TRAVELZOO INC
Form 10-Q
November 09, 2009

Table of Contents

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

(Mark One)

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

For the quarterly period ended September 30, 2009

or

o **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**

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 þ No o

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

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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of Travelzoo common stock outstanding as of November 5, 2009 was 16,443,828 shares.

TRAVELZOO INC.
Table of Contents

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

		September 30, 2009		December 31, 2008
ASSETS				
Current assets:				
Cash and cash equivalents	$	15,694	$	14,179
Accounts receivable, less allowance for doubtful accounts of $617 and $357 as of September 30, 2009 and December 31, 2008, respectively		11,772		11,397
Deposits		270		185
Prepaid expenses and other current assets		2,046		2,356
Deferred income taxes		1,089		1,089
Assets held for sale		1,050		831
Total current assets		31,921		30,037
Deposits, less current portion		302		292
Restricted cash		875		875
Property and equipment, net		4,167		4,100
Intangible assets, net		1,509		18
Total assets	$	38,774	$	35,322
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$	7,408	$	6,434
Accrued expenses		4,089		3,913
Deferred revenue		836		666
Deferred rent		129		101
Liabilities related to assets held for sale		1,498		1,281
Total current liabilities		13,960		12,395
Deferred tax liabilities long-term		465		465
Long-term tax liabilities		918		900
Deferred rent, less current portion		659		799
Commitments and contingencies				
Stockholders equity:				
Common stock, $0.01 par value (40,000 shares authorized; 16,444 and 14,285 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively)		164		143
Additional paid-in capital		2,322		185
Retained earnings		21,674		21,823

Accumulated other comprehensive loss		(1,388)		(1,388)
Total stockholders equity		22,772		20,763
Total liabilities and stockholders equity	$	38,774	$	35,322

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

TRAVELZOO INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues	$ 23,576	$ 18,600	$ 70,194	$ 61,207
Cost of revenues	1,464	819	4,140	1,934
Gross profit	22,112	17,781	66,054	59,273
Operating expenses:				
Sales and marketing	13,437	10,326	37,450	32,696
General and administrative	6,395	5,480	18,420	15,662
Total operating expenses	19,832	15,806	55,870	48,358
Operating income from continuing operations	2,280	1,975	10,184	10,915
Other income and expense:				
Interest income	8	59	40	266
Gain (loss) on foreign currency	320	(69)	17	70
Income from continuing operations before income taxes	2,608	1,965	10,241	11,251
Income taxes	1,308	1,451	5,292	7,064
Income from continuing operations	1,300	514	4,949	4,187
Loss from discontinued operations, net of tax	(1,595)	(2,303)	(5,097)	(8,175)
Net loss	$ (295)	$ (1,789)	$ (148)	$ (3,988)
Basic net income (loss) per share from:				
Continuing operations	$ 0.08	$ 0.04	$ 0.30	$ 0.29
Discontinued operations	$ (0.10)	$ (0.16)	$ (0.31)	$ (0.57)
Net loss per share	$ (0.02)	$ (0.13)	$ (0.01)	$ (0.28)
Diluted net income (loss) per share from:				
Continuing operations	$ 0.08	$ 0.03	$ 0.30	$ 0.26
Discontinued operations	$ (0.10)	$ (0.14)	$ (0.31)	$ (0.50)
Net loss per share	$ (0.02)	$ (0.11)	$ (0.01)	$ (0.25)
Shares used in computing basic net income (loss) per share	16,444	14,285	16,396	14,268
	16,452	16,166	16,413	16,220

Shares used in computing diluted net
income (loss) per share

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash flows from operating activities:		
Net loss	$ (148)	$ (3,988)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,457	409
Provision for losses on accounts receivable	302	244
Tax benefit from exercise of stock options		(110)
Net foreign currency effect	(17)	
Changes in operating assets and liabilities:		
Accounts receivable	(766)	(573)
Deposits	(75)	1
Prepaid expenses and other current assets	422	(510)
Accounts payable	1,600	628
Accrued expenses	(101)	363
Deferred revenue	153	250
Deferred rent	(127)	846
Other non-current liabilities	19	(376)
Net cash provided by (used in) operating activities	2,719	(2,816)
Cash flows from investing activities:		
Purchases of property and equipment	(1,608)	(2,951)
Restricted cash		(875)
Purchases of intangible assets	(1,760)	
Net cash used in investing activities	(3,368)	(3,826)
Cash flows from financing activities:		
Proceeds from exercise of stock options	2,158	75
Tax benefit from exercise of stock options		110
Net cash provided by financing activities	2,158	185
Effect of exchange rate changes on cash and cash equivalents	6	(348)
Net increase (decrease) in cash and cash equivalents	1,515	(6,805)
Cash and cash equivalents at beginning of period	14,179	22,641
Cash and cash equivalents at end of period	$ 15,694	$ 15,836

