELLY M. URSO Kelly M. Urso	Director	February 16, 2012

EXHIBIT INDEX

Exhibit Number		Description
3.1	—	Certificate of Incorporation of Travelzoo Inc. (Incorporated by reference to our Pre-Effective Amendment No. 6 to our Registration Statement on Form S-4 (File No. 333-55026), filed February 14, 2002)
3.2	—	By-laws of Travelzoo Inc. (Incorporated by reference to our Pre-Effective Amendment No. 6 to our Registration Statement on Form S-4 (File No. 333-55026), filed February 14, 2002)
10.1	—	Form of Director and Officer Indemnification Agreement (Incorporated by reference to Exhibit 10.1 on Form 10-Q (File No. 000-50171), filed November 9, 2007)
10.2*	—	Travelzoo Inc. North America Executive Bonus Plan as Amended and Restated Effective January 1, 2007. (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed April 11, 2007)
10.3	—	Agreement of Lease, effective as of February 1, 2008, between Travelzoo Inc. and 590 Madison Avenue, LLC (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed February 7, 2008)
10.4	—	Asset Purchase Agreement, dated September 30, 2009, by and among Travelzoo Inc., Travelzoo K.K., Azzurro Capital Inc. and a buyer entity to be designated by Azzurro Capital Inc., with Exhibits (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed October 5, 2009)
10.5	—	Asset Purchase Agreement, dated September 30, 2009, by and among Travelzoo Inc., Travelzoo (Asia Pacific) Limited, Azzurro Capital Inc. and a buyer entity to be designated by Azzurro Capital Inc., with Exhibits (Incorporated by reference to Exhibit 10.2 on Form 8-K (File No. 000-50171), filed October 5, 2009)
10.6	—	Option Agreement, dated September 30, 2009, between Travelzoo Inc. and Azzurro Capital Inc. (Incorporated by reference to Exhibit 10.3 on Form 8-K (File No. 000-50171), filed October 5, 2009)
10.7*	—	Employment Agreement between Travelzoo Inc. and Christopher Loughlin dated November 18, 2009 (Incorporated by reference to Exhibit 10.1 on Form 8-K (File No. 000-50171), filed November 23, 2009)
10.8*	—	Nonqualified Stock Option Agreement between Travelzoo Inc. and Christopher Loughlin dated November 18, 2009 (Incorporated by reference to Exhibit 10.2 on Form 8-K (File No. 000-50171), filed November 23, 2009)
10.9*	—	Employment Agreement, dated August 4, 2011 between Shirley Tafoya and Travelzoo Inc. (Incorporated by reference to Exhibit 10.1 on Form 10-Q (File No. 000-50171), filed November 9, 2010)
10.10*	—	Employment Agreement, dated May 9, 2011 between Glen Ceremony and Travelzoo Inc. Form 8-K (File No. 000-50171), filed May 20, 2011)
10.11*	—	Employment Agreement, dated October 1, 2011 between Holger Bartel and Travelzoo Inc. (Incorporated by reference to Exhibit 10.1 on Form 10-Q (File No. 000-50171), filed October 28, 2011)
21.1‡	—	Subsidiaries of Travelzoo Inc.
23.1‡	—	Consent of Independent Registered Public Accounting Firm
24.1	—	Power of Attorney (included on signature page)
31.1‡	—	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2‡	—	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1†	—	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2†	—	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS†		XBRL Instance Document
101.SCH†		XBRL Taxonomy Extension Schema Document
101.CAL†		XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit Number	Description
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document

* This exhibit is a management contract or a compensatory plan or arrangement.

‡ Filed herewith.

† Furnished herewith.

EXHIBIT 21.1

SUBSIDIARIES OF TRAVELZOO INC.

Subsidiaries	Jurisdiction
Travelzoo (Canada) Inc.	Canada
Travelzoo (Europe) Limited	United Kingdom
Travelzoo Local Inc.	Delaware

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Travelzoo Inc.:

We consent to the incorporation by reference in the registration statements on Form S-3 (Nos. 333-121076 and 333-119700) and on Form S-8 (No. 333-116093) of Travelzoo Inc. and subsidiaries (Travelzoo Inc.) of our report dated February 17, 2012, with respect to the consolidated balance sheets of Travelzoo Inc. as of December 31, 2010 and 2011, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2011, and the effectiveness of internal control over financial reporting as of December 31, 2011, which report appears herein.

/s/ KPMG LLP

Santa Clara, California
February 17, 2012

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christopher Loughlin, certify that:

1. I have reviewed this annual report on Form 10-K of Travelzoo Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and

d. disclosed in this report any change in the Registrants' internal control over financial reporting that occurred during the Registrants' most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 16, 2012

/s/ CHRISTOPHER LOGHLIN

Christopher Loughlin
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Glen Ceremony, certify that:

1. I have reviewed this annual report on Form 10-K of Travelzoo Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and

d. disclosed in this report any change in the Registrants' internal control over financial reporting that occurred during the Registrants' most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 16, 2012

/s/ GLEN CEREMONY

Glen Ceremony
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report on Form 10-K (the "Report") of Travelzoo Inc. for the period ended December 31, 2011, the undersigned certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that (1) this Report complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and (2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: February 16, 2012	/s/ CHRISTOPHER LOUGHLIN
	Christopher Loughlin Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of this Report or as a separate disclosure document.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report on Form 10-K (the “Report”) of Travelzoo Inc. for the period ended December 31, 2011, the undersigned certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that (1) this Report complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and (2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: February 16, 2012

/s/ GLEN CEREMONY

Glen Ceremony
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of this Report or as a separate disclosure document.

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Travelzoo Inc.
ATTN: Investor Relations
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37th Floor
New York, NY 10022

Web site:

www.travelzoo.com/ir