

REFINITIV

DELTA REPORT

10-Q

TZOO - TRAVELZOO

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 923

CHANGES	445
DELETIONS	243
ADDITIONS	235

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2023** **September 30, 2023**

or

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

For the transition period from to .
Commission File No.: 000-50171

Travelzoo

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

590 Madison Avenue, 35th Floor
New York, New York

(Address of principal executive offices)

36-4415727

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

10022

(Zip code)

Registrant's telephone number, including area code: +1 (212) 516-1300

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	TZOO	The NASDAQ Stock Market

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of Travelzoo common stock outstanding as of **August 10, 2023** **November 3, 2023** was **14,910,098** **13,971,776** shares.

TRAVELZOO

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
ASSETS	ASSETS			ASSETS		
Current assets:	Current assets:			Current assets:		
Cash and cash equivalents	Cash and cash equivalents	\$ 19,513	\$ 18,693	Cash and cash equivalents	\$ 15,901	\$ 18,693
Accounts receivable, less allowance for doubtful accounts of \$1,345 and \$1,468 as of June 30, 2023 and December 31, 2022, respectively		10,287	13,820			
Accounts receivable, less allowance for doubtful accounts of \$1,372 and \$1,468 as of September 30, 2023 and December 31, 2022, respectively				Accounts receivable, less allowance for doubtful accounts of \$1,372 and \$1,468 as of September 30, 2023 and December 31, 2022, respectively	10,684	13,820
Prepaid income taxes	Prepaid income taxes	801	1,778	Prepaid income taxes	690	1,778
Prepaid expenses and other	Prepaid expenses and other	1,368	1,289	Prepaid expenses and other	1,727	1,289
Assets from discontinued operations	Assets from discontinued operations	10	11	Assets from discontinued operations	7	11
Total current assets	Total current assets	31,979	35,591	Total current assets	29,009	35,591

Deposits and other	Deposits and other	2,492	5,094	Deposits and other	2,472	5,094
Deferred tax assets	Deferred tax assets	3,222	3,222	Deferred tax assets	3,274	3,222
Restricted cash	Restricted cash	675	675	Restricted cash	675	675
Operating lease right-of-use assets	Operating lease right-of-use assets	6,292	7,440	Operating lease right-of-use assets	6,334	7,440
Property and equipment, net	Property and equipment, net	652	657	Property and equipment, net	621	657
Intangible assets, net	Intangible assets, net	2,860	3,651	Intangible assets, net	2,479	3,651
Goodwill	Goodwill	10,944	10,944	Goodwill	10,944	10,944
Total assets	Total assets	\$ 59,116	\$ 67,274	Total assets	\$ 55,808	\$ 67,274
LIABILITIES AND STOCKHOLDERS' EQUITY	LIABILITIES AND STOCKHOLDERS' EQUITY			LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:	Current liabilities:			Current liabilities:		
Accounts payable	Accounts payable	\$ 2,254	\$ 4,271	Accounts payable	\$ 2,856	\$ 4,271
Merchant payables	Merchant payables	23,885	32,574	Merchant payables	23,717	32,574
Accrued expenses and other	Accrued expenses and other	4,316	5,049	Accrued expenses and other	4,367	5,049
Deferred revenue	Deferred revenue	2,697	2,216	Deferred revenue	2,811	2,216
Income tax payable	Income tax payable	234	—	Income tax payable	285	—
Operating lease liabilities	Operating lease liabilities	2,395	2,972	Operating lease liabilities	2,568	2,972
Liabilities from discontinued operations	Liabilities from discontinued operations	451	452	Liabilities from discontinued operations	453	452
Total current liabilities	Total current liabilities	36,232	47,534	Total current liabilities	37,057	47,534
Long-term operating lease liabilities	Long-term operating lease liabilities	7,493	8,326	Long-term operating lease liabilities	7,141	8,326
Other long-term liabilities	Other long-term liabilities	4,322	2,563	Other long-term liabilities	4,894	2,563
Total liabilities	Total liabilities	48,047	58,423	Total liabilities	49,092	58,423
Commitments and contingencies	Commitments and contingencies	—	—	Commitments and contingencies	—	—
Stockholders' equity:	Stockholders' equity:			Stockholders' equity:		
Common stock, \$0.01 par value (20,000 shares authorized; 15,170 shares issued and outstanding as of June 30, 2023, 16,505 shares issued and 15,704 outstanding as of December 31, 2022)		152	165	Common stock, \$0.01 par value (20,000 shares authorized; 14,166 shares issued and outstanding as of September 30, 2023, 16,505 shares issued and 15,704 outstanding as of December 31, 2022)	142	165
Treasury stock (at cost, 801 shares at December 31, 2022)	Treasury stock (at cost, 801 shares at December 31, 2022)	—	(7,130)	Treasury stock (at cost, 801 shares at December 31, 2022)	—	(7,130)
Additional paid in capital	Additional paid in capital	11,816	23,274	Additional paid in capital	5,186	23,274
Tax indemnification	Tax indemnification	(9,537)	(9,537)	Tax indemnification	(9,537)	(9,537)
Note receivable from shareholder	Note receivable from shareholder	(4,753)	(4,753)	Note receivable from shareholder	(4,753)	(4,753)
Retained earnings	Retained earnings	13,441	7,142	Retained earnings	15,789	7,142
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(4,690)	(4,905)	Accumulated other comprehensive loss	(4,803)	(4,905)

Total Travelzoo stockholders' equity	Total Travelzoo stockholders' equity	6,429	4,256	Total Travelzoo stockholders' equity	2,024	4,256
Non-controlling interest	Non-controlling interest	4,640	4,595	Non-controlling interest	4,692	4,595
Total stockholders' equity	Total stockholders' equity	11,069	8,851	Total stockholders' equity	6,716	8,851
Total liabilities and stockholders' equity	Total liabilities and stockholders' equity	\$ 59,116	\$ 67,274	Total liabilities and stockholders' equity	\$ 55,808	\$ 67,274

See accompanying notes to unaudited condensed consolidated financial statements.

TRAVELZOO
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share amounts)

		Three Months Ended		Six Months Ended			Three Months Ended		Nine Months Ended	
		June 30,		June 30,			September 30,		September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Revenues	Revenues	\$ 21,128	\$ 17,689	\$ 42,729	\$ 36,142	Revenues	\$ 20,599	\$ 15,849	\$ 63,328	\$ 51,991
Cost of revenues	Cost of revenues	2,880	2,163	5,571	4,995	Cost of revenues	2,665	2,324	8,236	7,319
Gross profit	Gross profit	18,248	15,526	37,158	31,147	Gross profit	17,934	13,525	55,092	44,672
Operating expenses:	Operating expenses:					Operating expenses:				
Sales and marketing	Sales and marketing	10,142	8,480	19,438	17,061	Sales and marketing	9,840	8,512	29,278	25,573
Product development	Product development	518	454	1,008	907	Product development	525	484	1,533	1,391
General and administrative	General and administrative	4,315	4,811	8,728	9,479	General and administrative	4,460	4,256	13,188	13,735
Total operating expenses	Total operating expenses	14,975	13,745	29,174	27,447	Total operating expenses	14,825	13,252	43,999	40,699
Operating income	Operating income	3,273	1,781	7,984	3,700	Operating income	3,109	273	11,093	3,973
Other income, net	Other income, net	479	195	829	1,618	Other income, net	314	836	1,143	2,454
Income from continuing operations before income taxes	Income from continuing operations before income taxes	3,752	1,976	8,813	5,318	Income from continuing operations before income taxes	3,423	1,109	12,236	6,427
Income tax expense	Income tax expense	1,091	928	2,469	1,896	Income tax expense	1,018	317	3,487	2,213
Income from continuing operations	Income from continuing operations	2,661	1,048	6,344	3,422	Income from continuing operations	2,405	792	8,749	4,214
Income (loss) from discontinued operations, net of taxes	Income (loss) from discontinued operations, net of taxes	2	10	—	(1)	Income (loss) from discontinued operations, net of taxes	(5)	5	(5)	4
Net income	Net income	2,663	1,058	6,344	3,421	Net income	2,400	797	8,744	4,218
Net income attributable to non-controlling interest	Net income attributable to non-controlling interest	37	30	45	34	Net income attributable to non-controlling interest	52	2	97	36
Net income attributable to Travelzoo	Net income attributable to Travelzoo	\$ 2,626	\$ 1,028	\$ 6,299	\$ 3,387	Travelzoo	\$ 2,348	\$ 795	\$ 8,647	\$ 4,182

Net income attributable to Travelzoo—continuing operations	Net income attributable to Travelzoo—continuing operations	\$	2,624	\$	1,018	\$	6,299	\$	3,388	Net income attributable to Travelzoo—continuing operations	\$	2,353	\$	790	\$	8,652	\$	4,178
Net income (loss) attributable to Travelzoo—discontinued operations	Net income (loss) attributable to Travelzoo—discontinued operations	\$	2	\$	10	\$	—	\$	(1)	Net income (loss) attributable to Travelzoo—discontinued operations	\$	(5)	\$	5	\$	(5)	\$	4
Income per share—basic	Income per share—basic									Income per share—basic								
Continuing operations	Continuing operations	\$	0.17	\$	0.08	\$	0.41	\$	0.28	Continuing operations	\$	0.16	\$	0.06	\$	0.57	\$	0.34
Discontinued operations	Discontinued operations	\$	—	\$	—	\$	—	\$	—	Discontinued operations	\$	—	\$	—	\$	—	\$	—
Net income per share—basic	Net income per share—basic	\$	0.17	\$	0.08	\$	0.41	\$	0.28	Net income per share—basic	\$	0.16	\$	0.06	\$	0.57	\$	0.34
Income per share—diluted	Income per share—diluted									Income per share—diluted								
Continuing operations	Continuing operations	\$	0.17	\$	0.08	\$	0.40	\$	0.27	Continuing operations	\$	0.16	\$	0.06	\$	0.57	\$	0.33
Discontinued operations	Discontinued operations	\$	—	\$	—	\$	—	\$	—	Discontinued operations	\$	—	\$	—	\$	—	\$	—
Income per share—diluted	Income per share—diluted	\$	0.17	\$	0.08	\$	0.40	\$	0.27	Income per share—diluted	\$	0.16	\$	0.06	\$	0.56	\$	0.33
Shares used in per share calculation from continuing operations—basic	Shares used in per share calculation from continuing operations—basic		15,275		12,513		15,485		12,285	Shares used in per share calculation from continuing operations—basic		14,769		12,489		15,242		12,354
Shares used in per share calculation from discontinued operations—basic	Shares used in per share calculation from discontinued operations—basic		15,275		12,513		15,485		12,285	Shares used in per share calculation from discontinued operations—basic		14,769		12,489		15,242		12,354
Shares used in per share calculation from continuing operations—diluted	Shares used in per share calculation from continuing operations—diluted		15,337		12,637		15,557		12,591	Shares used in per share calculation from continuing operations—diluted		14,821		12,578		15,307		12,586
Shares used in per share calculation from discontinued operations—diluted	Shares used in per share calculation from discontinued operations—diluted		15,337		12,637		15,557		12,591	Shares used in per share calculation from discontinued operations—diluted		14,821		12,578		15,307		12,586

See accompanying notes to unaudited condensed consolidated financial statements.

TRAVELZOO
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

		Three Months Ended		Six Months Ended			Three Months Ended		Nine Months Ended	
		June 30,		June 30,			September 30,		September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Net income	Net income	\$ 2,663	\$ 1,058	\$ 6,344	\$ 3,421	Net income	\$ 2,400	\$ 797	\$ 8,744	\$ 4,218

Other comprehensive income:	Other comprehensive income:					Other comprehensive income:				
Foreign currency translation adjustment	Foreign currency translation adjustment	135	(602)	215	(740)	Foreign currency translation adjustment	(113)	(811)	102	(1,551)
Total comprehensive income	Total comprehensive income	\$ 2,798	\$ 456	\$ 6,559	\$ 2,681	Total comprehensive income	\$ 2,287	\$ (14)	\$ 8,846	\$ 2,667

See accompanying notes to unaudited condensed consolidated financial statements.

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

		Six Months Ended		Nine Months Ended	
		June 30,		September 30,	
		2023	2022	2023	2022
Cash flows from operating activities:	Cash flows from operating activities:			Cash flows from operating activities:	
Net income	Net income	\$ 6,344	\$ 3,421	Net income	\$ 8,744 \$ 4,218
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Adjustments to reconcile net income to net cash used in operating activities:					
Depreciation and amortization	Depreciation and amortization	945	1,118	Depreciation and amortization	1,417 1,652
Stock-based compensation	Stock-based compensation	828	1,131	Stock-based compensation	1,187 1,456
Deferred income tax	Deferred income tax	(38)	550	Deferred income tax	(111) 701
Loss on long-lived assets	Loss on long-lived assets	10	38	Loss on long-lived assets	10 38
Gain on equity investment in WeGo	Gain on equity investment in WeGo	—	(196)	Gain on equity investment in WeGo	— (196)
Net foreign currency effect	Net foreign currency effect	(33)	214	Net foreign currency effect	53 34
Reversal of loss on accounts receivable, refund reserve and other	Reversal of loss on accounts receivable, refund reserve and other	(829)	(2,246)	Reversal of loss on accounts receivable, refund reserve and other	(944) (3,402)
Changes in operating assets and liabilities, net of acquisitions:	Changes in operating assets and liabilities, net of acquisitions:				
Accounts receivable	Accounts receivable	3,888	(131)	Accounts receivable	3,317 2,540
Prepaid income taxes	Prepaid income taxes	1,017	670	Prepaid income taxes	1,128 354
Prepaid expenses and other	Prepaid expenses and other	2,485	(138)	Prepaid expenses and other	2,232 41
Accounts payable	Accounts payable	(2,393)	(2,056)	Accounts payable	(1,704) 401

Merchant payables	Merchant payables	(8,604)	(19,784)	Merchant payables	(8,757)	(28,894)
Accrued expenses and other	Accrued expenses and other	377	172	Accrued expenses and other	574	153
Income tax payable	Income tax payable	234	(186)	Income tax payable	293	(185)
Other liabilities, net	Other liabilities, net	1,419	433	Other liabilities, net	1,854	240
Net cash provided by (used in) operating activities	Net cash provided by (used in) operating activities	5,650	(16,990)	Net cash provided by (used in) operating activities	9,293	(20,849)
Cash flows from investing activities:	Cash flows from investing activities:			Cash flows from investing activities:		
Proceeds from repayment of note receivable	Proceeds from repayment of note receivable	113	—	Proceeds from repayment of note receivable	113	—
Purchases of intangible assets	Purchases of intangible assets	—	(1,049)	Purchases of intangible assets	—	(1,049)
Proceeds from sale of equity investment in WeGo	Proceeds from sale of equity investment in WeGo	—	196	Proceeds from sale of equity investment in WeGo	—	196
Purchases of property and equipment	Purchases of property and equipment	(157)	(175)	Purchases of property and equipment	(217)	(236)
Net cash used in investing activities	Net cash used in investing activities	(44)	(1,028)	Net cash used in investing activities	(104)	(1,089)
Cash flows from financing activities:	Cash flows from financing activities:			Cash flows from financing activities:		
Repurchase of common stock	Repurchase of common stock	(4,870)	—	Repurchase of common stock	(11,766)	(1,170)
Proceeds from short swing settlement				Proceeds from short swing settlement	—	46
Exercise of stock options, net of taxes paid for net share settlement	Exercise of stock options, net of taxes paid for net share settlement	(299)	1,885	Exercise of stock options, net of taxes paid for net share settlement	(299)	1,885
Net cash provided by (used in) financing activities	Net cash provided by (used in) financing activities	(5,169)	1,885	Net cash provided by (used in) financing activities	(12,065)	761
Effect of exchange rate changes on cash, cash equivalents and restricted cash	Effect of exchange rate changes on cash, cash equivalents and restricted cash	382	(2,176)	Effect of exchange rate changes on cash, cash equivalents and restricted cash	80	(3,267)
Net increase (decrease) in cash, cash equivalents and restricted cash		819	(18,309)			
Net decrease in cash, cash equivalents and restricted cash				Net decrease in cash, cash equivalents and restricted cash	(2,796)	(24,444)
Cash, cash equivalents and restricted cash at beginning of period	Cash, cash equivalents and restricted cash at beginning of period	19,378	44,989	Cash, cash equivalents and restricted cash at beginning of period	19,378	44,989

Cash, cash equivalents and restricted cash at end of period	Cash, cash equivalents and restricted cash at end of period	\$ 20,197	\$ 26,680	Cash, cash equivalents and restricted cash at end of period	\$ 16,582	\$ 20,545
Supplemental disclosure of cash flow information:	Supplemental disclosure of cash flow information:			Supplemental disclosure of cash flow information:		
Cash paid (refund) for income taxes, net	Cash paid (refund) for income taxes, net	\$ (494)	\$ 771	Cash paid (refund) for income taxes, net	\$ (228)	\$ 1,234
Right-of-use assets obtained in exchange for lease obligations —operating leases	Right-of-use assets obtained in exchange for lease obligations —operating leases			Right-of-use assets obtained in exchange for lease obligations —operating leases	\$ 512	\$ —
Cash paid for amounts included in the measurement of lease liabilities	Cash paid for amounts included in the measurement of lease liabilities	\$ 1,725	\$ 1,715	Cash paid for amounts included in the measurement of lease liabilities	\$ 2,499	\$ 2,405
Non-cash consideration for purchase of intangible asset	Non-cash consideration for purchase of intangible asset	\$ —	\$ 1,150	Non-cash consideration for purchase of intangible asset	\$ —	\$ 1,150

See accompanying notes to unaudited condensed consolidated financial statements.

TRAVELZOO
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)
(In thousands)

		(in thousands)															
		Common Stock		Additional		Note		Accumulated		Total		Non-				Total	
		Treasury		Paid-In	Tax	Receivable	Other	Travelzoo	Stockholders' controlling	Stockholders'							
		Shares	Amount	Stock	Capital	Indemnification	Shareholder	Earnings	Loss	Equity	interest	Equity	Shares			Amount	
Balances, March 31, 2023		16,505	\$ 165	\$(7,316)	\$ 23,670	\$ (9,537)	\$ (4,753)	\$10,815	\$ (4,825)	\$ 8,219	\$ 4,603	\$ 12,822					
Balances, June 30, 2023													Balances, June 30, 2023	15,170	\$ 15		
Stock-based compensation expense	Stock-based compensation expense	—	—	—	432	—	—	—	—	432	—	432	Stock-based compensation expense	—	—		
Repurchase of common stock (1)	Repurchase of common stock (1)	—	—	(4,683)	—	—	—	—	—	(4,683)	—	(4,683)	Repurchase of common stock (1)	—	—		
Retirement of treasury stock	Retirement of treasury stock	(1,495)	(14)	11,999	(11,985)	—	—	—	—	—	—	—	Retirement of treasury stock	(1,000)	(1)		
Exercise of stock options and taxes paid for net share		160	1	—	(301)	—	—	—	—	(300)	—	(300)					
Tax withholding related to net share settlements of equity awards													Tax withholding related to net share settlements of equity awards	(4)	—		
Foreign currency translation adjustment	Foreign currency translation adjustment	—	—	—	—	—	—	—	135	135	—	135	Foreign currency translation adjustment	—	—		
Net income	Net income	—	—	—	—	—	—	2,626	—	2,626	37	2,663	Net income	—	—		
Balances, June 30, 2023		15,170	\$ 152	\$ —	\$ 11,816	\$ (9,537)	\$ (4,753)	\$13,441	\$ (4,690)	\$ 6,429	\$ 4,640	\$ 11,069					
Balances, September 30, 2023													Balances, September 30, 2023	14,166	\$ 14		

	Common Stock		Treasury	Additional	Tax	Note Receivable	Retained	Accumulated	Total	Non-controlling	Total
	Shares	Amount									
			Stock	Paid-In Capital	Indemnification	from Shareholder	Earnings	Other Comprehensive Loss	Travelzoo Stockholders' Equity	interest	Stockholders' Equity

									As Restated	As Restated	
Balances, March 31, 2022	12,551 \$	126 \$	(5,488) \$	4,957 \$	— \$	— \$	2,867 \$	(3,931) \$	(1,469) \$	4,604 \$	3,135
Stock-based compensation expense	—	—	—	589	—	—	—	—	589	—	589
Proceeds from exercise of stock options, net of share settlement	540	5	—	1,880	—	—	—	—	1,885	—	1,885
Foreign currency translation adjustment	—	—	—	—	—	—	—	(602)	(602)	—	(602)
Net income	—	—	—	—	—	—	1,028	—	1,028	30	1,058
Balances, June 30, 2022	13,091 \$	131 \$	(5,488) \$	7,426 \$	— \$	— \$	3,895 \$	(4,533) \$	1,431 \$	4,634 \$	6,065

(1) Includes a 1% excise tax applicable to share repurchases.

	Common Stock		Treasury		Additional Paid-In Capital	Tax Indemnification	Note Receivable from Shareholder	Retained Earnings	Accumulated Other Comprehensive Loss	Total Travelzoo Stockholders' Equity	Non-controlling interest As Restated	Total Stockholders' Equity As Restated
Balances, June 30, 2022	13,091 \$	131 \$	(5,488) \$		7,426 \$	— \$	— \$	3,895 \$	(4,533) \$	1,431 \$	4,634 \$	6,065
Stock-based compensation expense	—	—			325	—	—	—	—	325	—	325
Repurchase of common stock	—	—	(1,170)		—	—	—	—	—	(1,170)	—	(1,170)
Proceeds from short swing settlement	—	—	—		46	—	—	—	—	46	—	46
Foreign currency translation adjustment	—	—	—		—	—	—	—	(811)	(811)	—	(811)
Net income	—	—	—		—	—	—	795	—	795	2	797
Balances, September 30, 2022	13,091 \$	131 \$	(6,658) \$		7,797 \$	— \$	— \$	4,690 \$	(5,344) \$	616 \$	4,636 \$	5,252

See accompanying notes to unaudited condensed consolidated financial statements.