Supplemental disclosure of cash flow information:

Cash paid for income taxes, net of refunds received	$	4,732	$	7,343

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

Note 1: The Company and Basis of Presentation

Travelzoo Inc. (the Company or Travelzoo) is a global Internet media company. Travelzoo s mission is to provide its subscribers and users with the highest quality information on outstanding deals in travel and entertainment. Our publications and products include the *Travelzoo* Web sites (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 Web sites that list travel deals published by Travelzoo. We also operate *Fly.com*, a travel search engine that allows users to quickly and easily find the best prices on flights from hundreds of airlines and online travel agencies.

Starting November 1, 2009, the *Travelzoo* Web sites 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., wholly owned subsidiaries of Azzurro Capital Inc., under a license agreement with the Company.

Travelzoo is controlled by Ralph Bartel, who held beneficially approximately 66.3% of the outstanding shares as of November 1, 2009.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company, and its results of operations and cash flows. These condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and related notes as of and for the year ended December 31, 2008, included in the Company s Form 10-K filed with the SEC on March 16, 2009.

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

The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009 or any other future period, and the Company makes no representations related thereto.

Certain prior period amounts have been reclassified to conform to current year presentation. Specifically**,** $335,000 for the nine month period ended September 30, 2008 has been reclassified from cost of revenues to general and administrative expense. These amounts are primarily costs associated with salary and benefits for software developers and professional services related to software development. Additionally, as described in Note 14, Assets Held for Sale and 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 assets sold to and liabilities assumed by Travelzoo (Asia) Limited and Travelzoo Japan K.K. are classified as assets held for sale and liabilities related to assets held for sale on the balance sheet. The notes to the Company s unaudited condensed consolidated financial statements relate to continuing operations only, unless otherwise indicated.

As described in Note 15, Subsequent Events , subsequent events have been evaluated through the report issuance date, November 9, 2009.

The Company was formed as a result of a combination and merger of entities founded by the Company s majority stockholder, Ralph Bartel. In 1998, Mr. Bartel founded Travelzoo.com Corporation, a Bahamas corporation, which issued 5,155,874 shares via the Internet to approximately 700,000 Netsurfer stockholders for no cash consideration. In 1998, Mr. Bartel also founded Silicon Channels Corporation, a California corporation, to operate the *Travelzoo* Web site. During 2001, Travelzoo Inc. was formed as a subsidiary of Travelzoo.com Corporation, and Mr. Bartel contributed all of the outstanding shares of Silicon Channels 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.

During January 2001, the Board of Directors of Travelzoo.com Corporation proposed that Travelzoo.com Corporation be merged with Travelzoo Inc. whereby Travelzoo Inc. would be the surviving entity. On March 15, 2002, the stockholders of Travelzoo.com Corporation approved the merger with Travelzoo Inc. On April 25, 2002, the certificate of merger was filed in Delaware upon which the merger became effective and Travelzoo.com Corporation ceased to exist. Each outstanding share of common stock of Travelzoo.com Corporation was converted into the right to receive one share of common stock of Travelzoo Inc. Under and subject to the terms of the merger agreement, stockholders were allowed a period of two years following the effective date of the merger to receive shares of Travelzoo Inc. The records of Travelzoo.com Corporation showed that, assuming all of the shares applied for by the Netsurfer stockholders were validly issued, there were 11,295,874 shares of Travelzoo.com Corporation outstanding. 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 September 30, 2009, there were 16,443,828 shares of common stock outstanding.