TRAVELZOO
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)
(In thousands)

		Common Stock		Treasury		Additional Paid-In Capital	Tax Indemnification	Note Receivable from Shareholder	Retained Earnings	Accumulated Other Comprehensive Loss	Total Travelzoo Stockholders' Equity	Non-controlling interest	Total Stockholders' Equity		Common Stock	
		Shares	Amount	Stock		Capital									Shares	Amount
Balances, January 1, 2023	Balances, January 1, 2023	16,505	\$ 165	\$(7,130)		\$ 23,274	\$ (9,537)	\$ (4,753)	\$ 7,142	\$ (4,905)	\$ 4,256	\$ 4,595	\$ 8,851	Balances, January 1, 2023	16,505	\$ 16

Stock-based compensation expense	Stock-based compensation expense	—	—	—	828	—	—	—	—	828	—	828	Stock-based compensation expense	—	—
Repurchase of common stock (1)	Repurchase of common stock (1)	—	—	(4,869)	—	—	—	—	(4,869)	—	—	(4,869)	Repurchase of common stock (1)	—	—
Retirement of treasury stock	Retirement of treasury stock	(1,495)	(14)	11,999	(11,985)	—	—	—	—	—	—	—	Retirement of treasury stock	(2,495)	(2)
Exercise of stock options and taxes paid for net share	Exercise of stock options and taxes paid for net share	160	1	—	(301)	—	—	—	—	(300)	—	(300)	Exercise of stock options and taxes paid for net share	156	—
Foreign currency translation adjustment	Foreign currency translation adjustment	—	—	—	—	—	—	—	215	215	—	215	Foreign currency translation adjustment	—	—
Net income	Net income	—	—	—	—	—	—	6,299	—	6,299	45	6,344	Net income	—	—
Balances, June 30, 2023		15,170	\$ 152	\$ —	\$ 11,816	\$ (9,537)	\$ (4,753)	\$ 13,441	\$ (4,690)	\$ 6,429	\$ 4,640	\$ 11,069			
Balances, September 30, 2023													Balances, September 30, 2023	14,166	\$ 14

(1) Includes a 1% excise tax applicable to share repurchases.

		Common Stock													
		Common Stock		Treasury	Additional Paid-In		Tax	Note Receivable from	Retained Earnings	Accumulated Other Comprehensive Loss	Total Travelzoo Stockholders' Equity	Non-controlling interest	Total Stockholders' Equity		Common Shares A
		Shares	Amount	Stock	Capital	Indemnification	Shareholder	Earnings	Loss	Equity					
Balances, January 1, 2022	Balances, January 1, 2022	12,551	\$ 126	\$(5,488)	\$ 4,415	—	—	\$ 508	\$ (3,793)	\$ (4,232)				Balances, January 1, 2022	12,551
Stock-based compensation expense	Stock-based compensation expense	—	—	—	1,131	—	—	—	—	1,131				Stock-based compensation expense	—
Repurchase of common stock														Repurchase of common stock	—
Proceeds from exercise of stock options, net of share settlement	Proceeds from exercise of stock options, net of share settlement	540	5	—	1,880	—	—	—	—	1,885				Proceeds from exercise of stock options, net of share settlement	540
Proceeds from short swing settlement														Proceeds from short swing settlement	—
Foreign currency translation adjustment	Foreign currency translation adjustment	—	—	—	—	—	—	—	(740)	(740)				Foreign currency translation adjustment	—
Net income	Net income	—	—	—	—	—	—	3,387	—	3,387		34	3,421	Net income	—
Balances, June 30, 2022		13,091	\$ 131	\$(5,488)	\$ 7,426	\$ —	\$ —	\$ 3,895	\$ (4,533)	\$ 1,431	\$ 4,634	\$ 6,065			
Balances, September 30, 2022														Balances, September 30, 2022	13,091

See accompanying notes to unaudited condensed consolidated financial statements.

TRAVELZOO
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Summary of Significant Accounting Policies

(a) The Company and Basis of Presentation

Travelzoo® (including its subsidiaries and affiliates, the “Company” or “we”) is a global Internet media company. Travelzoo provides its 30 million members with exclusive offers and one-of-a-kind experiences personally reviewed by our deal experts around the globe. We have our finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. We work in partnership with more than 5,000 top travel suppliers—our long-standing relationships give Travelzoo members access to irresistible offers.

Our most important products and services are the *Travelzoo website* (travelzoo.com), the *Travelzoo iPhone and Android apps*, the *Top 20®* email newsletter, *Standalone* email newsletters, the *Travelzoo Network*, and *Jack's Flight Club®*. Our *Travelzoo website* and newsletters include *Local Deals* and *Getaways* listings that allow our members to purchase vouchers for offers from local businesses such as spas, hotels and restaurants. *Jack's Flight Club* is a subscription service that provides members with information about exceptional airfares.

We also license *Travelzoo* products and our intellectual property to licensees in various countries in Asia Pacific, including but not limited to Australia, Japan and Southeast Asia.

In March 2022, we announced the development of Travelzoo META, a subscription service that intends to provide members with exclusive access to innovative, high quality Metaverse travel experiences. On December 30, 2022, we acquired Metaverse Travel Experiences, Inc., now Metaverse Travel Experiences, LLC (“MTE”), a Metaverse experience scouting and development business to support Travelzoo META.

Stock Purchase Agreement between Travelzoo and Azzurro Capital Inc.

In connection with the development of Travelzoo META, the Company acquired MTE, a wholly owned subsidiary of Azzurro Capital Inc. (“Azzurro”), and also completed a private placement of newly issued shares. On December 28, 2022, the stockholders of Travelzoo approved the issuance and sale of 3.4 million shares of common stock (the “Shares”) of Travelzoo to Azzurro, in exchange for certain consideration, and on December 30, 2022 (the “Closing Date”), the transaction was consummated. The purchase price was paid as follows: (a) \$1.0 million in cash paid on the Closing Date; (b) \$4.8 million paid in the form of a promissory note issued on the Closing Date; and (c) the transfer to the Company of all outstanding capital stock of MTE. The Company recorded the \$4.8 million promissory note as Note receivable from shareholder in the stockholders' equity section on the consolidated balance sheet as of December 31, 2022. As of During the six months ended June 30, 2023, Azzurro paid the interest of \$285,000, but has did not yet paid pay the principal amount of the note. The Company submitted a letter to Azzurro seeking payment and payment. In October 2023, the parties are agreed upon a new payment plan. Azzurro shall pay the outstanding principal in five installment payments starting in October 2023 and ending in February 2024. Interest on the outstanding principal amount shall accrue at a 16% annual interest rate beginning on July 1, 2023. Azzurro paid the interest of \$190,000 in the process of negotiating a payment plan. Should satisfactory terms not be agreed for a payment plan, the Company shall have the right to pursue the shares serving as collateral under the promissory note.three months ended September 30, 2023. See Note 3: Acquisitions in the unaudited condensed consolidated financial statements for further information.

Jack's Flight Club

In January 2020, Travelzoo acquired JFC Travel Group Co. (“Jack's Flight Club”), which operates *Jack's Flight Club*, a subscription service that provides members with information about exceptional airfares. As of June 30, 2023 September 30, 2023, Jack's Flight Club had over 2 million subscribers. Jack's Flight Club's revenues are generated by subscription fees paid by members. See Note 3 to the unaudited condensed consolidated financial statements for further information.

APAC Exit and Pivot to Licensing Model

In March 2020, Travelzoo exited its loss-making Asia Pacific business and pivoted to a licensing model. The Company's Asia Pacific business was classified as discontinued operations at March 31, 2020.

Travelzoo currently has license agreements in Japan and South Korea, as well as Australia, New Zealand and Singapore. The license agreement for Japan provides a license to the licensee to use the intellectual property of Travelzoo exclusively in Japan in exchange for quarterly royalty payments based on net revenue over a 5 year term, with an option to renew. The territory subject to the license was amended to also include South Korea. An interest free loan was provided to the licensee for JPY 46 million (approximately \$430,000), of which \$133,000 was repaid in 2021, \$113,000 was repaid during the six nine months ended June 30, 2023 September 30, 2023, and the remaining is expected to be paid off in 2023.

The Company recorded this loan as current prepaid expense and other on the condensed consolidated balance sheet as of June September 30, 2023. The Company recognized royalties of

\$4,000 \$9,000 and \$13,000 for its licensing arrangements from the licensee in Japan for the three and six nine months ended June 30, 2023. September 30, 2023, respectively. The Company did not recognize any royalty from Travelzoo Japan in 2022.

The license agreement for Australia, New Zealand and Singapore provides a license to the licensee to use the intellectual property of Travelzoo exclusively in Australia, New Zealand and Singapore for quarterly royalty payments based upon net revenue over a 5 year term, with an option to renew. The Company records royalties for its licensing arrangements on a one-quarter lag basis. The Company recognized royalties of \$9,000 and \$7,000 \$8,000 for its licensing arrangements from the licensee in Australia for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. The Company recognized royalties of \$17,000 \$26,000 and \$12,000 \$18,000 for its licensing arrangements

from the licensee in Australia for the **six nine** months ended **June 30, 2023** **September 30, 2023** and 2022, respectively. **We expect the royalty payments to increase over time as the effects of the pandemic subside.**

Government funding

In January 2022, July 2022 and May 2023, the Company's German branch of Travelzoo (Europe) Limited, a wholly-owned subsidiary of the Company ("Travelzoo Germany"), received the notification and payment of approximately \$1.2 million, \$494,000 and \$205,000 from the German Federal Government Bridging Aid III plan, Bridging Aid III+ and Bridging Aid IV, respectively. This program was for companies that suffered a Corona-related decrease in sales of at least 30% in one month compared to the reference month in 2019. Travelzoo Germany applied for the funding in 2021 and 2022, respectively, and was approved by the German government in January 2022, **and** July of 2022, and May 2023. The Company has to submit a final declaration in connection with the grant and the declaration date has been extended from June 30, 2023 to December 31, 2023. The Company believes it was eligible to participate in the plan and is entitled to the payment and does not expect significant changes to the amount already received from the final submission. The Company recorded \$1.2 million, \$494,000 and \$205,000 gains in Other income, net in the first and third quarters of 2022 and second quarter of 2023, respectively.

The Company also received **\$85,000** **\$10,000** and **\$153,000** **\$164,000** job retention related funding from Canada in the three and **six nine** months ended **June 30, 2022** **September 30, 2022**. Such funding was recorded against salary and related expenses. The Company did not receive job retention related funding in 2023.

Going Concern

In accordance with the requirements of Accounting Standards Update ("ASU") 2014-15, "Presentation of Financial Statements Going Concern (ASU 2014-15)", and ASC 205, "Presentation of Financial Statements", we have the responsibility to evaluate at each reporting period, including interim periods, whether conditions and/or events raise substantial doubt about our ability to meet our future financial obligations. In its evaluation for this report, management considered our current financial condition and liquidity sources, including current funds available, forecasted future cash flows and our conditional and unconditional obligations due within one year following the date of issuance of this Quarterly Report on Form 10-Q.

We believe we have the ability to meet our obligations for at least one year from the date of issuance of this Form 10-Q. Accordingly, the accompanying condensed consolidated financial statements have been prepared assuming that we will continue as a going concern and contemplate the realization of assets and the satisfaction of liabilities in the normal course business.

Ownership

Ralph Bartel, who founded Travelzoo, is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro. Azzurro is the Company's largest shareholder, and as of **June September 30, 2023**, holds approximately **48.9%** **48.0%** of the Company's outstanding shares. Holger Bartel, the Company's Global CEO, is Ralph Bartel's brother and separately holds **3.4%** **3.6%** of the Company's outstanding shares as of **June September 30, 2023**.

Financial Statements

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 state fairly the financial position of the Company and its results of operations and cash flows. These unaudited 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, 2022, included in the Company's Form 10-K/A filed with the SEC on August 14, 2023.

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The financial results of Jack's Flight Club have been included in our condensed consolidated financial statements from the date of acquisition. Investments in entities where the Company does not have control, but does have significant influence, are accounted for as equity method investments. We have reclassified prior period financial statements to conform to the current period presentation.

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the U.S. Significant estimates included in the consolidated financial statements and related notes include revenue recognition, refund liability, income taxes, stock-based compensation, loss contingencies, useful lives of property and equipment, purchase price allocation for the business combination and related impairment assessment, relating to the projections and assumptions used. Actual results could differ materially from those estimates. The results of operations for the **six nine** months ended **June 30, 2023** **September 30, 2023** are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 or any other future period, and the Company makes no representations related thereto.

(b) Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which provides new guidance on the measurement of credit losses for financial assets measured at amortized cost, which includes accounts receivable. The new guidance replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. This update is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For Smaller Reporting Companies (as such term is defined by the SEC), such as Travelzoo, the standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Entities are required to apply this update on a modified retrospective basis with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company adopted the ASU prospectively on January 1, 2023. This ASU has not and is currently not expected to have a material impact on our consolidated financial statements.

(c) Significant Accounting Policies

Below are a summary of the Company's significant accounting policies. For a comprehensive description of our accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2022.

Revenue Recognition

The Company follows Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" (Topic 606).

Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

The Company's revenues are primarily advertising fees generated from the publishing of travel and entertainment deals on the *Travelzoo* website, in the *Top 20* email newsletter, in standalone *Travelzoo* emails and through the *Travelzoo Network*. The Company also generates transaction-based revenues from the sale of vouchers through our *Local Deals* and *Getaways* products and operation of a hotel booking platform and limited offerings of vacation packages and subscription revenues from Jack's Flight Club. The Company's disaggregated revenues are included in "Note 9: Segment Reporting and Significant Customer Information".

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

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

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

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

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

For *Local Deals* and *Getaways* products, the Company earns a fee for acting as an agent for the sale of vouchers that can be redeemed for services with third-party merchants. Revenues are presented net of the amounts due to the third-party merchants for fulfilling the underlying services and an estimated amount for future refunds. In the second quarter of 2020, the Company expanded its vouchers refund policy in response to pandemic travel restrictions to fully refundable until the voucher expires or is redeemed by the customer. This refund policy has mostly been adjusted as of April 1, 2022, back to fully refundable within fourteen days of purchase unless a surcharge is paid at the time of the voucher purchase for the right to be fully refundable. Certain merchant contracts allow the Company to retain the proceeds from unredeemed vouchers. With these contracts, the Company estimates the value of vouchers that will ultimately not be redeemed and records the estimate as revenues in the same period.

Jack's Flight Club revenue is generated from paid subscriptions by members. Subscription options are quarterly, semi-annually, and annually. We recognize the revenue on a pro-rated basis based upon the subscription option.

Commission revenue related to hotel platform is recognized ratably over the period of guest stay, net of an allowance for cancellations based upon historical patterns. For arrangements that are for the booking of non-cancelable reservations where the Company's performance obligation is deemed to be the successful booking of a hotel reservation, we record revenue for the commissions upon completion of the hotel booking.

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

The Company relies upon the following practical expedients and exemptions allowed for in the ASC 606. The Company expenses sales commissions when incurred because the amortization period would be one year or less. These costs are recorded in sales and marketing expenses. In addition, the Company does not disclose the value of unsatisfied performance obligations for (a) contracts with an original expected length of one year or less and (b) contracts for which it recognizes revenues at the amount to which it has the right to invoice for services performed.

Deferred revenue primarily consists of customer prepayments and undelivered performance obligations related to the Company's contracts with multiple performance obligations. As of December 31, 2022, \$1.2 million was recorded as deferred revenue for Jack's Flight Club, of which \$985,000 \$1.2 million was recognized in the six nine months ended June 30, 2023 September 30, 2023, \$981,000 was recorded as deferred revenue for *Travelzoo* North America and *Travelzoo* Europe, of which \$797,000 \$886,000 was recognized as revenue in the six nine months ended June 30, 2023 September 30, 2023. As of June 30, 2023 September 30, 2023, the deferred revenue balance was \$2.7 million \$2.8 million, of which \$1.8 million was for Jack's Flight Club and the remaining \$861,000 \$1.0 million was for *Travelzoo* North America and *Travelzoo* Europe.

Reserve for Refunds to Members

The Company records an estimated reserve for refunds to members based on our historical experience at the time revenue is recorded for *Local Deals* and *Getaways* voucher sales. 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.

For publishing revenue, we recognize revenue upon delivery of the emails and delivery of the clicks, over the period of the placement of the advertising. Insertion orders for publishing revenue are typically for periods between one month and twelve months and are not automatically renewed. For *Getaways* vouchers, we recognize a percentage of the face value of the vouchers upon the sale of the vouchers. Merchant agreements for *Getaways* advertisers are typically for periods between twelve months and twenty-four months and are not automatically renewed. Since the second quarter of 2020, the Company expanded its voucher refund policy to fully refundable until the voucher expires or is redeemed by the customer. This refund policy has been adjusted starting April 1, 2022, back to fully refundable within fourteen days of purchase unless a surcharge is paid at the time of the voucher purchase for the right to be fully refundable. The expiration dates of vouchers range between July October 2023 through December 2025 with the majority of vouchers expiring during 2023; 2025; provided, that these expiration dates may sometimes be extended on a case-by-case basis and final payment upon expiration may not be due for up to

a year after expiration. The revenues generated from *Local Deals* vouchers and entertainment offers are based upon a percentage of the face value of the vouchers, commission on actual sales or a listing fee based on audience reach. For *Local Deals* vouchers, we recognize a percentage of the face value of vouchers upon the sale of the vouchers. The Company estimated the refund reserve by using historical and current refund rates by product and by merchant location to calculate the estimated future refunds. As of June 30, 2023 September 30, 2023, the Company had approximately \$6.0 million \$5.9 million of unredeemed vouchers that had been sold through June 30, 2023 September 30, 2023, representing the Company's commission earned from the sale. The Company had estimated a refund liability of \$572,000 \$421,000 for these unredeemed vouchers as of June 30, 2023 September 30, 2023, which is recorded as a reduction of revenues and is reflected as a current liability in accrued expenses and other on the condensed consolidated balance sheet. As of December 31, 2022, the Company had approximately \$8.1 million of unredeemed vouchers that had been sold through 2022 representing the Company's commission earned from the sale and estimated a refund liability of \$1.3 million for these unredeemed vouchers as of December 31, 2022, which was recorded as a reduction of revenues and was reflected as a current liability in accrued expenses and other on the condensed consolidated balance sheet. The Company has recorded Merchant Payables merchant payables of \$23.9 million \$23.7 million as of June 30, 2023 September 30, 2023 related to unredeemed vouchers. Insertion orders and merchant agreements for Local Deals are typically for periods between one month and twelve months and are not automatically renewed except for merchant contracts in foreign locations. Should any of these factors change, the estimates made by management will also change, which could impact the level of our future reserve for refunds to member. members. Specifically, if the financial condition of our advertisers, the business that is providing the vouchered service, were to deteriorate, affecting their ability to provide the services to our members, additional reserves for refunds to members may be required and may adversely affect future revenue as the liability is recorded against revenue.

We record a liability associated with estimated future refunds in accrued expenses on the condensed consolidated balance sheets. Estimated member refunds that are determined to be recoverable from the merchant are recorded in the condensed consolidated statements of operations as a reduction to revenue. Estimated member refunds that are determined not to be recoverable from the merchant are presented as a cost of revenue. If our judgments regarding estimated member refunds are inaccurate, reported results of operations could differ from the amount we previously accrued.

Business Combinations

The purchase price of an acquisition is allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. To the extent the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired and liabilities assumed, such excess is allocated to goodwill. The Company determines the estimated fair values after review and consideration of relevant information, including discounted cash flows, quoted market prices and estimates made by management. The Company records the net assets and results of operations of an acquired entity from the acquisition date and adjusts the preliminary purchase price allocation, as necessary, during the measurement period of up to one year after the acquisition closing date as it obtains more information as to facts and circumstances existing at the acquisition date impacting asset valuations and liabilities assumed. Acquisition-related costs are recognized separately from the acquisition and are expensed as incurred.

Identifiable intangible assets

Upon acquisition, identifiable intangible assets are recorded at fair value and are carried at cost less accumulated amortization. Identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. The carrying values of all intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. Goodwill is evaluated for impairment annually, and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. In testing goodwill for impairment, the Company

first uses a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than

the carrying amount. If the qualitative assessment indicates that goodwill impairment is more likely than not, the Company performs an impairment test by comparing the book value of net assets to the fair value of the reporting units. The Company performed its annual impairment test as of October 31, 2022, and no impairment charge was identified in connection with the annual impairment test. The Company did not identify any indicators of impairment during the six nine months ended June 30, 2023 September 30, 2023.

Operating Leases

The Company determines if an arrangement contains a lease at inception. Operating lease right-of-use ("ROU") assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The lease payments used to determine the operating lease assets may include lease incentives and stated rent increases. The Company does not include options to extend or terminate until it is reasonably certain that the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term. The Company uses its incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities as the Company's leases generally do not provide an implicit rate. The Company elected not to recognize leases with an initial term of 12 months or less on its unaudited condensed consolidated balance sheets.

The Company's leases are reflected in operating lease ROU assets, operating lease liabilities and long-term operating lease liabilities in our unaudited condensed consolidated balance sheets. The lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The Company also has a real estate lease agreement which is subleased to a third party. The Company recognizes sublease income in "Other income, net", on a straight-line basis over the lease term in its condensed consolidated statements of operations.

Certain Risks and Uncertainties

The Company's business is subject to risks associated with its ability to attract and retain advertisers and offer products or services on compelling terms to our members. The outbreak of coronavirus (COVID-19) in 2020 had an unprecedented impact on the global travel and hospitality industries. Governmental authorities implemented numerous measures to try to contain the virus, including restrictions on travel, quarantines, shelter-in-place orders, business restrictions and complete shut-downs. As the Company and many of our advertisers are part of the global travel and hospitality industries, the measures implemented to contain COVID-19 had a significant negative effect on our business, financial condition, results of operations and cash flows. Many of the Company's advertising partners paused, canceled, and/or stopped advertising. Additionally, there were

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 receivables are derived from revenue earned from customers located in the U.S. and internationally. As of June 30, 2023, September 30, 2023 and December 31, 2022, the Company did not have any customers that accounted for 10% or more of accounts receivables.

Cash, Cash Equivalents and Restricted Cash

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

The Company's restricted cash was included in noncurrent assets as of June 30, 2023, September 30, 2023 and December 31, 2022.

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

		Three Months Ended		Six Months Ended			Three Months Ended		Nine Months Ended	
		June 30,		June 30,			September 30,		September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Numerator:	Numerator:					Numerator:				
Net income attributable to Travelzoo—continuing operations	Net income attributable to Travelzoo—continuing operations	\$ 2,624	\$ 1,018	\$ 6,299	\$ 3,388	Net income attributable to Travelzoo—continuing operations	\$ 2,353	\$ 790	\$ 8,652	\$ 4,178

Net loss attributable to Travelzoo—discontinued operations	Net loss attributable to Travelzoo—discontinued operations	\$	2	\$	10	\$	—	\$	(1)	Net loss attributable to Travelzoo—discontinued operations	\$	(5)	\$	5	\$	(5)	\$	4
Denominator:	Denominator:									Denominator:								
Weighted average common shares—basic	Weighted average common shares—basic		15,275		12,513		15,485		12,285	Weighted average common shares—basic		14,769		12,489		15,242		12,354
Effect of dilutive securities: stock options	Effect of dilutive securities: stock options		62		124		72		306	Effect of dilutive securities: stock options		52		89		65		232
Weighted average common shares—diluted	Weighted average common shares—diluted		15,337		12,637		15,557		12,591	Weighted average common shares—diluted		14,821		12,578		15,307		12,586
Income per share—basic	Income per share—basic									Income per share—basic								
Continuing operations	Continuing operations	\$	0.17	\$	0.08	\$	0.41	\$	0.28	Continuing operations	\$	0.16	\$	0.06	\$	0.57	\$	0.34
Discontinued operations	Discontinued operations		—		—		—		—	Discontinued operations		—		—		—		—
Net income per share—basic	Net income per share—basic	\$	0.17	\$	0.08	\$	0.41	\$	0.28	Net income per share—basic	\$	0.16	\$	0.06	\$	0.57	\$	0.34
Income per share—diluted	Income per share—diluted									Income per share—diluted								
Continuing operations	Continuing operations	\$	0.17	\$	0.08	\$	0.40	\$	0.27	Continuing operations	\$	0.16	\$	0.06	\$	0.57	\$	0.33
Discontinued operations	Discontinued operations		—		—		—		—	Discontinued operations		—		—		—		—
Net income per share—diluted	Net income per share—diluted	\$	0.17	\$	0.08	\$	0.40	\$	0.27	Net income per share—diluted	\$	0.16	\$	0.06	\$	0.56	\$	0.33

For the three months ended September 30, 2023 and 2022, options to purchase 950,000 and 850,000 shares of common stock were not included in the computation of diluted net income per share because the effect would have been anti-dilutive. For each of the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, options to purchase 750,000 shares of common stock were not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

Note 3: Acquisitions

Stock Purchase Agreement ("SPA") between Travelzoo and Azzurro Capital Inc., a Related-Party

In connection with the development of Travelzoo META, the Company acquired MTE, a wholly owned subsidiary of Azzurro, and also completed a private placement of newly issued shares. Ralph Bartel, who founded the Company, is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro. Azzurro was the Company's largest shareholder as of the time of this transaction, and Azzurro and Ralph Bartel owned as of December 31, 2022 approximately 50.3% of the Company's outstanding shares. On December 28, 2022, the stockholders of Travelzoo approved the issuance and sale of 3.4 million shares of Travelzoo to Azzurro, in exchange for certain consideration, and on the Closing Date, the transaction was consummated. The closing price of Travelzoo's common stock on December 30, 2022 was \$4.45 per share, resulting in an aggregate fair value of \$15.2 million. The purchase price was paid as follows: (a) \$1.0 million in cash paid on the Closing Date; (b) \$4.8 million paid in the form of a promissory note issued on the Closing Date and payable by June 30, 2023 with accrued interest of 12%; and (c) the transfer to the Company of all outstanding capital stock of MTE, which transfer was effected pursuant to a merger of MTE with a wholly-owned subsidiary of the Company on the Closing Date. The Company records the \$4.8 million promissory note as Note receivable from shareholder in the stockholders' equity section on the condensed consolidated balance sheets as of June 30, 2023 September 30, 2023 and December 31, 2022. As of During the six months ended June 30, 2023, Azzurro paid the interest of \$285,000, but has did not yet paid pay the principal amount of the note. The Company submitted a letter to Azzurro seeking payment and seeking payment. In October 2023, the parties are agreed on a payment plan. Azzurro shall pay the outstanding principal in five installment payments starting in October 2023 and ending in February 2024. Interest on the outstanding principal amount shall accrue at a 16% annual interest rate beginning on July 1, 2023. Azzurro paid the interest of \$190,000 in the process of negotiating a payment plan. Should satisfactory terms not be agreed for a payment plan, the Company shall have the right to pursue the shares serving as collateral under the promissory note. three months ended September 30, 2023.

Travelzoo acquired the entire business of MTE. The acquisition was accounted for as an asset acquisition in accordance with ASC Topic 805 – Business Combinations. The fair value of the consideration paid by Travelzoo and allocation of that amount to the underlying assets, on a relative fair value basis, was recorded by the Company as of the Closing Date. Additionally, costs directly related to the MTE acquisition of \$184,000 were capitalized as a component of the purchase price.

As a result of the MTE acquisition, the Company also assumed MTE's historical net operating loss carryforwards of approximately \$64.7 million. While these net operating losses (NOLs) may be used to offset future taxable income, **given certain accounting considerations for the transaction**, the Company determined it is appropriate to record an uncertain tax benefit liability in accordance with ASC Topic 740—Income Taxes. Subject to the provisions of the SPA, Azzurro agreed to indemnify Travelzoo for tax related liabilities in the event of the inability of the Company to utilize any NOLs of MTE as a result of any breach of or inaccuracy in any representation or warranty made by Azzurro, which included the representation that NOLs will be available for use by the Company after the closing for federal and analogous state income tax purposes, including pursuant to section 381(a) of the U.S. tax code, and that, as of the date of the SPA, no NOLs of MTE are subject to any limitation, restriction or impairment on its use. Based on the terms of the agreement, the Company believes that with the uncertain tax position recognized related to the acquired NOLs, **that** the Company has the right to claim losses against Azzurro if NOLs are not able to be utilized. Therefore, the Company recorded an indemnification asset of \$9.5 million for the relative fair value of this indemnification. Any losses indemnified by Azzurro related to the inability to utilize MTE's net operating loss carry forwards shall be satisfied by Azzurro returning to the Company the number of shares of common stock of Travelzoo corresponding to the value of the loss. Accordingly, the Company has classified this tax indemnification asset as contra-equity in the accompanying condensed consolidated financial statements.

The following table represents the allocation of the total cost of the MTE acquisition to the assets acquired (in thousands):

	Fair Value
Consideration for MTE assets	
Fair value of Travelzoo common stock issued	\$ 15,175
Direct transaction costs	184
Less:	
Cash received from Azzurro Capital Inc.	(1,000)
Notes receivable from Azzurro Capital Inc.	(4,753)
Total consideration for MTE assets	<u>\$ 9,606</u>
Relative fair value of the assets acquired	
Cash and cash equivalents	\$ 6
Prepaid expenses and other	45
Property and equipment	18
Tax indemnification asset	9,537
Total assets acquired	<u>\$ 9,606</u>

Travelzoo (Europe) Ltd, Sucursal en España Acquired Secret Escapes Limited's Spanish Business Unit

On March 3, 2022, Travelzoo (Europe) Ltd, Sucursal en España, the Spanish branch of Travelzoo (Europe) Limited, a wholly-owned subsidiary of the Company ("Travelzoo Spain"), entered into a Business Unit Purchase Agreement ("BUPA") with Secret Escapes Limited ("Secret Escapes") for the purchase of its Spanish business unit, which included, among other things, a database of approximately 940,000 members. The purchase price was 400,000 Euros, with an earn-out opportunity of an additional 100,000 Euros payable by the Company upon the achievement of certain metrics by the business unit in six months (September 2022). The metrics were not achieved and thus no payments were made on the earn-out. Travelzoo was granted the right to use the Secret Escapes name exclusively in Spain for a continuity period of six (6) months. The BUPA contained typical representations and warranties and indemnification protections, as well as a restrictive covenant, whereby Secret Escapes agreed to leave the Spanish market for at least three (3) years, subject to a right to purchase a waiver.

Asset Purchase Agreement between Metaverse Travel Experiences, Inc. f/k/a Azzurro Brands Inc. and Travelzoo

On March 17, 2022, the Company, as Buyer, entered into an Asset Purchase Agreement (the "APA") with Metaverse Travel Experiences, Inc. f/k/a Azzurro Brands Inc., a New York corporation (the "Seller") and a wholly-owned subsidiary of Azzurro, the Company's largest shareholder. Pursuant to the APA, the Company acquired certain assets, primarily comprised of all U.S. members of Secret Escapes Limited, which Seller acquired in March 2021 and licensed exclusively to Travelzoo pursuant to the previously disclosed License Agreement, dated as of March 12, 2021 (the "License Agreement"), in accordance with data privacy and other applicable laws. The License Agreement allowed the Company to exclusively utilize the assets in exchange for a license fee of \$412,500 per quarter with a one-year term that automatically renewed. The License Agreement was reviewed and unanimously approved by the Audit Committee of the Board of Directors, which consists solely of independent directors. The purchase price for the transaction was \$1.75 million, with \$600,000 paid in cash upon closing in March 2022 and the remaining \$1.15 million payable in the form of a credit with Seller relating to prepaid license fees, under the License Agreement. The remaining commitment of the Company under the License Agreement for the then-current remaining term (equal to \$825,000) was eliminated.

The Company recorded the transactions with both Secret Escape Limited and Metaverse Travel Experiences, Inc. as asset acquisitions as the assets acquired and liabilities assumed do not meet the definition of a business in Accounting Standards Codification ("ASC") 805-10. Cost accumulation model was used to account for the cost of the acquisition and the 100,000 Euros earn-out was considered as contingent consideration based on ASC 805-50. Travelzoo acquired the database of members and recorded \$2.2 million intangible assets from both agreements.

Acquisition of Jack's Flight Club

Travelzoo acquired 60% of Jack's Flight Club for an aggregate purchase price of \$12.0 million in January 2020. The strategic rationale for the Jack's Flight Club acquisition was to expand Jack's Flight Club's membership to Travelzoo members worldwide, so the members from Travelzoo could also sign up to receive offers from Jack's Flight Club. The Company

renegotiated with Jack's Flight Club in June 2020 and reached a negotiated settlement which resulted a gain in "General and administrative expenses" for the partial forgiveness for the promissory note issued for the acquisition.

The acquisition has been accounted for using the acquisition method in accordance with ASC 805, Business Combinations. Under the acquisition method of accounting, the total purchase consideration of the acquisition is allocated to the tangible assets and identifiable intangible assets and liabilities assumed based on their relative fair values. The excess of the purchase consideration over the net tangible and identifiable intangible assets is recorded as goodwill. Accordingly, the Company allocated \$3.5 million to customer relationships, \$2.5 million to trade name and \$660,000 to non-compete agreements and the remaining \$13.1 million to goodwill. The acquisition related costs were not significant and were expensed as incurred. Jack's Flight Club's **result results** have been included in the accompanying financial statements from **their** the dates of acquisition. The Company performed an annual impairment test in October **and** did not identify any further indicators of impairment as of December 31, 2022. The Company also did not identify any indicators of impairment during the **six nine** months ended **June 30, 2023 September 30, 2023**.

Intangible Assets

The following table represents the fair value and estimated useful lives of intangible assets from the above acquisitions (in thousands):

	Fair Value	Estimated Life (Years)
Customer relationships (Jack's Flight Club)	\$ 3,500	5.0
Trade name (Jack's Flight Club)	2,460	indefinite
Non-compete agreements (Jack's Flight Club)	660	4.0
Intangible assets (Secret Escape Spain member database)	445	3.0
Intangible assets (Secret Escape U.S. member database)	1,751	2.3

Assets Measured at Fair Value on a Non-recurring Basis

The Company's non-financial assets, such as goodwill, intangible assets and property and equipment, are adjusted to fair value if an impairment is recognized during the period. The fair value measurements are based on Level 3 inputs. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets at fair value.

The goodwill assessment was performed by comparing the fair value of the reporting units to its carrying value. The fair value estimates for the reporting units, were based on a blended analysis of the present value of future discounted cash flows and market value approach, using Level 3 inputs. The indefinite-lived intangible assets assessment was valued using the relief-from-royalty method, which includes unobservable inputs, classified as Level 3, including projected revenues and approximately 5% royalty rate.

The Company recorded a goodwill impairment of \$2.1 million and a Trade name impairment of \$810,000 for Jack's Flight Club due to the pandemic in the first quarter of 2020. No impairment charge was identified and recorded for 2021. The Company performed its annual test as of October 31, 2022 and a Trade name impairment charge of \$200,000 was recorded as "General and administrative expenses" for Jack's flight club in the fourth quarter of 2022. The revenue for Jack's Flight Club was negatively impacted by the pandemic and did not meet the forecasted growth expectation. No impairment charge was identified and recorded for goodwill in 2022.

The following table represents the activities of intangible assets for the three and **six nine** months ended **June 30, 2023 September 30, 2023** and 2022 (in thousands):

	Secret Escape			Secret Escape		
	Jack's Flight Club	Spain	Secret Escape U.S.	Jack's Flight Club	Spain	Secret Escape U.S.
Intangible assets—January 1, 2022	3,426			3,426		
Acquisitions—March 2022	—	445	1,751	—	445	1,751
Amortization of intangible assets with definite lives	(226)	(12)	(195)	(226)	(12)	(195)
Intangible assets—March 31, 2022	3,200	433	1,556	3,200	433	1,556
Amortization of intangible assets with definite lives	(217)	(34)	(194)	(217)	(34)	(194)
Intangible assets—June 30, 2022	2,983	399	1,362	2,983	399	1,362

Amortization of intangible assets with definite lives	Amortization of intangible assets with definite lives	(216)	(30)	(194)	Amortization of intangible assets with definite lives	(216)	(30)	(194)
Intangible assets—September 30, 2022	Intangible assets—September 30, 2022	2,767	369	1,168	Intangible assets—September 30, 2022	2,767	369	1,168
Amortization of intangible assets with definite lives	Amortization of intangible assets with definite lives	(216)	(42)	(195)	Amortization of intangible assets with definite lives	(216)	(42)	(195)
Impairment of trade name—December 31, 2022	Impairment of trade name—December 31, 2022	(200)	—	—	Impairment of trade name—December 31, 2022	(200)	—	—
Intangible assets—December 31, 2022	Intangible assets—December 31, 2022	2,351	327	973	Intangible assets—December 31, 2022	2,351	327	973
Amortization of intangible assets with definite lives	Amortization of intangible assets with definite lives	(168)	(39)	(195)	Amortization of intangible assets with definite lives	(168)	(39)	(195)
Intangible assets—March 31, 2023	Intangible assets—March 31, 2023	2,183	288	778	Intangible assets—March 31, 2023	2,183	288	778
Amortization of intangible assets with definite lives	Amortization of intangible assets with definite lives	(158)	(36)	(194)	Amortization of intangible assets with definite lives	(158)	(36)	(194)
Intangible assets—June 30, 2023	Intangible assets—June 30, 2023	\$ 2,025	\$ 252	\$ 584	Intangible assets—June 30, 2023	2,025	252	584
Amortization of intangible assets with definite lives					Amortization of intangible assets with definite lives	(157)	\$ (29)	\$ (195)
Intangible assets—September 30, 2023					Intangible assets—September 30, 2023	\$ 1,868	\$ 223	\$ 389

Amortization expense for acquired intangibles was \$388,000, \$381,000 and \$445,000, \$440,000 for the three months ended June 30, 2023, September 30, 2023 and 2022, respectively. Amortization expense for acquired intangibles was \$790,000, \$1.2 million and \$878,000, \$1.3 million for the six nine months ended June 30, 2023, September 30, 2023 and 2022, respectively.

Expected future amortization expense of acquired intangible assets as of June 30, 2023, September 30, 2023 is as follows (in thousands):

Years ending December 31,	Years ending December 31,	Years ending December 31,
2023 (excluding the six months ended June 30, 2023)	777	
2023 (excluding the nine months ended September 30, 2023)		396
2024	588	588
2025	46	46
	\$ 1,411	\$ 1,030

The Company performed its annual impairment testing of Trade name as of October 31, 2022 using a relief from royalty method. As previously discussed, the Company's impairment test indicated that Jack's Flight Club's indefinite lived intangible assets ("Trade name") was impaired for \$200,000 in 2022. No The Company did not identify any indicators of impairment was identified in during the six nine months ended June 30, 2023, September 30, 2023. As of June 30, 2023, September 30, 2023, the carrying value of the Trade name was \$1.5 million.

Note 4: Commitments and Contingencies

From time to time, the Company is subject to various claims and legal proceedings, either asserted or unasserted, that arise in the ordinary course of business. The Company accrues for legal contingencies if the Company can estimate the potential liability and if the Company believes it is probable that the case will be ruled against it. Accruals for legal contingencies were not material as of June 30, 2023, September 30, 2023, and December 31, 2022. If a legal claim for which the Company did not accrue is resolved against it, the Company would record the expense in the period in which the ruling was made. The Company believes that the likelihood of an ultimate amount of liability, if any, for any pending claims of any type (alone or combined) that will materially affect the Company's financial position, results of operations or cash flows is remote. The ultimate outcome of any litigation is uncertain, however, and unfavorable outcomes could have a material negative impact on the Company's financial condition and operating results. Regardless of outcome, litigation can have an adverse impact on the Company because of defense costs, negative publicity, diversion of management resources and other factors.

The Company was formed as a result of a combination and merger of entities founded by the Company's principal shareholder, Ralph Bartel. In 2002, Travelzoo.com Corporation ("Netsurfers") was merged into the Company. Under and subject to the terms of the merger agreement, holders of promotional shares of Netsurfers who established that they had satisfied certain prerequisite qualifications were allowed a period of 2 years following the effective date of the merger to receive one share of the Company in exchange for each share of common stock of Netsurfers. In 2004, two years following the effective date of the merger, certain promotional shares remained unexchanged. As the right to exchange these promotional shares expired, no additional shares were reserved for issuance. Thereafter, the Company began to offer a voluntary cash program for those who established that they had satisfied certain prerequisite qualifications for Netsurfers promotional shares as further described below.

From 2010 through 2014, the Company became subject to unclaimed property audits of various states in the United States related to the above unexchanged promotional shares and completed settlements with all states. Although the Company has settled the unclaimed property claims with all states, the Company may still receive inquiries from certain potential Netsurfers promotional shareholders that had not provided their state of residence to the Company by April 25, 2004. Therefore, the Company is continuing its voluntary program under which it makes cash payments to individuals related to the promotional shares for individuals whose residence was unknown by the Company and who establish that they satisfy the original conditions required for them to receive shares of Netsurfers, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period. This voluntary program is not available for individuals whose promotional shares have been escheated to a state by the Company, except those individuals for which their residence was unknown to the Company. The Company did not make material payments for the six nine months ended June 30, 2023, September 30, 2023, and 2022.

The total cost of this program cannot be reliably estimated because it is based on the ultimate number of valid requests received and future levels of the Company's common stock price. The Company's common stock price affects the liability because the amount of cash payments under the program is based in part on the recent level of the stock price at the date valid requests are received. The Company does not know how many of the requests for shares originally received by Netsurfers in 1998 were valid, but the Company believes that only a portion of such requests were valid. In order to receive payment under this voluntary program, a person is required to establish that such person validly held shares in Netsurfers.

The Company leases office space in Canada, Germany, Spain, the U.K., and the U.S. under operating leases. Our leases have remaining lease terms ranging from less than one year to up to eight seven years. Refer to Note 11 for leases as of June 30, 2023, September 30, 2023. The Company maintained standby letters of credit ("LOC") serve as collateral issued to the landlords. The LOCs are collateralized with cash which is included in the line item "Restricted cash" in the Consolidated Balance Sheets.