It is possible that claims may be asserted against the Company in the future by former stockholders of Travelzoo.com Corporation seeking to receive shares in the Company, whether based on a claim that the two-year deadline for exchanging their shares was unenforceable or otherwise. In addition, one or more jurisdictions, including the Bahamas or the State of Delaware, may assert rights to unclaimed shares of the Company under escheat statutes. If such escheat claims are asserted, the Company intends to challenge the applicability of escheat rights, in that, among other reasons, the identity, residency, and eligibility of the holders in question cannot be determined. There were certain conditions applicable to the issuance of shares to the Netsurfer stockholders, including requirements that (i) they be at least 18 years of age, (ii) they be residents of the U.S. or Canada, and (iii) they not apply for shares more than once. The Netsurfer stockholders were required to confirm their compliance with these conditions, and were advised that failure to comply could result in cancellation of their shares in Travelzoo.com Corporation. Travelzoo.com Corporation was not able to verify that the applicants met the requirements referred to above at the time of their applications for issuance of shares. If claims are asserted by persons claiming to be former stockholders of Travelzoo.com Corporation, the Company intends to assert that their rights to receive their shares expired two years following the effective date of the merger, as provided in the merger agreement. The Company also expects to take the position, if escheat or similar claims are asserted in respect of the unissued shares in the future, that it is not required to issue such shares. Further, even if it were established that unissued shares were subject to escheat claims, the Company would assert that the claimant must establish that the original Netsurfer stockholders complied with the conditions to issuance of their shares. The Company is not able to predict the outcome of any future claims which might be asserted relating to the unissued shares. If such claims were asserted, and were fully successful, that could result in the Company being required to issue up to an additional approximately 4,068,000 shares of common stock for no additional payment.

On October 15, 2004, the Company announced a program under which it would make cash payments to 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 $3,000 for these cash payments for the nine months ended September 30, 2009. The total cost of this program is not reliably estimable because it is based on the ultimate number of valid requests received and future levels of the Company s common stock price. The Company s common stock price affects the liability because the amount of cash payments under the program is based in part on the recent level of the stock price at the date valid requests are received. The Company does not know how many of the requests for shares originally received by Travelzoo.com Corporation in 1998 were valid, but the Company believes that only a portion of such requests were valid. As noted above, in order to receive payment under the program, a person is required to establish that such person validly held shares in Travelzoo.com Corporation. Assuming 100% of the requests from 1998 were valid, former stockholders of Travelzoo.com Corporation holding an additional approximately 4,068,000 shares had not submitted claims under the program as of September 30, 2009.

Table of Contents

Note 2: Revenue Recognition

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

The Company recognizes revenues in accordance with Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. Advertising revenues are recognized in the period in which the advertisement is displayed, provided that evidence of an arrangement exists, the fees are fixed or determinable, and collection of the resulting receivable is reasonably assured.

Where collectibility is not reasonably assured, the revenue will be recognized upon cash collection, provided that the other criteria for revenue recognition have been met. The Company recognizes revenue for fixed-fee advertising arrangements ratably over the term of the insertion order as described below, 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 recognizes revenue for the period by pro-rating the total arrangement fee to revenue and deferred revenue based on a measure of proportionate performance of its obligation under the insertion order. The Company measures proportionate performance by the number of placements delivered and undelivered as of the reporting date. The Company uses prices stated on its internal rate card for measuring the value of delivered and undelivered placements. Fees for variable-fee advertising arrangements are recognized based on the number of impressions displayed, number of clicks delivered, or number of referrals generated during the period.

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

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

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

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

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

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

Revenue from advertising sold to clients through agencies is reported at the net amount billed to the agency.

Note 3: Recent Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued a new accounting standard which establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair market value. The new accounting standard became effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Effective January 1, 2009, the Company adopted a new accounting standard which delayed the

Table of Contents

effective date of fair value measurement for all non-financial assets and non-financial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis, until the beginning of the first quarter of fiscal 2009. The adoption of the new accounting standard did not have a material impact on the Company s consolidated results of operations or financial condition.

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

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

In May 2009, the FASB issued a new accounting standard relating to subsequent events, which is effective for interim and annual periods ending after June 15, 2009. This new account standard is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. In particular, this new accounting standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements and the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements. Effective June 30, 2009, the Company adopted this new accounting standard. The adoption of this standard did not have a material impact on the Company s consolidated results of operations or financial condition.

In June 2009, the FASB issued a new accounting standard that changes the consolidation model for variable interest entities, which is effective for interim and annual reporting periods beginning after November 15, 2009. Earlier adoption is prohibited. The new accounting standard requires a company to perform qualitative analysis when determining whether it must consolidate a variable interest entity and ongoing reassessments to determine if a company must consolidate a variable interest entity. The new accounting standard also requires a company to provide additional disclosures about its involvement with variable interest entities, any significant changes in risk exposure due to that involvement and how its involvement with a variable interest entity affects the company s financial statements. A company will also be required to disclose any significant judgments and assumptions made in determining whether it must consolidate a variable interest entity. The Company does not expect the adoption of this new accounting standard to have a material impact on its consolidated results of operations or financial condition.