The Company has purchase commitments aggregating approximately \$617,000 \$308,000 as of June 30, 2023, September 30, 2023, which represent the minimum obligations the Company has under agreements with certain suppliers. These minimum obligations are less than the Company's projected use for those periods. Payments may be more than the minimum obligations based on actual use.

Note 5: Income Taxes

In determining the quarterly provisions for income taxes, the Company uses an estimated annual effective tax rate, which is generally based on our expected annual income and statutory tax rates in the U.S., Canada, and the U.K. The Company's effective tax rate from continuing operations was 29% 30% and 47% 29%, respectively, for the three months ended June 30, 2023, September 30, 2023, and 2022. The Company's effective tax rate for the three months ended June 30, 2023, September 30, 2023 changed from the three months ended June 30, 2022, September 30, 2022 primarily due to a decrease an increase in non-deductible stock compensation certain foreign losses not benefited in the three months ended June 30, 2023, September 30, 2023. The Company's effective tax rate was 28% and 36% 34%, respectively, for the six nine months ended June 30, 2023, September 30, 2023, and 2022. Our effective tax rate changed for the six nine months ended June 30, 2023, September 30, 2023 from the six nine months ended June 30, 2022, September 30, 2022 primarily due to a decrease in non-deductible stock compensation in the six nine months ended June 30, 2023, September 30, 2023.

As of June 30, 2023, September 30, 2023, the Company is permanently reinvested in certain of its non-U.S. subsidiaries and does not have a deferred tax liability related to its undistributed foreign earnings. The estimated amount of the unrecognized deferred tax liability attributed to future withholding taxes on dividend distributions of undistributed earnings for certain non-U.S. subsidiaries, which the Company intends to reinvest the related earnings indefinitely in its operations outside the U.S., is approximately \$724,000. \$737,000.

The Company maintains liabilities for uncertain tax positions. As of June 30, 2023, September 30, 2023, the Company had approximately \$16.9 \$22.6 million in total unrecognized tax benefits, of which up to \$16.4 \$16.3 million would favorably affect the Company's effective income tax rate if realized.

The Company's policy is to include interest and penalties related to unrecognized tax positions in income tax expense. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction in the overall income tax provision in the period that such determination is made. As of June 30, 2023, September 30, 2023, and December 31, 2022, the Company had approximately \$602,000 \$628,000 and \$704,000 in accrued interest and penalties, respectively.

The Company files income tax returns in the U.S. federal jurisdiction, various U.S. states and foreign jurisdictions. The Company is subject to U.S. federal and certain state tax examinations for certain years after 2018 and forward and is subject to California tax examinations for years after 2017.

Note 6: Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss (in thousands):

		Three Months Ended		Six Months Ended				Three Months Ended		Nine Months Ended	
		June 30,		June 30,				September 30,		September 30,	
		2023	2022	2023	2022			2023	2022	2023	2022
Beginning balance	Beginning balance	\$ (4,825)	\$ (3,931)	\$ (4,905)	\$ (3,793)	Beginning balance	\$ (4,690)	\$ (4,533)	\$ (4,905)	\$ (3,793)	
Other comprehensive income (loss) due to foreign currency translation, net of tax	Other comprehensive income (loss) due to foreign currency translation, net of tax	135	(602)	215	(740)	Other comprehensive income (loss) due to foreign currency translation, net of tax	(113)	(811)	102	(1,551)	
Ending balance	Ending balance	\$ (4,690)	\$ (4,533)	\$ (4,690)	\$ (4,533)	Ending balance	\$ (4,803)	\$ (5,344)	\$ (4,803)	\$ (5,344)	

There were no amounts reclassified from accumulated other comprehensive loss for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022. Accumulated other comprehensive income (loss) consists of foreign currency translation gain or loss.

Note 7: Stock-Based Compensation and Stock Options

The Company accounts for its employee stock options under the fair value method, which requires stock-based compensation to be estimated using the fair value on the date of grant using an option-pricing model. The value of the portion of the award that is expected to vest is recognized on a straight-line basis as expense over the related employees' requisite service periods in the Company's condensed consolidated statements of operations.

In September 2015, pursuant to an executed Nonqualified Stock Option Agreement, the Company granted its Global Chief Executive Officer, Holger Bartel, options to purchase 400,000 shares of common stock of the Company, with an exercise price of \$8.07 and quarterly vesting beginning on March 31, 2016 (the "2015 Option Agreement"). The 2015 Option Agreement expires in September 2025. The options are now fully vested and the stock-based compensation related to these options was fully expensed. In October 2017, pursuant to an executed Option Agreement, the Company granted Mr. Bartel options to purchase 400,000 shares of common stock, with an exercise price of \$6.95 and quarterly vesting beginning on March 31, 2018 (the "2017 Option Agreement"). The 2017 Option Agreement expires in 2027. During 2019, 250,000 options granted pursuant to the 2017 Option Agreement were exercised by Mr. Bartel. The remaining 150,000 options are fully vested and the stock-based compensation related to these options was fully expensed. In September 2019, the Company granted Mr. Bartel options to purchase 400,000 shares of common stock subject to shareholder approval, with an exercise price of \$10.79 and quarterly vesting beginning on March 31, 2020 and ending on December 31, 2021 (the "2019 Option Agreement" and together with the 2015 Option Agreement and the 2017 Option Agreements, the "Bartel Option Agreements"). The 2019 Option Agreement expires in 2024. All options granted pursuant to the 2015 Option Agreement and 2017 Option Agreement have been exercised.

On May 29, 2020, the shareholders of the Company approved certain amendments to the Bartel Option Agreements, which increased and repriced all outstanding, unexercised options granted to Mr. Bartel (the "Option Agreement Amendments"). Pursuant to the Option Agreement Amendments and subject to shareholder approval, the exercise price for the options was repriced to the official NASDAQ closing share price on March 30, 2020 (the date of execution of the Option Agreement Amendments, which immediately followed the date of approval of the grants from the Board of Directors of the Company), which was \$3.49. Additionally, the Option Agreement Amendments made the following increases: (a) 400,000 additional options to purchase the Company's common stock pursuant to the 2015 Option Agreement, (b) 150,000 additional options to purchase the Company's common stock pursuant to the 2017 Option Agreement, and (c) 400,000 additional options to purchase the Company's common stock pursuant to the 2019 Option Agreement, which resulted in a total of 1,900,000 options granted to Mr. Bartel pursuant to the Option Agreement Amendments. Mr. Bartel's amended options pursuant to the 2015 Option Agreement and the 2017 Option Agreement were fully vested upon the execution of the applicable Option Agreement Amendment. Therefore, stock-based compensation related to these options was fully expensed in second quarter of

2020. In 2021, 800,000 options granted pursuant to the 2015 Option Agreement, 300,000 options granted pursuant to the 2017 Option Agreement and 260,000 options granted pursuant to the 2019 Option Agreement were exercised by Mr. Bartel, 681,902 shares of common stock were issued as the result of a cashless exercise or net settlement with respect to the option exercise price or taxes which were approved by Travelzoo's Board of Directors. As of December 31, 2021, stock-based compensation related to the 2019 Option Agreement and applicable Option Agreement Amendment was fully expensed. Mr. Bartel exercised

the remaining 540,000 options granted pursuant to the 2019 Option Agreement during the three months ended June 30, 2022. The Company received aggregate cash proceeds of \$1.9 million. All options granted pursuant to the 2019 Option Agreement have been exercised.

In September 2019, pursuant to executed Option Agreements, the Company granted six employees stock options to purchase 50,000 shares of common stock each (300,000 in the aggregate) with an exercise price of \$10.79, of which 75,000 options vest in total and become exercisable annually starting on September 5, 2020 and ending on December 31, 2023. The options expire in September 2024. On May 29, 2020, the shareholders of the Company approved the grants, as well as certain amendments to the Option Agreements, which increased and repriced all outstanding, unexercised options granted to such employees. Pursuant to the applicable amendments, the exercise price for the options was repriced to the official NASDAQ closing share price on March 30, 2020 (the date of execution of the amendments to the Option Agreements, which immediately followed the date of approval of the grants from the Board of Directors of the Company), which was \$3.49, the option grants were each increased to 100,000 each, resulting in 300,000 additional options in the aggregate. In 2020, 100,000 unvested options were forfeited upon an employee's departure, 75,000 options were exercised and 54,258 shares of common stock were issued as the result of a cashless exercise approved by Travelzoo's Board of Directors. In 2021, 125,000 unvested options were forfeited upon employees' departure, 150,000 options were exercised and 88,917 shares of common stock were issued as the result of the cashless exercises or net settlement with respect to the option exercise price which were approved by Travelzoo's Board of Directors. During the **three** **nine** months ended **June 30, 2023** **September 30, 2023**, 50,000 options were exercised and 18,098 shares of common stock were

issued as the result of the cashless exercises which were approved by Travelzoo's Board of Directors. As of June 30, 2023 September 30, 2023, 100,000 options were outstanding, and 25,000 of these options which were fully vested. Total stock-based compensation related to these option grants of \$48,000 and \$72,000 was recorded in general and administrative expenses for each of the three months ended June 30, 2023 September 30, 2023 and 2022, 2022, respectively. Total stock-based compensation related to these option grants of \$145,000 \$193,000 and \$217,000 was recorded in general and administrative expenses for each of the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. As of June 30, 2023 September 30, 2023, there Stock-based compensation related to this grant was approximately \$48,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over the next 0.2 years, fully expensed.

On May 29, 2020, pursuant to an executed Option Agreement, the shareholders of the Company approved the grant of stock options to purchase 800,000 shares of common stock to Mr. Ralph Bartel, Chairman of the Board of Directors of the Company, with an exercise price of \$3.49 and quarterly vesting beginning June 30, 2020 and ending on March 31, 2022. The options expire in March 2025. This grant was approved at the 2020 Annual Meeting of the shareholders. In 2021, 600,000 options were exercised and 390,809 shares of common stock were issued as the result of the cashless exercises which were approved by Travelzoo's Board of Directors. Total stock-based compensation related to these option grants of \$385,000 was recorded in general and administrative expenses for the three months ended March 31, 2022. Stock-based compensation related to this grant was fully expensed by the end of the first quarter of 2022. During the three months ended June 30, 2023, second quarter of 2023, the remaining 200,000 options were exercised and 121,307 shares of common stock were issued as the result of the cashless exercises which were approved by Travelzoo's Board of Directors.

On May 29, 2020, pursuant to an executed Option Agreement, the shareholders of the Company approved the grant of stock options to purchase 200,000 shares of common stock to two key employees, with an exercise price of \$3.49 with annual vesting starting March 30, 2021 and ending on March 31, 2024. The options expire in March 2025. In 2021, 50,000 options were exercised, and 24,474 shares of common stock were issued as the result of the cashless exercises which were approved by Travelzoo's Board of Directors. In 2022, 50,000 unvested options were forfeited upon one employee's departure, 25,000 options were exercised and 4,676 shares of common stock were issued as the result of the cashless exercises or net settlement with respect to the option exercise price which were approved by Travelzoo's Board of Directors. During the three nine months ended June 30, 2023 September 30, 2023, 50,000 options were exercised and 20,075 16,619 shares of common stock were issued as the result of the cashless exercises which were approved by Travelzoo's Board of Directors. As of June 30, 2023 September 30, 2023, 25,000 options were outstanding and none of these options were vested. Total stock-based compensation related to these option grants of \$24,000 \$25,000 and \$49,000 \$0 was recorded in general and administrative expenses for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. Total stock-based compensation related to these option grants of \$49,000 \$74,000 and \$98,000 was recorded in general and administrative expenses for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. As of June 30, 2023 September 30, 2023, there was approximately \$74,000 \$49,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over the next 0.8 0.5 years.

On June 1, 2021, pursuant to an executed Option Agreement, the shareholders of the Company approved the grant of stock options to purchase 50,000 shares of common stock to one employee, with an exercise price of \$9.44, with annual vesting starting January 1, 2022 and ending on January 1, 2025. The options expire in January 2026. As of June 30, 2023 September 30, 2023, 50,000 options were outstanding and 25,000 of these options were vested. Total stock-based compensation related to this option grant of \$36,000 was recorded in general and administrative expenses for each of the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. Total stock-based compensation related to this option grant of \$72,000 \$108,000 was recorded in general and administrative expenses for each of the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. As of June 30, 2023 September 30, 2023, there was approximately \$215,000 \$179,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over the next 1.5 1.3 years.

In March 2022, pursuant to an executed Option Agreement, the Company granted its Global Chief Executive Officer, Holger Bartel, options to purchase 600,000 shares of common stock of the Company, with an exercise price of \$8.14 and vesting 25% every six months over two years beginning on June 30, 2022 and ending on December 31, 2023. The options expire in March 2027. This grant was approved at the 2022 Annual Meeting of the shareholders. As of June 30, 2023 September 30, 2023, 600,000 options were outstanding and 450,000 of these options were vested. Total stock-based compensation related to this option grant of \$216,000 and \$433,000 was recorded in general and administrative expenses for each of the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. Total stock-based compensation related to this option grant of \$433,000 \$649,000 was recorded in general and administrative expenses for each of the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. As of June 30, 2023 September 30, 2023, there was approximately \$433,000 \$216,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 0.5 0.3 years.

In June 2022, the Company granted an employee options to purchase 100,000 shares of common stock with an exercise price of \$6.78 and quarterly vesting beginning on September 30, 2022 and ending on June 30, 2025 with vesting based on both time-based service condition and also performance conditions. However, if the performance targets are not met as of the first date on which the time condition is met, the time condition may be extended by one quarter up to three times. The options expire in June 2027. The Company did not recognize stock-based compensation expense for this grant as the performance targets were not achieved and thus no shares were vested in 2022. As of June 30, 2023 September 30, 2023, 100,000 options were outstanding. Total stock-based compensation related to this option grant of \$30,000 and \$60,000 was recorded in sales and marketing expenses for the three and six months ended June 30, 2023 and thus 16,666 shares were vested. The Company did not record stock-based compensation expense for the three months ended September 30, 2023. As of June 30, 2023 September 30, 2023, there was approximately \$308,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 2 1.8 years.

In March 2023, the Company granted its General Counsel and Head of Global Functions, Christina Sindoni Ciocca, options to purchase 200,000 shares of common stock of the Company, with an exercise price of \$4.96 and vesting 12.5% every six months over four years beginning on June 30, 2023 and ending on December 31, 2026. This grant was approved at the Annual Meeting of Stockholders held in June 2023. The options expire in March 2025. As of June 30, 2023 September 30, 2023, 200,000 options were outstanding and 25,000 of these options were vested. Total stock-based compensation related to this option grant of \$52,000 \$35,000 and \$70,000 \$104,000 was recorded in general and administrative expenses for the three and six nine months ended June 30, 2023 September 30, 2023. As of June 30, 2023 September 30, 2023, there was approximately \$487,000 \$452,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 3.5 3.3 years.

Note 8: Stock Repurchase Program

The Company's stock repurchase programs assist in offsetting the impact of dilution from employee equity compensation and assist with capital allocation. Management is allowed discretion in the execution of the repurchase program based upon market conditions and consideration of capital allocation.

In June 2022, the Company announced that its Board of Directors approved a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. In 2022, the Company repurchased 306,375 shares of common stock for an aggregate purchase price of \$1.6 million, which were recorded as part of treasury stock as of December 31, 2022.

During

The Company repurchased 34,687 shares of common stock in the three first quarter of 2023 for \$186,000. The Company repurchased 658,938 shares of common stock in the second quarter of 2023 for \$4.7 million. The repurchases were retired and six months ended recorded as a reduction of additional paid-in capital. As of June 30, 2023, the Company finished this stock repurchase program.

On July 26, 2023, Travelzoo announced that its board of directors has authorized the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. The Company repurchased 658,938 shares and 693,625 1,000,000 shares of common stock respectively, for an aggregate purchase price of \$4.7 \$6.9 million and \$4.9 million, respectively, which were retired and recorded as a reduction of additional paid-in capital. This stock repurchase program was completed in the second quarter of 2023, three months ended September 30, 2023.

Note 9: Segment Reporting and Significant Customer Information

The Company determines its reportable segments based upon the Company's chief operating decision maker managing the performance of the business. Historically, the Company managed its business geographically and operated in three reportable segments including Asia Pacific, Europe and North America. During the three months ended March 31, 2020, the Company classified the results of its Asia Pacific segment as discontinued operations in its condensed consolidated financial statements for current and prior periods presented. On January 13, 2020, Travelzoo agreed to the SPA with the Sellers of Jack's Flight Club to purchase 60% of the Shares. Upon acquisition, the Company's chief operating decision maker reviewed and evaluated Jack's Flight Club as a separate segment. In 2020, Travelzoo entered into royalty-bearing licensing agreements with local licensees for Australia, Japan, New Zealand, and Singapore. Travelzoo granted licensees the exclusive use of Travelzoo's brand, but continuously own the existing members as the licensor. In March 2022, the Company announced the development of Travelzoo META, a subscription service that intends to provide members with exclusive access to innovative, high quality Metaverse travel experiences. On December 30, 2022, the Company acquired Metaverse Travel Experiences, Inc., now Metaverse Travel Experiences, LLC ("MTE"), a Metaverse experience scouting and development business to support Travelzoo META. The Company's chief operating decision maker viewed licensing and Travelzoo META business as New Initiatives and reviewed and evaluated New Initiatives as a separate segment. The Company currently has four reportable operating segments: Travelzoo North America, Travelzoo Europe, Jack's Flight Club and New Initiatives. Travelzoo North America consists of the Company's operations in Canada and the U.S. Travelzoo Europe consists of the Company's operations in France, Germany, Spain, and the U.K. Jack's Flight Club consists of subscription revenue from premium members to access and receive flight deals from Jack's Flight Club via email or via Android or Apple mobile applications. New Initiatives consists of Travelzoo licensing business and Travelzoo META subscription service and scouting and development business. Prior periods have been reclassified to conform with the current presentation.

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

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

		Travelzoo										
Three Months Ended June 30, 2023		North America	Travelzoo Europe	Jack's Flight Club	New Initiatives	Consolidated						
Three Months Ended September 30, 2023							Three Months Ended September 30, 2023	Travelzoo North America	Travelzoo Europe	Jack's Flight Club	New Initiatives	Consolidated
Revenues from unaffiliated customers	Revenues from unaffiliated customers	\$ 13,642	\$ 6,462	\$ 1,011	\$ 13	\$ 21,128	Revenues from unaffiliated customers	\$ 13,094	\$ 6,397	\$ 1,080	\$ 28	\$ 20,599
Intersegment revenues (expenses)	Intersegment revenues (expenses)	491	(575)	84	—	—	Intersegment revenues (expenses)	314	(414)	100	—	—
Total net revenues	Total net revenues	14,133	5,887	1,095	13	21,128	Total net revenues	13,408	5,983	1,180	28	20,599
Operating profit (loss)	Operating profit (loss)	\$ 3,753	\$ (239)	\$ 97	\$ (338)	\$ 3,273	Operating profit (loss)	\$ 3,015	\$ 267	\$ 144	\$ (317)	\$ 3,109
Three Months Ended June 30, 2022		Travelzoo North America	Travelzoo Europe	Jack's Flight Club	New Initiatives	Consolidated						

Three Months Ended September 30, 2022							Three Months Ended September 30, 2022					
								Travelzoo North America	Travelzoo Europe	Jack's Flight Club	New Initiatives	Consolidated
Revenues from unaffiliated customers	Revenues from unaffiliated customers	\$ 12,337	\$ 4,395	\$ 952	\$ 5	\$ 17,689	Revenues from unaffiliated customers	\$ 10,273	\$ 4,721	\$ 847	\$ 8	\$ 15,849
Intersegment revenues (expenses)	Intersegment revenues (expenses)	41	(41)	—	—	—	Intersegment revenues (expenses)	217	(217)	—	—	—
Total net revenues	Total net revenues	12,378	4,354	952	5	17,689	Total net revenues	10,490	4,504	847	8	15,849
Operating profit (loss)	Operating profit (loss)	\$ 3,272	\$ (1,472)	\$ 161	\$ (180)	\$ 1,781	Operating profit (loss)	\$ 1,021	\$ (551)	\$ 12	\$ (209)	\$ 273

Six Months Ended June 30, 2023							Six Months Ended June 30, 2023					
								Travelzoo North America	Travelzoo Europe	Jack's Flight Club	New Initiatives	Consolidated
Revenues from unaffiliated customers	Revenues from unaffiliated customers	\$ 28,209	\$ 12,540	\$ 1,959	\$ 21	\$ 42,729	Revenues from unaffiliated customers	\$ 41,303	\$ 18,937	\$ 3,039	\$ 49	\$ 63,328
Intersegment revenues (expenses)	Intersegment revenues (expenses)	682	(766)	84	—	—	Intersegment revenues (expenses)	996	(1,180)	184	—	—
Total net revenues	Total net revenues	28,891	11,774	2,043	21	42,729	Total net revenues	42,299	17,757	3,223	49	63,328
Operating profit (loss)	Operating profit (loss)	\$ 8,269	\$ 218	\$ 52	\$ (555)	\$ 7,984	Operating profit (loss)	\$ 11,284	\$ 485	\$ 196	\$ (872)	\$ 11,093

Six Months Ended June 30, 2022							Six Months Ended June 30, 2022					
								Travelzoo North America	Travelzoo Europe	Jack's Flight Club	New Initiatives	Consolidated
Revenues from unaffiliated customers	Revenues from unaffiliated customers	\$ 23,835	\$ 10,522	\$ 1,775	\$ 10	\$ 36,142	Revenues from unaffiliated customers	\$ 34,108	\$ 15,243	\$ 2,622	\$ 18	\$ 51,991
Intersegment revenues (expenses)	Intersegment revenues (expenses)	234	(234)	—	—	—	Intersegment revenues (expenses)	451	(451)	—	—	—
Total net revenues	Total net revenues	24,069	10,288	1,775	10	36,142	Total net revenues	34,559	14,792	2,622	18	51,991
Operating profit (loss)	Operating profit (loss)	\$ 5,092	\$ (1,294)	\$ 184	\$ (282)	\$ 3,700	Operating profit (loss)	\$ 6,113	\$ (1,845)	\$ 196	\$ (491)	\$ 3,973

Property and equipment are attributed to the geographic region in which the assets are located. Revenues from unaffiliated customers excludes intersegment revenues and represents revenue with parties unaffiliated with the Company and its wholly owned subsidiaries.

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

		Travelzoo		Jack's										
		North	Travelzoo	Flight	New									
As of June 30, 2023		America	Europe	Club	Initiatives	Elimination	Consolidated							
As of September 30, 2023								As of September 30, 2023	Travelzoo		Jack's	New		
		America	Europe	Club	Initiatives	Elimination	Consolidated		America	Europe	Club	Initiatives	Elimination	Consolidated
Long-lived assets	Long-lived assets	\$ 244	\$ 90	\$ —	\$ 318	\$ —	\$ 652	Long-lived assets	\$ 183	\$ 102	\$ —	\$ 336	\$ —	\$ 621
Total assets excluding discontinued operations	Total assets excluding discontinued operations	\$ 96,108	\$ 17,958	\$ 19,601	\$ 439	\$ (75,000)	\$ 59,106	Total assets excluding discontinued operations	\$ 95,181	\$ 19,563	\$ 19,744	\$ 467	\$ (79,154)	\$ 55,801

		Travelzoo North America		Travelzoo Europe		Jack's Flight Club		New Initiatives		Elimination		Consolidated	
As of December 31, 2022													
Long-lived assets		\$ 375		\$ 86		\$ —		\$ 196		\$ —		\$ 657	
Total assets excluding discontinued operations		\$ 97,693		\$ 19,253		\$ 18,737		\$ 267		\$ (68,687)		\$ 67,263	

For the three and six months ended June 30, 2023, September 30, 2023 and 2022, the Company did not have any customers that accounted for 10% or more of revenue. As of June 30, 2023, September 30, 2023 and December 31, 2022, 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 (in thousands) by category and segment. Travel revenue includes travel publications (*Top 20*, *Travelzoo* website, *standalone Travelzoo emails*, *Standalone*, *email newsletters*, *Travelzoo Network*), *Getaways* vouchers, hotel platform and vacation packages. Local revenue includes *Local Deals* vouchers and entertainment offers (vouchers and direct bookings).

		Three Months Ended		Six Months Ended		Three Months Ended		Nine Months Ended	
		June 30,		June 30,		September 30,		September 30,	
		2023	2022	2023	2022	2023	2022	2023	2022
Travelzoo North America	Travelzoo North America					Travelzoo North America			
Travel	Travel	\$ 13,458	\$ 11,444	\$ 27,598	\$ 22,489	Travel	\$ 12,751	\$ 9,660	\$ 40,349
Local	Local	675	934	1,293	1,580	Local	657	830	1,950
Total Travelzoo North America revenues	Total Travelzoo North America revenues	14,133	12,378	28,891	24,069	Total Travelzoo North America revenues	13,408	10,490	42,299
Travelzoo Europe	Travelzoo Europe					Travelzoo Europe			
Travel	Travel	5,546	4,072	11,096	9,696	Travel	5,650	4,230	16,746
Local	Local	341	282	678	592	Local	333	274	1,011
Total Travelzoo Europe revenues	Total Travelzoo Europe revenues	5,887	4,354	11,774	10,288	Total Travelzoo Europe revenues	5,983	4,504	17,757
Jack's Flight Club	Jack's Flight Club	1,095	952	2,043	1,775	Jack's Flight Club	1,180	847	3,223
New Initiatives	New Initiatives	13	5	21	10	New Initiatives	28	8	49
Consolidated	Consolidated					Consolidated			
Travelzoo Travel	Travelzoo Travel	19,004	15,516	38,694	32,185	Travelzoo Travel	18,401	13,890	57,095
Travelzoo Local	Travelzoo Local	1,016	1,216	1,971	2,172	Travelzoo Local	990	1,104	2,961
Jack's Flight Club	Jack's Flight Club	1,095	952	2,043	1,775	Jack's Flight Club	1,180	847	3,223
New Initiatives	New Initiatives	13	5	21	10	New Initiatives	28	8	49
Total revenues	Total revenues	\$ 21,128	\$ 17,689	\$ 42,729	\$ 36,142	Total revenues	\$ 20,599	\$ 15,849	\$ 63,328

Revenue by geography is based on the billing address of the advertiser. Long-lived assets attributed to the U.S. and international geographies are based upon the country in which the asset is located or owned. The following table sets forth revenue for countries that exceed 10% of total revenue (in thousands):

		Three Months Ended		Six Months Ended			Three Months Ended		Nine Months Ended	
		June 30,		June 30,			September 30,		September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Revenue	Revenue					Revenue				
United States	United States	\$ 12,749	\$ 11,222	\$ 26,222	\$ 21,865	United States	\$ 12,225	\$ 9,599	\$ 38,447	\$ 31,464
United Kingdom	United Kingdom	4,858	4,037	9,820	8,036	United Kingdom	4,915	3,883	14,735	11,919
Germany	Germany	1,738	957	3,233	3,209	Germany	1,992	1,276	5,225	4,485
Rest of the world	Rest of the world	1,783	1,473	3,454	3,032	Rest of the world	1,467	1,091	4,921	4,123
Total revenues	Total revenues	\$ 21,128	\$ 17,689	\$ 42,729	\$ 36,142	Total revenues	\$ 20,599	\$ 15,849	\$ 63,328	\$ 51,991

The following table sets forth property and equipment by geographic area (in thousands):

	June 30,		December 31,			September 30,		December 31,	
	2023		2022			2023		2022	
United States	United States	\$ 150	\$ 274	United States	\$ 122	\$ 274			
China (Hong Kong)	China (Hong Kong)	318	196	China (Hong Kong)	336	196			
Rest of the world	Rest of the world	184	187	Rest of the world	163	187			
Total long-lived assets	Total long-lived assets	\$ 652	\$ 657	Total long-lived assets	\$ 621	\$ 657			

Note 10: Discontinued Operations

On March 10, 2020, Travelzoo issued a press release announcing that it was exiting its loss-making business in Asia Pacific. The decision supports the Company's strategy to focus on value creation for shareholders by focusing on growing the businesses in North America and Europe.

The Asia Pacific business ceased operations as of March 31, 2020, except for the Company's Japan and Singapore units, which were held for sale. The Company has classified Asia Pacific as discontinued operations at March 31, 2020. Prior periods have been reclassified to conform with the current presentation. The following table provides a summary of amounts included in discontinued operations for the three and nine months ended June 30, 2023 September 30, 2023 and 2022 (in thousands):

		Three Months Ended		Six Months Ended			Three Months Ended		Nine Months Ended	
		June 30,		June 30,			September 30,		September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Revenues	Revenues	\$ —	\$ —	\$ —	\$ —	Revenues	\$ —	\$ —	\$ —	\$ —
Cost of revenues	Cost of revenues	—	—	—	—	Cost of revenues	—	—	—	—
Gross profit	Gross profit	—	—	—	—	Gross profit	—	—	—	—
Operating expenses:	Operating expenses:					Operating expenses:				
Sales and marketing	Sales and marketing	—	—	—	—	Sales and marketing	—	—	—	—
Product development	Product development	—	—	—	—	Product development	—	—	—	—
General and administrative	General and administrative	1	—	1	8	General and administrative	5	7	5	15
Total operating expenses	Total operating expenses	1	—	1	8	Total operating expenses	5	7	5	15
Loss from operations	Loss from operations	(1)	—	(1)	(8)	Loss from operations	(5)	(7)	(5)	(15)
Other income (loss), net		(1)	10	1	7					

Other income, net						Other income, net	—	12	—	19
Income (loss) before income taxes	Income (loss) before income taxes	(2)	10	—	(1)	Income (loss) before income taxes	(5)	5	(5)	4
Income tax expense	Income tax expense	—	—	—	—	Income tax expense	—	—	—	—
Net income (loss)	Net income (loss)	<u>\$ (2)</u>	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ (1)</u>	Net income (loss)	<u>\$ (5)</u>	<u>\$ 5</u>	<u>\$ (5)</u>	<u>\$ 4</u>

On June 16, 2020, in connection with its Asia Pacific exit plan, the Company completed a sale of 100% of the outstanding capital stock of Travelzoo Japan to Mr. Hajime Suzuki (the "Japan Buyer") for consideration of 1 Japanese Yen. The Company recognized a pre-tax loss of \$128,000. The parties also entered into a License Agreement, whereby Travelzoo Japan obtained a license to use the intellectual property of Travelzoo exclusively in Japan in exchange for quarterly royalty payments based on revenue over a 5-year term, with an option to renew. An interest free loan was provided to the licensee for JPY 46 million (approximately \$430,000), of which \$133,000 was repaid in 2021, \$113,000 was repaid during six nine months ended June 30, 2023 September 30, 2023, and the remaining is expected to be paid off in 2023. The Company recorded this loan as current prepaid expense and other on the condensed consolidated balance sheet as of June September 30, 2023. The Company records recognized royalties of \$9,000 and \$13,000 for its licensing arrangements on a one-quarter lag basis. The Company recognize royalties \$4,000 from the licensee in Japan for the three and six nine months ended June 30, 2023. September 30, 2023, respectively. The Company did not recognize royalties for the three and six months ended June 30, 2022, any royalty from Travelzoo Japan in 2022.

On August 24, 2020, the Company completed a sale of 100% of the outstanding capital stock of Travelzoo Singapore, to an unaffiliated entity, Finest Hotels Pty Ltd d/b/a Travelzoo ("AUS Buyer"), which is fully owned by Mr. Julian Rembrandt, the former General Manager of Southeast Asia and Australia of the Company for consideration of 1 Singapore Dollar. The parties also entered into a License Agreement, whereby the AUS Buyer obtained a license to use the intellectual property of Travelzoo exclusively in Australia, New Zealand and Singapore and non-exclusively in China and Hong Kong for quarterly royalty payments based upon revenue over a 5 year term, with an option to renew. The non-exclusive license in China and Hong Kong was terminated by Travelzoo. Travelzoo was not able to estimate whether the AUS Buyer will generate revenues based on the current uncertainties, and no amount has been recorded for future royalties under this agreement. The Company records royalties for its licensing arrangements on a one-quarter lag basis. The Company recognized royalties of \$9,000 and \$7,000 \$8,000 for its licensing arrangements from the licensee in Australia for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. The Company recognized royalties of \$17,000 \$26,000 and \$12,000 \$18,000 for its licensing arrangements from the licensee in Australia for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

The following table presents information related to the major classes of assets and liabilities that were classified as assets and liabilities from discontinued operations in the Condensed Consolidated Balance Sheets (in thousands):

		June 30, 2023	December 31, 2022			September 30, 2023	December 31, 2022
ASSETS	ASSETS			ASSETS			
Cash, cash equivalents and restricted cash	Cash, cash equivalents and restricted cash	\$ 9	\$ 10	Cash, cash equivalents and restricted cash	\$ 6	\$ 10	
Accounts receivable, net	Accounts receivable, net	—	—	Accounts receivable, net	—	—	
Prepaid expenses and other	Prepaid expenses and other	1	1	Prepaid expenses and other	1	1	
Total assets from discontinued operations	Total assets from discontinued operations	<u>\$ 10</u>	<u>\$ 11</u>	Total assets from discontinued operations	<u>\$ 7</u>	<u>\$ 11</u>	
LIABILITIES	LIABILITIES			LIABILITIES			
Accounts payable	Accounts payable	\$ 402	\$ 403	Accounts payable	\$ 404	\$ 403	
Accrued expenses and other	Accrued expenses and other	15	13	Accrued expenses and other	15	13	
Income tax payable	Income tax payable	24	24	Income tax payable	24	24	
Deferred revenue	Deferred revenue	10	12	Deferred revenue	10	12	
Total liabilities from discontinued operations	Total liabilities from discontinued operations	<u>\$ 451</u>	<u>\$ 452</u>	Total liabilities from discontinued operations	<u>\$ 453</u>	<u>\$ 452</u>	

The net cash used in operating activities for the discontinued operations for the six nine months ended June 30, 2023 September 30, 2023 and 2022, were as follows (in thousands):

	Six Months Ended	
	June 30,	
	2023	2022
Net cash used in operating activities	\$ (1)	\$ (21)

	Six Months Ended	
	September 30,	
	2023	2022
Net cash used in operating activities	\$ (4)	\$ (18)

Note 11: Leases

The Company has operating leases for real estate and certain equipment. The Company leases office space in Canada, Germany, Spain, the U.K., and the U.S. under operating leases. Our leases have remaining lease terms ranging from less than one year up to seven years. Certain leases include one or more options to renew. In addition, we sublease real estate to a third party. All of our leases qualify as operating leases.

The following table summarizes the components of lease expense for the three and nine months ended June 30, 2023 September 30, 2023 and 2022 (in thousands):

	Operating lease cost						Operating lease cost				
	Three Months Ended		Six Months Ended		Three Months Ended		Nine Months Ended				
	June 30,		June 30,		September 30,		September 30,				
	2023	2022	2023	2022		2023	2022	2023	2022		
Operating lease cost	Operating lease cost	\$ 646	\$ 558	\$ 1,320	\$ 1,243	Operating lease cost	\$ 548	\$ 510	\$ 1,868	\$ 1,753	
Short-term lease cost	Short-term lease cost	20	—	40	—	Short-term lease cost	26	—	66	—	
Variable lease cost	Variable lease cost	166	170	316	391	Variable lease cost	194	137	510	528	
Sublease income	Sublease income	(90)	(88)	(180)	(174)	Sublease income	(90)	(89)	(270)	(263)	
Total lease cost	Total lease cost	\$ 742	\$ 640	\$ 1,496	\$ 1,460	Total lease cost	\$ 678	\$ 558	\$ 2,174	\$ 2,018	

Cash payments against the operating lease liabilities totaled \$1.7 million and \$2.4 million and for each of the six and nine months ended June 30, 2023 September 30, 2023 and 2022. There was no ROU assets obtained in exchange for lease obligations was \$512,000 for six and nine months ended June 30, 2023 and 2022 September 30, 2023. There was no ROU asset obtained in exchange for lease obligations for nine months ended September 30, 2022.

The following table summarizes the presentation in our condensed consolidated balance sheets of our operating leases (in thousands):

		June 30, 2023		December 31, 2022			September 30, 2023		December 31, 2022		
Assets:	Assets:					Assets:					
	Operating lease right-of-use assets	\$	6,292	\$	7,440		Operating lease right-of-use assets	\$	6,334	\$	7,440
Liabilities:	Liabilities:					Liabilities:					
	Operating lease liabilities	\$	2,395	\$	2,972		Operating lease liabilities	\$	2,568	\$	2,972
	Long-term operating lease liabilities	7,493		8,326			Long-term operating lease liabilities	7,141		8,326	
	Total operating lease liabilities	\$	9,888	\$	11,298		Total operating lease liabilities	\$	9,709	\$	11,298
Weighted average remaining lease term (years)	Weighted average remaining lease term (years)	5.74		5.87		Weighted average remaining lease term (years)	5.44		5.87		
Weighted average discount rate	Weighted average discount rate	4.2	%	4.3	%	Weighted average discount rate	4.3	%	4.3	%	

Maturities of lease liabilities were as follows (in thousands):

Years ending December 31,	Years ending December 31,	Years ending December 31,
2023 (excluding the three months ended June 30, 2023)	\$ 1,432	
2023 (excluding the nine months ended September 30, 2023)		\$ 710
2024	2,152	2,486
2025	1,792	1,879
2026	1,387	1,394
2027	1,350	1,350
Thereafter	2,925	2,925
Total lease payments	11,038	10,744
Less interest	(1,150)	(1,035)
Present value of operating lease liabilities	\$ 9,888	\$ 9,709

Note 12: Non-Controlling Interest

The Company's consolidated financial statements include Jack's Flight Club where the Company has operating control but owns 60% of the equity interest.

The non-controlling interest for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was as follow (in thousands):

Non-controlling interest—January 1, 2022	\$ 4,600
Net income attributable to non-controlling interest	4
Non-controlling interest—March 31, 2022	4,604
Net income attributable to non-controlling interest	30
Non-controlling interest—June 30, 2022	4,634
Net income attributable to non-controlling interest	2
Non-controlling interest—September 30, 2022	4,636
Net loss attributable to non-controlling interest	(41)
Non-controlling interest—December 31, 2022	4,595
Net income attributable to non-controlling interest	8
Non-controlling interest—March 31, 2023	4,603
Net income attributable to non-controlling interest	37
Non-controlling interest—June 30, 2023	4,640
Net income attributable to non-controlling interest	52
Non-controlling interest—September 30, 2023	\$ 4,640 4,692

Note 13: Related Party Transactions

Ralph Bartel, who founded Travelzoo and who is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro. As of **June** **September 30, 2023**, Azzurro is the Company's largest stockholder, and together with Ralph Bartel, in his individual capacity, hold approximately **48.9%** **48.0%** of the Company's outstanding shares. Holger Bartel, the Company's Global Chief Executive Officer, is Ralph Bartel's brother and holds approximately **3.4%** **3.6%** of the Company's outstanding shares.

Stock Purchase Agreement between Travelzoo and Azzurro Capital Inc.

In connection with the development of Travelzoo META, on **December 28, 2022**, the Company acquired MTE, a wholly owned subsidiary of Azzurro, and also completed a private placement of newly issued shares. **Ralph Bartel, who founded the Company, is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro. Azzurro is the Company's largest shareholder as of the time of this transaction and as As of December 31, 2022, Azzurro and Ralph Bartel owned approximately 50.3% of the Company's outstanding shares. On December 28, 2022, the stockholders of Travelzoo approved the issuance and sale of 3.4 million Shares to Azzurro, in exchange for certain consideration, and on the Closing Date, the transaction was consummated. The closing price of Travelzoo's common stock on December 30, 2022 was \$4.45 per share, resulting in an aggregate fair value \$15.2 million. The purchase price was paid as follows: (a) **Se** \$1.0 million in cash paid on the Closing Date; (b) \$4.8 million paid **e Note 3: Acquisitions** in the form of a promissory note issued on the Closing Date and payable by June 30, 2023 with accrued interest of 12%; and (c) the transfer to the Company of all outstanding capital stock of MTE, which transfer was effected pursuant to a merger of MTE with a wholly-owned subsidiary of the Company on the Closing Date. The Company recorded the \$4.8 million promissory note as Note receivable from shareholder in the stockholders' **unaudit'** equity section on the **ed** condensed consolidated balance sheets as of June 30, 2023 and December 31, 2022. As of June 30, 2023, Azzurro paid the interest of \$285,000, but has not yet paid the principal amount of the note. The Company submitted a letter to Azzurro**

seeking payment and the parties are in the process of negotiating a payment plan. Should satisfactory terms not be agreed financial statements for a payment plan, the Company shall have the right to pursue the shares serving as collateral under the promissory note, further information.

License Agreement with Azzurro Brands Inc. and subsequent Asset Purchase Agreement

On March 12, 2021, the Company, with the approval of the Audit Committee of the Board of Directors, which consists solely of independent directors, entered into a License Agreement (the "License Agreement") with Azzurro Brands Inc., a New York corporation ("Azzurro Brands") and wholly-owned subsidiary of Azzurro, the Company's largest shareholder. Pursuant to the terms of the License Agreement, the Company was granted the exclusive right and license to use a database of 2.2 million non-duplicated subscribers that Azzurro Brands purchased from a competitor of Travelzoo. The License Agreement required that the Company pay a license fee of \$413,000 per quarter with an initial payment of \$894,000 due upon execution, which covers the period from execution until September 30, 2021. The License Agreement had a term of one (1) year with an automatic renewal, terminable by either party with sixty (60) days' written notice before the end of the term. The License Agreement contained customary representations and warranties. The payment of \$894,000 was made in the first quarter of 2021 and recorded in sales and marketing expenses in 2021. The second payment of \$701,000 was made in the second quarter of 2021 which covers the period from October 2021 through March 2022 and recorded in sales and marketing expenses and prepaid expenses and other. Travelzoo renewed the License Agreement in January 2022 for a license fee of \$413,000 per quarter and made the payment of \$800,000 to cover the period from April 2022 to September 2022 in the fourth quarter of 2021 and was recorded in Prepaid expenses-Related party, which totaled \$1.15 million as of December 31, 2021.

On March 17, 2022, the Company, as Buyer, entered into an Asset Purchase Agreement (the "APA") with Azzurro Brands to purchase the database previously utilized by Travelzoo in accordance with the License Agreement. The purchase price for the transaction was \$1.75 million, with \$600,000 paid in cash upon closing in March 2022 and the remaining \$1.15 million payable in the form of a credit with Seller relating to prepaid license fees, under the License Agreement. The remaining commitment of the Company under the License Agreement for the then-current remaining term (equal to \$825,000) was eliminated.