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

In September 2009, the FASB issued a new accounting standard update for revenue recognition with multiple deliverables. The new accounting standard update defines when individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. The update primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the update also expands the disclosure requirements for revenue recognition. The new accounting standard update will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently assessing the future impact of this new accounting standard update to its consolidated results of operations or financial condition.

Note 4: Financial Instruments

Carrying amounts of certain of the Company s financial instruments including accounts receivable, accounts payable, and accrued expenses approximate their fair value because of their short maturities.

At September 30, 2009, 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. 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 September 30, 2009 (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	$ 11,433	$ 11,433	$	$
Total	$ 11,433	$ 11,433	$	$

Note 5: Internal-Use Software and Web Site Development

The Company includes in fixed assets the capitalized cost of internal-use software and Web site development, including software used to upgrade and enhance its Web site and processes supporting the Company s business. 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.

As of September 30, 2009 and December 31, 2008, our capitalized internal-use software and Web site development costs, net of accumulated amortization, were $1.0 million and $1.3 million, respectively. For the three months ended September 30, 2009 and 2008, the Company recorded amortization of capitalized internal-use software and Web site development costs of $110,000 and $-0-, respectively. For the nine months ended September 30, 2009 and 2008, the Company recorded amortization of capitalized internal-use software and Web site development costs of $299,000 and $-0-, respectively.

Table of Contents

Note 6: Intangible Assets

Intangible assets consist of the following (in thousands):

	September 30, 2009	December 31, 2008
Acquired amortizable intangible assets:		
Internet domain names	$ 2,141	$ 381
Less accumulated amortization	632	363
Total	$ 1,509	$ 18

Intangible assets have a useful life of five years. Amortization expense was $89,000 and $2,000 for the three months ended September 30, 2009 and 2008, respectively, and $270,000 and $5,000 for the nine months ended September 30, 2009 and 2008, respectively.

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

Future expected amortization expense related to intangible assets at September 30, 2009 is as follows (in thousands):

2009	$ 89
2010	359
2011	357
2012	352
2013	352
	$ 1,509

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.

Note 7: 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.

The Company maintains an allowance for doubtful accounts based upon its historical experience, the age of the receivable and customer specific information. Determining appropriate allowances for these losses is an inherently uncertain process, and ultimate losses may vary from the current estimates. The allowance for doubtful accounts was $617,000 and $357,000 at September 30, 2009 and December 31, 2008, respectively.

Table of Contents

Note 8: Stock-Based Compensation and Stock Options

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 expire in October 2011. 150,000 options were exercised during the year ended December 31, 2005, 17,275 options were exercised during the year ended December 31, 2006, and 30,000 options were exercised during the year ended December 31, 2008. As of September 30, 2009, 12,725 of these options are vested and remain outstanding.

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. The options expire in March 2012. In October 2002, 1,411 options were cancelled upon the resignation of a director. 23,589 options were exercised during the year ended December 31, 2004 and 5,000 options were exercised during the year ended December 31, 2008. As of September 30, 2009, 5,000 of these options are vested and remain outstanding.

The Company did not record any stock-based compensation for the nine months ended September 30, 2009 and 2008. In addition, all previously issued options vested prior to January 1, 2003.

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.

Option activity as of September 30, 2009 and changes during the nine months ended September 30, 2009 were as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2008	2,176,074	$ 1.03		
Options exercised	(2,158,349)	$ 1.00		
Outstanding at September 30, 2009	17,725	$ 2.28	2.20 years	$ 210
Exercisable and fully vested at September 30, 2009	17,725	$ 2.28	2.20 years	$ 210

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company s closing stock price on the last trading day of the third quarter of fiscal 2009 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 September 30, 2009. This amount changes based upon the fair market value of the Company s stock. The Company s policy is to issue shares from its authorized shares to fulfill stock option exercises.

Note 9: Net Income (Loss) Per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Net income (loss):				
Income from continuing operations, net of tax	$ 1,300	$ 514	$ 4,949	$ 4,187
Loss from discontinued operations, net of tax	(1,595)	(2,303)	(5,097)	(8,175)
Net loss	$ (295)	$ (1,789)	$ (148)	&nbs