Stock Option Agreement

In March 2022, the Compensation Committee of the Board of Directors granted Holger Bartel 600,000 stock options that vest through December 31, 2023. This grant was approved by the shareholders of the Company at the 2022 annual meeting of shareholders. Holger Bartel is the brother of Ralph Bartel and is our Global Chief Executive Officer. See Note 3 to the unaudited condensed consolidated financial statements for further information.

Profits from Sale and Purchase of Travelzoo Common Stock within Six Month Period

On May 23, 2023, Travelzoo was named as a nominal defendant in a complaint for recovery of short swing profits filed in the Southern District of New York under Section 16(b) of the Securities Exchange Act, by Dennis J. Donoghue and Mark Rubenstein, against Ralph Bartel, the Ralph Bartel 2005 Trust and Azzurro Capital Inc.

Holger Bartel completed sales and purchases of 25,000 shares of Travelzoo common stock within a six month period ended July 29, 2022. Per Section 16(b) of Securities and Exchange Act, he agreed to immediately remit to the Company \$46,000 in profits gained from these transactions during the three months ended September 30, 2022.

Note 14: Subsequent Event

On July 26, 2023 October 24, 2023, Travelzoo announced that its board of directors has authorized the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. Purchases may be made, from time to time, in the open market and will be funded from available cash. The number of shares to be purchased and the timing of purchases will be based on the level of Travelzoo's cash balances, general business and market conditions, and other factors, including alternative investment opportunities.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information in this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations, assumptions, estimates and projections about Travelzoo and our industry. These forward-looking statements are subject to the many risks and uncertainties that exist in our operations and business environment that may cause actual results, performance or achievements of Travelzoo to be different from those expected or anticipated in the forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as "may", "will", "should", "estimates", "predicts", "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 elsewhere in this report in the section entitled "Risk Factors" and the risks discussed in our other SEC filings. The forward-looking statements included in this report reflect the beliefs of our management on the date of this report. Travelzoo undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other circumstances occur in the future.

Overview

We are a global Internet media company. Travelzoo® provides its 30 million members with exclusive offers and one-of-a-kind experiences personally reviewed by our deal experts around the globe. We have our finger on the pulse of outstanding travel, entertainment, and lifestyle experiences. We work in partnership with more than 5,000 top travel suppliers—our long-standing relationships give Travelzoo members access to irresistible offers.

Travelzoo attracts a high-quality audience of travel enthusiasts across multiple digital platforms, including email, websites, social media and mobile applications. The Travelzoo website is visited by 5.4 million to 6.6 million unique visitors each month. We have over 4.5 million followers on Facebook, Instagram, and Twitter. Our Apple and Android mobile applications have been downloaded 7.4 million times.

We also license Travelzoo products and our intellectual property to licensees in various countries in Asia Pacific, including but not limited to Australia, Japan and Southeast Asia.

In March 2022, we announced the development of Travelzoo META, a subscription service that intends to provide members with exclusive access to innovative, high quality Metaverse travel experiences. On December 30, 2022, we acquired MTE, a Metaverse experience scouting and development business to support Travelzoo META.

Stock Purchase Agreement between Travelzoo and Azzurro Capital Inc.

In connection with the development of Travelzoo META, on December 28, 2022, the Company acquired MTE, a wholly owned subsidiary of Azzurro, and also completed a private placement of newly issued shares. On December 28, 2022, the stockholders of Travelzoo approved the issuance and sale of 3.4 million Shares to Azzurro, in exchange for certain consideration, and on the Closing Date, the transaction was consummated. The closing price of Travelzoo's common stock on December 30, 2022 was \$4.45 per share, resulting in an aggregate fair value \$15.2 million. The purchase price was paid as follows: (a) \$1.0 million in cash paid on the Closing Date; (b) \$4.8 million paid See Note 3: Acquisitions in the form of a promissory note unaudit; and (c) the transfer to the Company of all outstanding capital stock of MTE. The Company recorded the \$4.8 million promissory note as Note receivable from shareholder in the stockholder equity section on the ed condensed consolidated balance sheets as of June 30, 2023 and December 31, 2022. As of June 30, 2023, Azzurro paid the interest of \$285,000, but has not yet paid the principal amount of the note. The Company submitted a letter to Azzurro seeking payment and the parties are in the process of negotiating a payment plan. Should satisfactory terms not be agreed financial statements for a payment plan, the Company shall have the right to pursue the shares serving as collateral under the promissory note. further information.

Jack's Flight Club

In January 2020, Travelzoo acquired JFC Travel Group Co. ("Jack's Flight Club"), which operates Jack's Flight Club, a subscription service that provides members with information about exceptional airfares. As of June 30, 2023 September 30, 2023, Jack's Flight Club had over 2 million subscribers. Jack's Flight Club's revenues are generated by subscription fees paid by members. See Note 3 to the unaudited condensed consolidated financial statements for further information.

APAC Exit and Pivot to Licensing Model

In March 2020, Travelzoo exited its loss-making Asia Pacific business and pivoted to a licensing model. The Company's Asia Pacific business was classified as discontinued operations at March 31, 2020.

Travelzoo currently has license agreements in Japan and South Korea, as well as Australia, New Zealand and Singapore. The license agreement for Japan provides a license to the licensee to use the intellectual property of Travelzoo exclusively in Japan in exchange for quarterly royalty payments based on net revenue over a 5 year term, with an option to renew. The territory subject to the license was amended to also include South Korea. An interest free loan was provided to the licensee for JPY 46 million (approximately \$430,000), of which \$133,000 was repaid in 2021, \$113,000 was repaid during six nine months ended June 30, 2023 September 30, 2023, and the remaining is expected to be paid off in 2023. The Company recorded this loan as current prepaid expense and other on the condensed consolidated balance sheet as of June September 30, 2023. The Company recognized royalties of \$9,000 and \$13,000 for its licensing arrangements from the licensee in Japan for the three and nine months ended September 30, 2023, respectively. The Company did not recognize any royalty from Travelzoo Japan in 2022.

The license agreement for Australia, New Zealand and Singapore provides a license to the licensee to use the intellectual property of Travelzoo exclusively in Australia, New Zealand and Singapore for quarterly royalty payments based upon net revenue over a 5 year term, with an option to renew. The Company records royalties for its licensing arrangements on a one-quarter lag basis. The Company recognized royalties of \$9,000 and \$7,000 \$8,000 for its licensing arrangements from the licensee in Australia for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. The Company recognized royalties of \$17,000 \$26,000 and \$12,000 \$18,000 for its licensing arrangements from the licensee in Australia for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. The Company recognized royalties of \$4,000 for its licensing arrangements from the licensee in Japan for the three and six months ended June 30, 2023. The Company did not recognize any royalty from Travelzoo Japan in 2022. We expect the royalty payments to increase over time as the effects of the pandemic subside.

Government funding

In January 2022, July 2022 and May 2023, the Company's German branch of Travelzoo (Europe) Limited, a wholly-owned subsidiary of the Company ("Travelzoo Germany"), received the notification and payment of approximately \$1.2 million, \$494,000 and \$205,000 from the German Federal Government Bridging Aid III plan, Bridging Aid III+ and Bridging Aid IV, respectively. This program was for companies that suffered a Corona-related decrease in sales of at least 30% in one month compared to the reference month in 2019. Travelzoo Germany applied for the funding in 2021 and 2022, respectively, and was approved by the German government in January 2022, and July of 2022, and May 2023. The Company has to submit a final declaration in connection with the grant and the declaration date has been extended from June 30, 2023 to December 31, 2023. The Company believes it was eligible to participate in the plan and is entitled to the payment and does not expect significant changes to the amount already received from the final submission. The Company recorded \$1.2 million, \$494,000 and \$205,000 gains in Other income, net in the first and third quarters of 2022 and second quarter of 2023, respectively.

The Company also received \$85,000 \$10,000 and \$153,000 \$164,000 job retention related funding from Canada in the three and six nine months ended June 30, 2022 September 30, 2022. Such funding was recorded against salary and related expenses. The Company did not receive job retention related funding in 2023.

Historically, the Company managed its business geographically and operated in three reportable segments including Asia Pacific, Europe and North America. During the three months ended March 31, 2020, the Company classified the results of its Asia Pacific segment as discontinued operations in its condensed consolidated financial statements for current and prior periods presented. On January 13, 2020, Travelzoo agreed to the SPA with the Sellers of Jack's Flight Club to purchase 60% of the Shares. Upon acquisition, the Company's Company's chief operating decision maker reviewed and evaluated Jack's Jack's Flight Club as a separate segment. In 2020, Travelzoo entered into royalty-bearing licensing agreements with local licensees for Australia, Japan, New Zealand, and Singapore. Travelzoo granted licensees the exclusive use of Travelzoo's brand, but continuously own the existing members as the licensor. In March 2022, the Company announced the development of Travelzoo META, a subscription service that intends to provide members with exclusive access to innovative, high quality Metaverse travel experiences. On December 30, 2022, the Company acquired MTE, a Metaverse experience scouting and development business to support Travelzoo META. The Company's Company's chief operating decision maker viewed licensing and Travelzoo META as New Initiatives and reviewed and evaluated New Initiatives as a separate segment. The Company currently has four reportable operating segments: Travelzoo North America, Travelzoo Europe, Jack's Flight Club and New Initiatives. Travelzoo North America consists of the Company's operations in Canada and the U.S. Travelzoo Europe consists of the Company's operations in France, Germany, Spain, and the U.K. Jack's Flight Club consists of subscription revenue from premium members to access and receive flight deals from Jack's Flight Club via email or via Android or Apple mobile applications. New Initiatives consists of Travelzoo licensing business and Travelzoo META subscription service and Metaverse experience scouting and development business.

When evaluating the financial condition and operating performance of the Company, management focuses on financial and non-financial indicators such as growth in the number of members to the Company's newsletters, operating margin, growth in revenues in the absolute and relative to the growth in reach of the Company's publications

measured as revenue per member and revenue per employee as a measure of productivity.

How We Generate Revenues

Travelzoo

Revenues from the Travelzoo brand and business are generated primarily from advertising fees from two categories of revenue: Travel and Local.

The "Travel" category consists of advertising or publishing revenues, primarily (a) listing fees paid by travel companies for the publishing of their offers on Travelzoo's media properties and (b) commission from the sale of *Getaways* vouchers. Listing fees are based on audience reach, placement, number of listings, number of impressions, number of clicks, and actual sales. For publishing revenue, we recognize revenue upon delivery of the emails and delivery of the clicks, over the period of

the placement of the advertising. Insertion orders for publishing revenue are typically for periods between one month and twelve months and are not automatically renewed. For *Getaways* vouchers, we recognize a percentage of the face value of the vouchers upon the sale of the vouchers. Merchant agreements for *Getaways* advertisers are typically for periods between twelve months and twenty-four months and are not automatically renewed. Since the second quarter of 2020, the Company expanded its vouchers refund policy in order to entice customers given the current economic climate to fully refundable until the voucher expires or is redeemed by the customer. The Company now offers full refunds for vouchers that have not been redeemed or expired. The expiration dates of vouchers range between July 2023 through December 2025 with the majority of vouchers expiring during 2023; 2025; provided, that these expiration dates may sometimes be extended on a case-by-case basis and final payment upon expiration may not be due for up to a year after expiration. The revenues generated from Local Deals vouchers and entertainment offers are based upon a percentage of the face value of the vouchers, commission on actual sales or a listing fee based on audience reach. For Local Deals vouchers, we recognize a percentage of the face value of vouchers upon the sale of the vouchers. The Company estimated the refund reserve by using historical and current refund rates by product and by merchant location to calculate the estimated future refunds. As of June 30, 2023 September 30, 2023, the Company had approximately \$6.0 million \$5.9 million of unredeemed vouchers that had been sold through June 30, 2023 September 30, 2023 representing the Company's commission earned from the sale. The Company had estimated a refund liability of \$572,000 \$421,000 for these unredeemed vouchers as of June 30, 2023 September 30, 2023 which is recorded as a reduction of revenues and is reflected as a current liability in Accrued expenses and other on the consolidated balance sheet. The Company has recorded Merchant Payables of \$23.9 million \$23.7 million as of June 30, 2023 September 30, 2023 related to unredeemed vouchers. Certain merchant contracts allow the Company to retain the proceeds from unredeemed vouchers. With these contracts, the Company estimates the value of vouchers that will ultimately not be redeemed and records the estimate as revenues in the same period.

The "Local" category consists of 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 the vouchers, commission on actual sales or a listing fee based on audience reach. We recognize revenue upon the sale of the vouchers, upon notification of the amount of direct bookings or upon delivery of the emails. For *Local Deals* vouchers, we recognize a percentage of the face value of vouchers upon the sale of the vouchers. Insertion orders and merchant agreements for Local are typically for periods between one month and twelve months and are not automatically renewed. Certain merchant contracts in foreign locations allow us to retain fees related to vouchers sold that are not redeemed by purchasers upon expiration, which we recognize as revenue based upon estimates at the time of sale.

Jack's Flight Club

Jack's Flight Club revenue is generated from paid subscriptions by members. Subscription options are quarterly, semi-annually, and annually. We recognize the revenue monthly pro rata over the subscription period.

Trends in Our Business

Our ability to generate revenues in the future depends on numerous factors such as our ability to sell more advertising to existing and new advertisers, our ability to increase our audience reach and advertising rates, our ability to have sufficient supply of hotels offered at competitive rates, our ability to develop and launch new products and our ability to continue to service our members without interruption. Our ability to generate revenues is also dependent on trends impacting the travel industry and online advertising businesses more broadly.

Our current revenue model primarily depends on advertising fees paid primarily by travel, entertainment and local businesses. A number of factors can influence whether current and new advertisers decide to advertise their offers with us. We have been impacted and expect to continue to be impacted by external factors such as the shift from offline to online advertising, the relative condition of the economy, competition and the introduction of new methods of advertising, and the decline in consumer demand for vouchers and travel more generally. A number of factors will have impact on our revenue, such as the reduction in spending by travel intermediaries due to their focus on improving profitability, the trend towards mobile usage by consumers, the willingness of consumers to purchase the deals we advertise, and the willingness of certain competitors to grow their business unprofitably. In addition, we have been impacted and expect to continue to be impacted by internal factors such as introduction of new technologies and 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. We also have been impacted and expect to continue to be impacted by external factors, such as the global pandemic, which decrease the demand for travel and entertainment and increasing cybersecurity risks due to increased dependence on digital technologies. We also could be indirectly impacted by climate change and related legislation to the extent such legislation impacts the businesses of our advertisers such as airlines and cruise ship operators, which have come under increasing scrutiny for their carbon footprints.

Additionally, 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 members.

Local revenues have been and may continue to decline over time due to market conditions driven by competition and declines in consumer demand. In the last several years, we have seen a decline in the number of vouchers sold and a decrease in the average take rate earned by us from the merchants for **voucher vouchers** sold. However, due to the global pandemic and the increase in demand by consumers for fully refundable travel options, we have now begun to see a slight reversal of this trend and an increase in the sale of *Getaways* hotel vouchers. Demand for restaurants and spas continues to be low due to the global pandemic.

Our ability to continue to generate advertising revenue and generate subscription revenue through Jack's Flight Club depends heavily upon our ability to maintain and grow an attractive audience for our publications. We monitor our members to assess our efforts to maintain and grow our audience reach. We obtain additional members and activity on our websites by acquiring traffic from Internet search companies. The costs to grow our audience have had, and we expect will continue to have, a significant impact on our financial results and can vary from period to period. We may have to increase our **expenditures expenditure** on acquiring traffic to continue to grow or maintain our reach of our publications due to competition. We continue to see a shift in the audience to accessing our services through mobile devices and social media. When funds are available for marketing spend, we are addressing this growing channel of our audience through increased marketing on social media channels. However, we will need to keep pace with technological change and this trend to further address this shift in the audience behavior in order to offset any related declines in revenue.

We believe that we can increase our advertising rates only if the reach of our publications increases. We do not know if we will be able to increase the reach of our publications. If we are able to increase the reach of our publications, we still may not be able to or want to increase rates given market conditions such as intense competition in our industry. We have not had any significant rate increase in recent years due to intense competition in our industry. Even if we increase our rates, the increased price may reduce the number of advertisers willing to advertise with us and, therefore, decrease our revenue. We may need to decrease our rates based on competitive market conditions and the performance of our audience in order to maintain or grow our revenue.

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

We do not know what our sales and marketing expenses as a percentage of revenue will be in future periods. Increased competition in our industry may require us to increase advertising for our brand and for our products. In order to increase the reach of our publications, we have to acquire a significant number of new members in every quarter and continue to promote our brand. One significant factor that impacts our advertising expenses is the average cost per acquisition of a new member. Increases in the average cost of acquiring new members may result in an increase **of in** sales and marketing expenses as a percentage of revenue. We believe that the average cost per acquisition depends mainly on the advertising rates which we pay for media buys, our ability to manage our member acquisition efforts successfully, the regions we choose to acquire new members and the relative costs for that region, and the degree of competition in our industry. We may decide to accelerate our member acquisition, including through merger and acquisition activity, for various strategic and tactical reasons and, as a result, increase our marketing and other expenses. We expect the average cost per acquisition to increase with our increased expectations for the quality of the members we acquire. We may see **an a** unique opportunity for a brand marketing campaign that will result in an increase **of in** marketing expenses. In addition, there may be a significant number of members that cancel or we may cancel their subscription for various reasons, which may drive us to spend more on member acquisition in order to replace the lost members. We expect fluctuations in sales and marketing expenses as a percentage of revenue from year to year and from quarter to quarter. Some of the fluctuations may be significant and have a material impact on our results of operations. We expect increased marketing **expense expenses** to spur continued growth in members and revenue in future periods; however, we cannot be assured of this due to the many factors that impact our growth in members and revenue. We expect to adjust the level of such incremental spending during any given quarter based upon market conditions, as well as our performance in each quarter.

We do not know what our product development expenses as a percentage of revenue will be in future periods. There may be fluctuations that have a material impact on our results of operations. Product development changes may lead to reductions of revenue based on changes in presentation of our offerings to our audience. We expect our efforts on developing our product and services will continue to be a focus in the future, which may lead to increased product development expenses. This increase in expense may be the result of an increase in costs related to third party technology service providers and software licenses, headcount, the compensation related to existing headcount and the increased use of professional services.

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 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, foreign, federal, state and local tax law and regulations and changes thereto. Our income taxes are also dependent on the determination of whether valuation allowances for certain tax assets are required or not, audits of prior years' tax returns that result in adjustments, resolution of uncertain tax positions and different treatments for certain items for tax versus books. We expect fluctuations in our income taxes from year to year and from quarter to quarter. Some of the fluctuations may be significant and have a material impact on our results of operations.

With the impact to revenues caused by the global pandemic, spending by the Company in many areas within the business was slowed or stopped, including but not limited to, marketing, technology and human resources. For example, in 2020, the Company ceased operations in Asia Pacific, conducted employee furloughs and restructured its employees significantly. The Company also renegotiated many of its outstanding contractual obligations with vendors and closed some ancillary office locations in order to reduce capital **expenditures expenditure**. We do not anticipate that any additional cost-cutting measures will be necessary at this time. Instead, the Company is beginning to invest again in marketing, technology and human resources in line with the recovery of its revenue from the effects of the pandemic.

The key elements of our growth strategy include building a travel and lifestyle brand with a large, high-quality user base and offering our users products that keep pace with consumer preference and technology, such as the trend toward mobile usage by consumers and toward fully refundable travel deals given the uncertainty of the global pandemic. We expect to continue our efforts to grow; however, we may not grow or we may experience slower growth.

We believe that we can sell more advertising if the market for online advertising continues to grow and if we can maintain or increase our market share. We believe that the market for advertising continues to shift from offline to online. We do not know if we will be able to maintain or increase our market share. We do not know if we will be able to increase the number of our advertisers in the future. We do not know if we will have market acceptance of our new products or whether the market will continue to accept our existing products.

Results of Operations

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

		Three Months Ended				Six Months Ended					Three Months Ended				Nine Months Ended			
		June 30,				June 30,					September 30,				September 30,			
		2023		2022		2023		2022			2023		2022		2023		2022	
Revenues	Revenues	100.0	%	100.0	%	100.0	%	100.0	%	Revenues	100.0	%	100.0	%	100.0	%	100.0	%
Cost of revenues	Cost of revenues	13.6		12.2		13.0		13.8		Cost of revenues	12.9		14.7		13.0		14.0	
Gross profit	Gross profit	86.4		87.8		87.0		86.2		Gross profit	87.1		85.3		87.0		86.0	
Operating expenses:	Operating expenses:									Operating expenses:								
Sales and marketing	Sales and marketing	48.0		47.9		45.5		47.2		Sales and marketing	47.8		53.7		46.2		49.2	
Product development	Product development	2.5		2.6		2.4		2.5		Product development	2.5		3.0		2.4		2.7	
General and administrative	General and administrative	20.4		27.2		20.4		26.3		General and administrative	21.7		26.9		20.8		26.4	
Total operating expenses	Total operating expenses	70.9		77.7		68.3		76.0		Total operating expenses	72.0		83.6		69.4		78.3	
Operating income	Operating income	15.5		10.1		18.7		10.2		Operating income	15.1		1.7		17.6		7.7	
Other income, net	Other income, net	2.3		1.1		1.9		4.5		Other income, net	1.5		5.3		1.8		4.7	
Income from continuing operations before income taxes	Income from continuing operations before income taxes	17.8		11.2		20.6		14.7		Income from continuing operations before income taxes	16.6		7.0		19.4		12.4	
Income tax expense	Income tax expense	5.2		5.2		5.8		5.2		Income tax expense	4.9		2.0		5.5		4.3	
Income from continuing operations	Income from continuing operations	12.6		6.0		14.8		9.5		Income from continuing operations	11.7		5.0		13.9		8.1	
Income (loss) from discontinued operations, net of taxes	Income (loss) from discontinued operations, net of taxes	—		—		—		—		Income (loss) from discontinued operations, net of taxes	—		—		—		—	
Net income	Net income	12.6		6.0		14.8		9.5		Net income	11.7		5.0		13.9		8.1	
Net income attributable to non-controlling interest	Net income attributable to non-controlling interest	0.2		0.2		0.1		0.1		Net income attributable to non-controlling interest	0.3		—		0.2		0.1	
Net income attributable to Travelzoo	Net income attributable to Travelzoo	12.4	%	5.8	%	14.7	%	9.4	%	Net income attributable to Travelzoo	11.4	%	5.0	%	13.7	%	8.0	%

Operating Metrics

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

	Three Months Ended					Three Months Ended		
	June 30,					September 30,		
	2023		2022			2023	2022	
North America	North America				North America			
Total members (1)	Total members (1)	16,225,000		16,541,000	Total members (1)	16,340,000	16,385,000	
Average cost per acquisition of a new member	Average cost per acquisition of a new member				Average cost per acquisition of a new member			
	\$	4.68	\$	2.82	\$	2.78	\$	3.48
Revenue per member (2)	Revenue per member (2)				Revenue per member (2)			
	\$	3.56	\$	2.85	\$	3.47	\$	2.73

Revenue per employee (3)	Revenue per employee (3)	\$	448,000	\$	408,000	Revenue per employee (3)	\$	434,000	\$	381,000
Mobile application downloads	Mobile application downloads		4,158,000		4,014,000	Mobile application downloads		4,158,000		4,014,000
Social media followers	Social media followers		3,260,000		3,225,000	Social media followers		3,265,000		3,261,000
Europe	Europe					Europe				
Total members (1)	Total members (1)		9,197,000		9,083,000	Total members (1)		9,302,000		9,075,000
Average cost per acquisition of a new member	Average cost per acquisition of a new member	\$	4.59	\$	4.20	Average cost per acquisition of a new member	\$	3.71	\$	3.35
Revenue per member (2)	Revenue per member (2)	\$	2.61	\$	2.45	Revenue per member (2)	\$	2.62	\$	2.35
Revenue per employee (3)	Revenue per employee (3)	\$	238,000	\$	213,000	Revenue per employee (3)	\$	243,000	\$	197,000
Mobile application downloads	Mobile application downloads		2,356,000		2,261,000	Mobile application downloads		2,356,000		2,261,000
Social media followers	Social media followers		898,000		898,000	Social media followers		898,000		900,000
Jack's Flight Club	Jack's Flight Club					Jack's Flight Club				
Total members	Total members		2,187,000		1,798,000	Total members		2,325,000		1,872,000
Consolidated	Consolidated					Consolidated				
Total members (1)	Total members (1)		27,609,000		27,422,000	Total members (1)		27,967,000		27,332,000
Average cost per acquisition of a new member	Average cost per acquisition of a new member	\$	4.64	\$	3.52	Average cost per acquisition of a new member	\$	3.15	\$	3.43
Revenue per member (2)	Revenue per member (2)	\$	2.77	\$	2.41	Revenue per member (2)	\$	2.71	\$	2.31
Revenue per employee (3)	Revenue per employee (3)	\$	356,000	\$	320,000	Revenue per employee (3)	\$	352,000	\$	297,000
Mobile application downloads	Mobile application downloads		7,524,000		7,181,000	Mobile application downloads		7,524,000		7,181,000
Social media followers	Social media followers		4,158,000		4,153,000	Social media followers		4,163,000		4,161,000

- (1) Members represent individuals who are signed up to receive one or more of our free email publications that present our travel, entertainment and local deals.
- (2) Annualized revenue divided by number of members at the beginning of the year.
- (3) Annualized revenue divided by number of employees at the end of the quarter.

Revenues

The following table sets forth the breakdown of revenues (in thousands) by category and segment. Travel revenue includes travel publications (*Top 20*, *Travelzoo* website, *Standalone* email newsletters, *Travelzoo Network*), *Getaways* vouchers, and hotel platform and vacation packages. Local revenue includes *Local Deals* vouchers and entertainment offers (vouchers and direct bookings).

		Three Months Ended		Six Months Ended			Three Months Ended		Nine Months Ended	
		June 30,		June 30,			September 30,		September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Travelzoo	Travelzoo					Travelzoo				
North America	North America					North America				
Travel	Travel	\$ 13,458	\$ 11,444	\$ 27,598	\$ 22,489	Travel	\$ 12,751	\$ 9,660	\$ 40,349	\$ 32,149
Local	Local	675	934	1,293	1,580	Local	657	830	1,950	2,410
Total Travelzoo	Total Travelzoo					Total Travelzoo				
North America	North America					North America				
revenues	revenues	14,133	12,378	28,891	24,069	revenues	13,408	10,490	42,299	34,559

Travelzoo Europe	Travelzoo Europe					Travelzoo Europe				
Travel	Travel	5,546	4,072	11,096	9,696	Travel	5,650	4,230	16,746	13,926
Local	Local	341	282	678	592	Local	333	274	1,011	866
Total Travelzoo Europe revenues	Total Travelzoo Europe revenues	5,887	4,354	11,774	10,288	Total Travelzoo Europe revenues	5,983	4,504	17,757	14,792
Jack's Flight Club	Jack's Flight Club	1,095	952	2,043	1,775	Jack's Flight Club	1,180	847	3,223	2,622
New Initiatives	New Initiatives	13	5	21	10	New Initiatives	28	8	49	18
Consolidated	Consolidated					Consolidated				
Travelzoo Travel	Travelzoo Travel	19,004	15,516	38,694	32,185	Travelzoo Travel	18,401	13,890	57,095	46,075
Travelzoo Local	Travelzoo Local	1,016	1,216	1,971	2,172	Travelzoo Local	990	1,104	2,961	3,276
Jack's Flight Club	Jack's Flight Club	1,095	952	2,043	1,775	Jack's Flight Club	1,180	847	3,223	2,622
New Initiatives	New Initiatives	13	5	21	10	New Initiatives	28	8	49	18
Total revenues	Total revenues	\$ 21,128	\$ 17,689	\$ 42,729	\$ 36,142	Total revenues	\$ 20,599	\$ 15,849	\$ 63,328	\$ 51,991

Travelzoo North America

North America revenues increased \$1.8 million \$2.9 million for the three months ended June 30, 2023 September 30, 2023 from the three months ended June 30, 2022 September 30, 2022. This increase was primarily due to \$2.0 million \$3.1 million increase in Travel revenues, offset partially by \$259,000 \$173,000 decrease in Local revenues. The increase in Travel revenue of \$2.0 million \$3.1 million was primarily due to the \$1.1 million increase of in Getaways revenue, \$1.0 million increase in revenues from Top 20 and Standalone. Standalone and \$763,000 increase in Hotel commission. The decrease in Local revenues of \$259,000 \$173,000 was primarily due to the decrease in number of Local Deals vouchers sold.

North America revenues increased \$4.8 million \$7.7 million for the six nine months ended June 30, 2023 September 30, 2023 from the six nine months ended June 30, 2022 September 30, 2022. This increase was primarily due to \$5.1 million \$8.2 million increase in Travel revenues, offset partially by \$287,000 \$460,000 decrease in Local revenues. The increase in Travel revenue of \$5.1 million \$8.2 million was primarily due to \$4.4 million \$5.4 million increase as a result of higher revenues from Top 20 and Standalone, and \$794,000 \$1.6 million increase in hotel commission and \$782,000 increase in Getaways revenue. The decrease in Local revenues of \$287,000 \$460,000 was primarily due to the decrease in number of Local Deals vouchers sold.

Travelzoo Europe

Europe revenues increased \$1.5 million for the three months ended June 30, 2023 September 30, 2023 from the three months ended June 30, 2022 September 30, 2022. The increase was primarily due to \$1.5 million \$1.1 million increase in Travel revenues and \$61,000 \$35,000 increase in Local revenue offset partially by \$73,000 negative and \$298,000 positive impact from foreign currency movements relative to the U.S. dollar. The increase in Travel revenue of \$1.5 million \$1.1 million was primarily due to the increase of in revenues from Top 20 and Standalone. The increase in Local revenues of \$61,000 \$35,000 was primarily due to the increase in number of Local Deals vouchers sold.

Europe revenues increased \$1.5 million \$3.0 million for the six nine months ended June 30, 2023 September 30, 2023 from the six nine months ended June 30, 2022 September 30, 2022. The increase was primarily due to \$1.8 million \$3.0 million increase in Travel revenues and \$113,000 \$148,000 increase in Local revenue, offset partially by \$447,000 \$149,000 negative impact from foreign currency movements relative to the U.S. dollar. The increase in Travel revenue of \$1.8 million \$3.0 million was primarily due to \$2.5 million \$2.7 million increase as a result of higher revenues from Top 20 and Standalone, offset partially by \$626,000 decrease and \$404,000 increase in Hotel commission. Getaways revenue due to a decrease in number of vouchers sold. The increase in Local revenues of \$113,000 \$148,000 was primarily due to the increase in number of Local Deals vouchers sold.

Jack's Flight Club

Travelzoo acquired 60% of the Shares of Jack's Flight Club on January 13, 2020. Jack's Flight Club's premium members pay subscription fees quarterly, semi-annually or annually to receive emails or app notifications of flight deals. Jack's Flight Club's revenue increased by \$143,000 \$333,000 and \$268,000, \$601,000, respectively, for three and six nine months ended June 30, 2023 September 30, 2023 as compared to the three and six nine months ended June 30, 2022 September 30, 2022 primarily due to the increase of premium members.

New Initiatives

In 2020, Travelzoo entered into royalty-bearing licensing agreements with local licensees for Australia, Japan, New Zealand, and Singapore. Travelzoo granted licensees the exclusive use of Travelzoo's brand, but continuously own the existing members as the licensor. In March 2022, the Company announced the development of Travelzoo META, a subscription service that intends to provide members with exclusive access to innovative, high quality Metaverse travel experiences. On December 30, 2022, the Company acquired MTE, a Metaverse experience scouting and development business to support Travelzoo META. Revenue from New Initiatives business segment was \$13,000 \$28,000 and \$5,000 \$8,000 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. Revenue from New Initiatives business segment was \$21,000 \$49,000 and \$10,000 \$18,000 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Cost of Revenues

Cost of revenues consists primarily of network expenses, including fees we pay for co-location services and depreciation and maintenance of network equipment, payments made to third-party partners of the *Travelzoo Network*, amortization of capitalized website development costs, credit card fees, certain estimated refunds to members and customer service costs associated with vouchers we sell and hotel bookings, and salary and related expenses associated with network operations and customer service employees. Cost of revenues was \$2.9 million \$2.7 million and \$2.2 million \$2.3 million, respectively, for the three months ended June 30, 2023 September 30, 2023 and 2022. Cost of revenues was \$5.6 million \$8.2 million and \$5.0 million \$7.3 million, respectively, for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Cost of revenues increased \$717,000 \$341,000 for the three months ended June 30, 2023 September 30, 2023 from the three months ended June 30, 2022 September 30, 2022 primarily due to \$322,000 \$177,000 increase in credit card fees as a result of increased voucher sales and \$110,000 increase in salary and headcount related expenses.

Cost of revenues increased \$917,000 for the nine months ended September 30, 2023 from the nine months ended September 30, 2022 primarily due to \$347,000 increase in salary and headcount related expenses, \$320,000 increase in credit card fees as a result of increased voucher sales and \$218,000 increase in expenses from third-party partners of the *Travelzoo Network*, \$131,000 increase in credit card fees and \$121,000 increase in software license expenses

Cost of revenues increased \$576,000 for the six months ended June 30, 2023 from the six months ended June 30, 2022 primarily due to \$309,000 increase in expenses from third-party partners of the *Travelzoo Network*, \$142,000 increase in credit card fees and \$131,000 increase in professional services expenses. *Network*.

Operating Expenses

Sales and Marketing

Sales and marketing expenses consist primarily of advertising and promotional expenses, salary and related expenses associated with sales, marketing and production employees, expenses related to our participation in industry conferences, public relations expenses and facilities costs. Sales and marketing expenses were \$10.1 million \$9.8 million and \$8.5 million for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. Sales and marketing expenses were \$19.4 million \$29.3 million and \$17.1 million \$25.6 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Advertising expenses consist primarily of online advertising which we refer to as traffic acquisition cost and member acquisition costs. For the three months ended June 30, 2023 September 30, 2023 and 2022, advertising expenses accounted for 28% 29% and 25%, respectively, of the total sales and marketing expenses. For the six nine months ended June 30, 2023 September 30, 2023 and 2022, advertising expenses accounted for 27% 28% and 21% 22%, respectively, of the total sales and marketing expenses. The goal of our advertising was to acquire new members to our email products, increase the traffic to our websites, increase brand awareness and increase our audience through mobile and social media channels.

Sales and marketing expenses increased \$1.7 million \$1.3 million for the three months ended June 30, 2023 September 30, 2023 from the three months ended June 30, 2022 September 30, 2022. The increase was primarily due to \$619,000 \$628,000 increase in member acquisition costs and \$500,000 increase in salary and headcount related expenses, \$498,000 increase in member acquisition costs and \$248,000 increase in marketing expenses.

Sales and marketing expenses increased \$2.4 million \$3.7 million for the six nine months ended June 30, 2023 September 30, 2023 from the six nine months ended June 30, 2022 September 30, 2022. The increase was primarily due to \$1.2 million \$1.8 million increase in member acquisition costs \$939,000 and \$1.4 million increase in salary and headcount related expenses and \$151,000 increase in marketing expenses.

Product Development

Product development expenses consist primarily of salary and related expenses associated with software development employees, fees for professional services, software maintenance, amortization, and facilities costs. Product development expenses were \$518,000 \$525,000 and \$454,000 \$484,000 for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. Product development expenses were \$1.0 million \$1.5 million and \$907,000 \$1.4 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Product development expenses increased \$64,000 \$41,000 for the three months ended June 30, 2023 September 30, 2023 from the three months ended June 30, 2022 September 30, 2022 primarily due to the expenses of the New Initiative segment for developing *Travelzoo META* and scouting, compiling and developing *Metaverse* travel experiences.

Product development expenses increased \$101,000 \$142,000 for the six nine months ended June 30, 2023 September 30, 2023 from the six nine months ended June 30, 2022 September 30, 2022 primarily due to the expenses of the New Initiative segment for developing *Travelzoo META* and scouting, compiling and developing *Metaverse* travel experiences.

General and Administrative

General and administrative expenses consist primarily of salary and related expenses associated with administrative and executive employees, bad debt expense, professional service expenses, legal expenses, amortization of intangible assets, general office expense and facilities costs. General and administrative expenses were \$4.3 million \$4.5 million and \$4.8 million \$4.3 million for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. General and administrative expenses were \$8.7 million \$13.2 million and \$9.5 million \$13.7 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

General and administrative expenses decreased \$496,000 increased \$204,000 for the three months ended June 30, 2023 September 30, 2023 from the three months ended June 30, 2022 September 30, 2022 primarily due to the decrease increase in salary and headcount related expenses which included the decrease of stock-based compensation bad debt expense.

General and administrative expenses decreased \$751,000 \$547,000 for the six nine months ended June 30, 2023 September 30, 2023 from the six nine months ended June 30, 2022 September 30, 2022 primarily due to the decrease in salary and headcount related expenses which included the decrease of stock-based compensation expense.

Other Income, net

Other income, net consisted primarily of foreign exchange transactions gains and losses, sublease income, German federal government funding for Corona-related pandemic relief, interest income earned on cash, cash equivalents and restricted cash as well as interest expense. Other income, net was \$479,000 \$314,000 and \$195,00, \$836,00, respectively, for the three months ended June 30, 2023 September 30, 2023 and 2022. Other income, net was \$829,000 \$1.1 million and \$1.6 million \$2.5 million, respectively, for the six nine months ended June 30, 2023 September 30, 2023 and 2022.

The increase decrease of \$284,000 \$522,000 for the three months ended June 30, 2023 September 30, 2023 from the three months ended June 30, 2022 September 30, 2022 was due primarily to the \$205,000 \$494,000 German federal government funding for COVID pandemic relief in the three months ended September 30, 2022.

The decrease of \$1.3 million for the nine months ended September 30, 2023 from the nine months ended September 30, 2022 was due primarily to the \$1.7 million German federal government funding for COVID pandemic relief the Company received in the three nine months ended June 30, 2023.

The decrease of \$789,000 for the six months ended June 30, 2023 from the six months ended June 30, 2022 was due primarily to the \$1.2 million German federal government funding for COVID pandemic relief the Company received in the six months ended June 30, 2022 September 30, 2022, offset partially by the \$205,000 German federal government funding for COVID pandemic relief the Company received in the six months ended June 30, 2023 September 30, 2023.

Income Taxes

Our income is generally taxed in the U.S., Canada and U.K. Our income tax provision reflects federal, state and country statutory rates applicable to our worldwide income. Income tax expense was \$1.1 million \$1.0 million and \$928,000 \$317,000, respectively, for the three months ended June 30, 2023 September 30, 2023 and 2022. Our effective tax rate was 29% 30% and 47% 29%, respectively, for the three months ended June 30, 2023 September 30, 2023 and 2022, respectively. Our effective tax rate changed for the three months ended June 30, 2023 September 30, 2023 from three months ended June 30, 2022 September 30, 2022 primarily due to a decrease an increase in non-deductible stock compensation certain foreign losses not benefited in the three months ended June 30, 2023 September 30, 2023. Income tax expense was \$2.5 million \$3.5 million and \$1.9 million \$2.2 million, respectively, for the six nine months ended June 30, 2023 September 30, 2023 and 2022. Our effective tax rate was 28% and 86% 34%, respectively, for the six nine months ended June 30, 2023 September 30, 2023 and 2022. Our effective tax rate changed for the six nine months ended June 30, 2023 September 30, 2023 from the six nine months ended June 30, 2022 September 30, 2022 primarily due to a decrease in non-deductible stock compensation in the six nine months ended June 30, 2023 September 30, 2023.

We expect our effective tax rate to fluctuate in future periods depending on the geographic mix of our worldwide income or losses mainly incurred by our operations, statutory tax rate changes that may occur, existing or new uncertain tax matters that may arise and require changes in tax reserves, the use of accumulated losses to offset current taxable income and the need for valuation allowances on certain tax assets, if any. See "Note 5: Income Taxes" to the accompanying unaudited condensed consolidated financial statements for further information.

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

Travelzoo North America

		Three Months Ended June 30,				Six Months Ended June 30,						Three Months Ended September 30,				Nine Months Ended September 30,			
		2023		2022		2023		2022				2023		2022		2023		2022	
		(In thousands)				(In thousands)						(In thousands)				(In thousands)			
Revenues	Revenues	\$	14,133	\$	12,378	\$	28,891	\$	24,069	Revenues	\$	13,408	\$	10,490	\$	42,299	\$	34,559	
Operating profit	Operating profit	\$	3,753	\$	3,272	\$	8,269	\$	5,092	Operating profit	\$	3,015	\$	1,021	\$	11,284	\$	6,113	
Operating profit as a % of revenue	Operating profit as a % of revenue		26.6 %		26.4 %		28.6 %		21.2 %	Operating profit as a % of revenue		22.5 %		9.7 %		26.7 %		17.7 %	

North America revenues increased by \$1.8 million \$2.9 million for the three months ended June 30, 2023 September 30, 2023 from the three months ended June 30, 2022 September 30, 2022 (see "Revenues" above). North America expenses increase by \$1.3 million \$924,000 for the three months ended June 30, 2023 September 30, 2023 from the three months ended June 30, 2022 September 30, 2022. The increase was primarily due to \$581,000 increase in member acquisition costs, \$197,000 increase in expenses from third-party partners of the Travelzoo Network, \$161,000 \$249,000 increase in salary and headcount related expenses, \$151,000 \$207,000 increase in member acquisition costs, \$180,000 increase in professional service expenses, and \$100,000 \$153,000 increase in software license credit card fees as a result of increased voucher sales and \$118,000 increase in legal expenses.

North America revenues increased by \$4.8 million \$7.7 million for the six nine months ended June 30, 2023 September 30, 2023 from the six nine months ended June 30, 2022 September 30, 2022 (see "Revenues" above). North America expenses increase by \$1.6 million \$2.6 million for the six nine months ended June 30, 2023 September 30, 2023 from the six nine months ended June 30, 2022 September 30, 2022 primarily due to the \$1.6 million increase in member acquisition costs. costs and \$850,000 increase in salary and headcount related expenses.

Travelzoo Europe

		Three Months Ended June 30,				Six Months Ended June 30,				Three Months Ended September 30,				Nine Months Ended September 30,			
		2023		2022		2023		2022		2023		2022		2023		2022	

		2023		2022			2023		2022			2023		2022				
		(In thousands)		(In thousands)			(In thousands)		(In thousands)			(In thousands)		(In thousands)				
Revenues	Revenues	\$	5,887	\$	4,354	\$	11,774	\$	10,288	Revenues	\$	5,983	\$	4,504	\$	17,757	\$	14,792
Operating profit	Operating profit	\$	(239)	\$	(1,472)	\$	218	\$	(1,294)	Operating profit	\$	267	\$	(551)	\$	485	\$	(1,845)
Operating profit as a % of revenue	Operating profit as a % of revenue		(4.1) %		(33.8) %		1.9 %		(12.6) %	Operating profit as a % of revenue		4.5 %		(12.2) %		2.7 %		(12.5) %

Europe revenues increased by \$1.5 million for the three months ended **June 30, 2023** September 30, 2023 from the three months ended **June 30, 2022** September 30, 2022 (see "Revenues" above). Europe expenses increased by **\$300,000** \$661,000 for the three months ended **June 30, 2023** September 30, 2023 from the three months ended **June 30, 2022** September 30, 2022 primarily due to **\$197,000 increase in marketing expenses** and **\$111,000** \$421,000 increase in **professional service expenses** member acquisition costs and **\$244,000 increase in salary and headcount related expenses**.

Europe revenues increased by **\$1.5 million** \$3.0 million for the **six nine** months ended **June 30, 2023** September 30, 2023 from the **six nine** months ended **June 30, 2022** September 30, 2022 (see "Revenues" above). Europe expenses decreased **increased** by **\$26,000** \$635,000 for the **six nine** months ended **June 30, 2023** September 30, 2023 from the **six nine** months ended **June 30, 2022** September 30, 2022 primarily due to **\$347,000 decrease in salary and headcount related expenses**, offset partially by **\$283,000** 226,000 increase in **marketing** professional service expenses, **\$150,000 increase in member acquisition costs** and **\$111,000 increase in bad debt expense**.

Foreign currency movements relative to the U.S. dollar positively impacted our local currency income from our operations in Europe by approximately \$13,000 and \$87,000 for the three months ended **September 30, 2023** and 2022, respectively. Foreign currency movements relative to the U.S. dollar negatively impacted our local currency income from our operations in Europe by approximately **\$21,000** and **\$79,000** \$66,000 for the three and **six nine** months ended **June 30, 2023**, respectively. **September 30, 2023**. Foreign currency movements relative to the U.S. dollar positively impacted our local currency income from our operations in Europe by approximately **\$200,000** and **\$165,000** \$267,000 for the **three** and **six nine** months ended **June 30, 2022**, respectively.

September 30, 2022.

Jack's Flight Club

							Three Months Ended September 30,						Nine Months Ended September 30,					
	Three Months Ended June 30,				Six Months Ended June 30,													
	2023		2022		2023		2022		2023		2022		2023		2022			
	(In thousands)				(In thousands)				(In thousands)				(In thousands)					
Revenues	Revenues	\$	1,095	\$	952	\$	2,043	\$	1,775	Revenues	\$	1,180	\$	847	\$	3,223	\$	2,622
Operating profit (loss)	Operating profit (loss)	\$	97	\$	161	\$	52	\$	184	Operating profit (loss)	\$	144	\$	12	\$	196	\$	196
Operating profit (loss) as a % of revenue	Operating profit (loss) as a % of revenue		8.9 %		16.9 %		2.5 %		10.4 %	Operating profit (loss) as a % of revenue		12.2 %		1.4 %		6.1 %		7.5 %

Jack's Flight Club revenues increased by **\$143,000** \$333,000 for the three months ended **June 30, 2023** September 30, 2023 from the three months ended **June 30, 2022** September 30, 2022 (see "Revenues" above). Jack's Flight Club expenses increased by **\$207,000** \$201,000 for the three months ended **June 30, 2023** September 30, 2023 from the three months ended **June 30, 2022** September 30, 2022 primarily due to an increase in advertising and marketing expenses.

Jack's Flight Club revenues increased by **\$268,000** \$601,000 for the **six nine** months ended **June 30, 2023** September 30, 2023 from the **six nine** months ended **June 30, 2022** September 30, 2022 (see "Revenues" above). Jack's Flight Club expenses increased by **\$400,000** \$601,000 for the **three nine** months ended **June 30, 2023** September 30, 2023 from the **three nine** months ended **June 30, 2022** September 30, 2022 primarily due to an increase in advertising and marketing expenses.

New Initiatives

							Three Months Ended September 30,											
	Three Months Ended June 30,				Six Months Ended June 30,		30,				Nine Months Ended September 30,							
	2023		2022		2023		2022		2023		2022							
	(In thousands)				(In thousands)				(In thousands)		(In thousands)							
Revenues	Revenues	\$	13	\$	5	\$	21	\$	10	Revenues	\$	28	\$	8	\$	49	\$	18
Operating profit (loss)	Operating profit (loss)	\$	(338)	\$	(180)	\$	(555)	\$	(282)	Operating profit (loss)	\$	(317)	\$	(209)	\$	(872)	\$	(491)

New Initiatives segment consists of Travelzoo licensing business and Travelzoo META subscription service and Metaverse experience scouting and development business.

Licensing revenue was \$13,000 and \$5,000 New Initiatives revenues increased \$20,000 for the three months ended June 30, 2023 September 30, 2023 from the three months ended September 30, 2022 due to \$10,000 revenue from META subscription service and 2022, respectively, the \$10,000 increase in licensing revenue. New Initiatives segment expenses increased by \$166,000 \$128,000 for the three months ended June 30, 2023 September 30, 2023 from the three months ended June 30, 2022 September 30, 2022 primarily due to \$124,000 increase in product development and product marketing expenses expenses.

New Initiatives revenues increased \$31,000 for the three months ended September 30, 2023 from the three months ended September 30, 2022 due to \$10,000 revenue from META subscription service and \$42,000 the \$21,000 increase in in salary and related expenses.

Licensing revenue was \$21,000 and \$10,000 for the six months ended June 30, 2023 and 2022, respectively, licensing revenue. New Initiatives segment expenses increased by \$284,000 for the six nine months ended June 30, 2023 September 30, 2023 from the six nine months ended June 30, 2022 September 30, 2022 primarily due to \$184,000 the increase in product development and product marketing expenses and \$100,000 increase in in salary and related expenses.

Liquidity and Capital Resources

As of June 30, 2023 September 30, 2023, we had \$19.5 million \$15.9 million in cash and cash equivalents, of which \$13.3 million \$10.8 million was held outside the U.S. in our foreign operations. If this cash is distributed to the U.S., we may be subject to additional U.S. taxes in certain circumstances. We also had \$675,000 in restricted cash held in the U.S. as of June 30, 2023 September 30, 2023.

Cash, cash equivalents and restricted cash increased \$819,000 decreased \$2.8 million from \$19.4 million as of December 31, 2022 to \$20.2 million \$16.6 million as of June 30, 2023 September 30, 2023 primarily due to \$5.6 million \$11.8 million cash used to repurchase common stock, offset partially by \$9.3 million cash provided by operating activities, offset partially by the \$5.2 million cash used by financing activities.

As of June September 30, 2023, the Company had merchant payables of \$23.9 million \$23.7 million related to unredeemed vouchers. In the Company's financial statements presented in this 10-Q report, following GAAP accounting principles, we classified all merchant payables as current. When all merchant payables are classified as current, there is negative net working capital (which is defined as current assets minus current liabilities) of \$4.3 \$8.0 million. Payables to merchants are generally due upon redemption of vouchers. The vouchers expire between July October 2023 through December 2025 with the majority of vouchers expiring during 2023; 2025; provided, that these expiration dates may sometimes be extended on a case-by-case basis and final payment upon expiration may not be due for up to a year after expiration. Management believes that redemptions may be delayed for international vouchers in the current environment. Based on current projections of redemption activity, we expect that cash on hand as of June September 30, 2023 will be sufficient to provide for working capital needs for at least the next twelve months. However, if redemption activity is more accelerated, if our business is not profitable, or if our planned targets for cash flows from operations are not met, we may need to obtain additional financing to meet our working capital needs in the future. We believe that we could obtain additional financing if needed, but there can be no assurance that financing will be available on terms that are acceptable to us, if at all.

The following table provides a summary of our cash flows from operating, investing and financing activities:

		Six Months Ended June 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
		(In thousands)		(In thousands)	
Net cash provided by (used in) operating activities	Net cash provided by (used in) operating activities	\$ 5,650	\$ (16,990)	\$ 9,293	\$ (20,849)
Net cash used in investing activities	Net cash used in investing activities	(44)	(1,028)	(104)	(1,089)
Net cash provided by (used in) financing activities	Net cash provided by (used in) financing activities	(5,169)	1,885	(12,065)	761
Effect of exchange rate changes on cash, cash equivalents and restricted cash	Effect of exchange rate changes on cash, cash equivalents and restricted cash	382	(2,176)	80	(3,267)
Net increase (decrease) in cash, cash equivalents and restricted cash		\$ 819	\$ (18,309)		
Net decrease in cash, cash equivalents and restricted cash	Net decrease in cash, cash equivalents and restricted cash			\$ (2,796)	\$ (24,444)

Net cash provided by (used in) operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities. Net cash provided by operating activities for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** was **\$5.6 million** **\$9.3 million**, which primarily consisted of net income of **\$6.3 million**, **\$882,000** **\$8.7 million** and **\$1.6 million** increase in non-cash items, and **\$1.6 million** offset partially by **\$1.1 million** decrease in cash from changes in operating assets and liabilities. Adjustments for non-cash items primarily consisted of **\$945,000** **\$1.4 million** for depreciation and amortization and **\$827,000** **\$1.2 million** for stock-based compensation, offset partially by **\$829,000** **\$944,000** reversal of reserves from accounts receivable and other. The decrease in cash from changes in operating assets and liabilities was primarily due to **\$8.6 million** **\$8.8 million** decrease in merchant payables and **\$2.4 million** **\$1.7 million** decrease in accounts payable, offset partially by **\$3.9 million** increase **\$3.3 million** decrease in accounts receivable, **\$2.3 million** decrease in prepaid expenses and **2.6 million** other, **\$1.9 million** increase in accrued expenses and other, other liabilities, net. **\$1.1 million** decrease in prepaid income taxes.

Net cash used in operating activities for the **six** **nine** months ended **June 30, 2022** **September 30, 2022** was **\$17.0 million** **\$20.8 million**, which primarily consisted of **\$21.0 million** **\$25.4 million** decrease in cash from changes in operating assets and liabilities, offset partially by net income of **\$3.4 million** **\$4.2 million** and **\$609,000** **\$283,000** increase in non-cash items. The decrease in cash from changes in operating assets and liabilities was primarily due to **\$19.8 million** **\$28.9 million** decrease in merchant payables, and **\$2.1 million** offset partially by **\$2.5 million** decrease in accounts payables, receivables. Adjustments for non-cash items primarily consisted of **\$1.1 million** **\$1.7 million** for depreciation and amortization, **\$1.1 million** **\$1.5 million** for stock-based compensation and **\$550,000** **\$701,000** for deferred income tax, offset partially by **\$2.2 million** **\$3.4 million** reversal of reserves from accounts receivable and other reserves.

Cash refunds for income tax, net of payment made, during the **six** **nine** months ended **June 30, 2023** **September 30, 2023** was **\$494,000**, **\$228,000**. Cash paid for income tax, net of refunds received, during the **six** **nine** months ended **June 30, 2022** **September 30, 2022** was **\$771,000** **\$1.2 million**.

Net cash used in investing activities for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** was **\$44,000**, **\$104,000**. The cash used in investing activities for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** was primarily consisted of the **\$157,000** **\$217,000** purchases of property and equipment, offset partially by **\$113,000** proceeds from repayment of the Japan loan. Net cash used in investing activities for the **six** **nine** months ended **June 30, 2022** **September 30, 2022** was **\$1.0 million** **\$1.1 million**. The cash used in investing activities for the **six** **nine** months ended **June 30, 2022** **September 30, 2022** was primarily consisted of the **\$1.0 million** for purchases of intangible assets.

Net cash used for financing activities for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** was **\$5.2 million** **\$12.1 million** which primarily consisted of the repurchase of common stocks. Net cash provided by financing activities for the **six** **nine** months ended **June 30, 2022** **September 30, 2022** was **\$1.9 million** which **\$761,000**. The cash provided by financing activities for the nine months ended **September 30, 2022** was primarily consisted of the **\$1.9 million** proceeds from the exercise of stock options, options, offset partially by **\$1.2 million** for the repurchase of common stock.

Although we have settled the states unclaimed property claims with all states, we may still receive inquiries from certain potential Netsurfers promotional shareholders that had not provided their state of residence to us by April 25, 2004. Therefore,

we are continuing our voluntary program under which we make cash payments to individuals related to the promotional shares for individuals whose residence was unknown by us and who establish that they satisfied the conditions to receive shares of

Netsurfers, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period. This voluntary program is not available for individuals whose promotional shares have been escheated to a state by us.

Our capital requirements depend on a number of factors, including market acceptance of our products and services, the amount of our resources we devote to the development of new products, cash payments related to former shareholders of Netsurfers, expansion of our operations, and the amount of resources we devote to promoting awareness of the *Travelzoo* brand. Since the inception of the voluntary program under which we make cash payments to people who establish that they were former shareholders of Netsurfers, and who failed to submit requests to convert their shares into shares of Travelzoo within the required time period, we have incurred expenses of \$2.9 million. While future payments for this program are expected to decrease, the total cost of this voluntary program is still undeterminable because it is dependent on our stock price and on the number of valid requests ultimately received.

Consistent with our growth, we have experienced fluctuations in our cost of revenues, sales and marketing expenses and our general and administrative expenses, including increases in product development costs, and we anticipate that these increases will continue for the foreseeable future. We believe cash on hand will be sufficient to pay such costs for at least the next twelve months. In addition, we will continue to evaluate possible investments in businesses, products and technologies, the consummation of any of which would increase our capital requirements.

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

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

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

The information set forth under "Note 4: Commitments and Contingencies" and "Note 11: Leases" to the accompanying unaudited condensed consolidated financial statements included in Part I, Item 1 of this report is incorporated herein by reference. Litigation and claims against the Company may result in legal defense costs, settlements or judgments that could have a material impact on our financial condition.

We also have contingencies related to net unrecognized tax benefits, including interest and penalties, of approximately **\$17.5 million** **\$23.2 million** as of **June 30, 2023** **September 30, 2023**. See "Note 5: Income Taxes" to the accompanying unaudited condensed consolidated financial statements for further information.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that we believe are important in the preparation of our consolidated financial statements because they require that we use judgment and estimates in applying those policies. Preparation of the consolidated financial statements and accompanying notes requires that we make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements as well as revenue and expenses during the periods reported. We base our estimates on historical experience, where applicable, and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions. Our critical accounting policies include revenue recognition, reserve for member refunds, allowance for doubtful accounts, income taxes and loss contingencies. For additional information about our critical accounting policies and estimates, see the disclosure included in our Annual Report on Form 10-K for the year ended December 31, 2022 as well as updates in the current fiscal year provided in "Note 1 Summary of Significant Accounting Policies" in the notes to the condensed consolidated financial statements.

Recent Accounting Pronouncements

See "Note 1—The Company and Basis of Presentation" to the accompanying unaudited condensed consolidated financial statements included in this report, regarding the impact of certain recent accounting pronouncements on our unaudited condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

Based on management's evaluation (with the participation of the Company's Global Chief Executive Officer (CEO) and Principle Accounting Officer (PAO)), as of **June 30, 2023** **September 30, 2023**, our CEO and PAO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are not effective due to the material weakness in internal control over financial reporting noted below to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in U.S. SEC rules and forms, and that such information is accumulated and communicated to management, including our CEO and PAO, as appropriate, to allow timely decisions regarding required disclosure.

However, after giving full consideration to the material weakness, management, including our CEO and PAO, that our condensed consolidated financial statements present fairly, in all material respects, our financial position, results of our operations and our cash flows for the periods presented in this Quarterly Report, in conformity with U.S. generally accepted accounting principles.

Material Weakness

As we reported in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2022 and Quarterly Report on Form 10-Q/A for the fiscal quarter ended March 31, 2023, we have identified a material weakness in our internal control over financial reporting related to having sufficient resources for the accounting for certain non-routine, non-recurring, unusual or complex transactions within our financial statement closing and reporting process. Specifically, the Company did not have internal financial staff with sufficient specific expertise to ensure complete and timely financial reporting and disclosures related to technical and complex accounting transactions.

Remediation Plan

We have made progress towards remediation and continue to implement our remediation plan for the material weakness in internal control over financial reporting described above. Specifically, we realigned certain of our personnel (including recruiting for additional headcount in Finance), improved reporting processes, and designed and implemented new controls in preparation for the next non-routine, non-recurring, unusual or complex transaction. We are committed to maintaining a strong internal control environment and implementing measures designed to help ensure that control deficiencies contributing to the material weakness are remediated as soon as possible. We will consider the material weakness remediated after the applicable controls operate for a sufficient period of time.

Changes in Internal Control over Financial Reporting

As outlined above, we are in the process of taking steps to remediate the material weakness previously reported related to non-routine, non-recurring, unusual or complex transactions. During the quarter ended **June 30, 2023** **September 30, 2023**, we made no other changes in internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under "Note 4—Commitments and Contingencies" to the accompanying unaudited condensed consolidated financial statements included in Part I, Item 1 of this report is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, "Item 1A Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, which are incorporated herein by reference. These risk factors could materially affect our business, financial position, or results of operations. These are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial position, or results of operations.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of Equity Securities

We repurchased 658,938 1,000,000 shares of our common stock during the three months ended June 30, 2023 September 30, 2023.

Period	Total Number of Shares	Average Price paid per	Total Number of Shares Purchased	Maximum Shares the May Yet
	Purchased		as Part of Publicly Announced	be Purchased Under the
		Share	Program	Program
April 1, 2023–April 30, 2023	362,854	\$ 6.26	2,273,111	296,084
May 1, 2023–May 31, 2023	296,084	\$ 8.14	2,410,481	—
	658,938		4,683,592	

Period	Total Number of Shares	Average Price paid per	Total Number of Shares Purchased	Maximum Shares that May
	Purchased		as Part of Publicly Announced	Yet be Purchased Under the
		Share	Program	Program
July 1, 2023–July 31, 2023	47,064	\$ 7.80	47,064	952,936
August 1, 2023–August 31, 2023	649,223	\$ 7.06	649,223	303,713
September 1, 2023–September 30, 2023	303,713	\$ 6.40	303,713	—
	1,000,000		1,000,000	

In June 2022, the Company announced that its Board of Directors approved a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. In 2022, the Company repurchased 306,375 shares of common stock for an aggregate purchase price of \$1.6 million. As of December 31, 2022, there were 693,625 shares remaining to be repurchased under this program. The Company repurchased 34,687 shares of common stock in the first quarter of 2023 for \$186,000. The Company repurchased 658,938 shares of common stock in the second quarter of 2023 for \$4.7 million. As of June 30, 2023, the Company finished this stock repurchase program.

On July 26, 2023, Travelzoo announced that its board of directors has authorized the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. The Company repurchased 1,000,000 shares of common stock for an aggregate purchase price of \$6.9 million which were retired and recorded as a reduction of additional paid-in capital. This stock repurchase program was completed in the three months ended September 30, 2023.

On October 24, 2023, the Company announced that its Board of Directors approved a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company's outstanding common stock. Purchases may be made, from time to time, in the open market and will be funded from available cash. The number of shares to be purchased and the timing of purchases will be based on the level of Travelzoo's cash balances, general business and market conditions, and other factors, including alternative investment opportunities.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Mine Safety Disclosures

None.

Item 5: Other Information

None.

Item 6. Exhibits

The following table sets forth a list of exhibits:

Exhibit Number	Description
3.1	— Certificate of Incorporation of Travelzoo (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	— Certificate of Amendment of Certificate Incorporation of Travelzoo (File No. 000-50171), filed May 10, 2017)
3.3	— Certificate of Amendment of Certificate of Incorporation to Authorize a Reduction of the Authorized Number of Shares of Our Common Stock from 40,000,000 to 20,000,000 Shares
3.4	— Amended and Restated By-laws of Travelzoo (Incorporated by reference to Exhibit 3.5 on Form 8-K (File No. 000-50171), filed April 5, 2022).
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)
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.INSt	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
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

SIGNATURE

Pursuant to the requirements 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
(Registrant)

By:

/s/ LIJUN QI

Lijun Qi

On behalf of the Registrant and as Principal Accounting Officer

Date: August 14, 2023 November 8, 2023

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Exhibit 31.1

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

I, Holger Bartel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Travelzoo;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 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 report based on such evaluation; and d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's 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.

/s/ HOLGER BARTEL

Holger Bartel

Global Chief Executive Officer

Date: August 14, 2023 November 8, 2023

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Lijun Qi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Travelzoo;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 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 report based on such evaluation; and d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's 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.

/s/ LIJUN QI

Lijun Qi

Principal Accounting Officer

Date: August 14, 2023 November 8, 2023

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to the requirements of the Securities Exchange Act of 1934, and in connection with the quarterly report of Travelzoo on Form 10-Q for the three months ended June 30, 2023 September 30, 2023, the undersigned hereby 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 fully 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: August 14, November 8, 2023

By: /s/ HOLGER BARTEL

Holger Bartel

Global Chief Executive Officer

Exhibit 32.2

**CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to the requirements of the Securities Exchange Act of 1934, and in connection with the quarterly report of Travelzoo on Form 10-Q for the three months ended June 30, 2023 September 30, 2023, the undersigned hereby 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 fully 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: August 14, November 8, 2023

By: /s/ LIJUN QI

Lijun Qi

Principal Accounting Officer

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