

TRAVELZOO INC
Form 10-Q
April 24, 2015

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 March 31, 2015

or

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

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

TRAVELZOO INC.
(Exact name of registrant as specified in its charter)

DELAWARE 36-4415727
(State or other jurisdiction of (I.R.S. employer
incorporation or organization) identification no.)

590 Madison Avenue, 37th Floor 10022
New York, New York (Zip code)
Registrant's telephone number, including area code: (212) 484-4900

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

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

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

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

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

The number of shares of Travelzoo common stock outstanding as of April 24, 2015 was 14,730,454 shares.

TRAVELZOO INC.
Table of Contents

| | Page |
|---|-----------|
| PART I—FINANCIAL INFORMATION | |
| <u>Item 1. Financial Statements (Unaudited)</u> | <u>3</u> |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014</u> | <u>3</u> |
| <u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2015 and 2014</u> | <u>4</u> |
| <u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014</u> | <u>5</u> |
| <u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</u> | <u>6</u> |
| <u>Notes to Condensed Consolidated Financial Statements</u> | <u>7</u> |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>19</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>51</u> |
| <u>Item 4. Controls and Procedures</u> | <u>51</u> |
| PART II—OTHER INFORMATION | |
| <u>Item 1. Legal Proceedings</u> | <u>52</u> |
| <u>Item 1A. Risk Factors</u> | <u>52</u> |
| <u>Item 6. Exhibits</u> | <u>53</u> |
| <u>Signature</u> | <u>54</u> |

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | March 31, 2015 | December 31, 2014 |
|---|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$53,975 | \$54,812 |
| Accounts receivable, less allowance for doubtful accounts of \$304 and \$436 as of March 31, 2015 and December 31, 2014, respectively | 15,974 | 14,608 |
| Income tax receivable | 2,885 | 3,756 |
| Deposits | 598 | 74 |
| Deferred tax assets | 1,482 | 1,311 |
| Prepaid expenses and other | 2,530 | 2,802 |
| Total current assets | 77,444 | 77,363 |
| Deposits | 559 | 1,087 |
| Deferred tax assets | 1,482 | 1,460 |
| Restricted cash | 1,325 | 1,393 |
| Property and equipment, net | 8,693 | 9,022 |
| Intangible assets, net | 104 | 163 |
| Total assets | \$89,607 | \$90,488 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$22,526 | \$23,008 |
| Accrued expenses and other | 10,518 | 10,135 |
| Deferred revenue | 1,470 | 1,192 |
| Income tax payable | 689 | 574 |
| Reserve for unexchanged promotional shares | — | 1,393 |
| Total current liabilities | 35,203 | 36,302 |
| Long-term tax liabilities | 11,608 | 10,936 |
| Long-term deferred rent and other | 3,194 | 3,436 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value per share (5,000 shares authorized; none issued) | — | — |
| Common stock, \$0.01 par value (40,000 shares authorized; 15,801 shares issued, 14,730 shares outstanding as of March 31, 2015 and December 31, 2014) | 163 | 163 |
| Treasury stock (at cost, 1,071 shares at March 31, 2015 and December 31, 2014) | (21,517 |) (21,517 |
| Additional paid-in capital | 11,191 | 11,043 |
| Retained earnings | 55,031 | 53,122 |
| Accumulated other comprehensive loss | (5,266 |) (2,997 |
| Total stockholders' equity | 39,602 | 39,814 |
| Total liabilities and stockholders' equity | \$89,607 | \$90,488 |

See accompanying notes to unaudited condensed consolidated financial statements.

3

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

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2015 | 2014 |
| Revenues | \$36,492 | \$40,195 |
| Cost of revenues | 4,234 | 4,777 |
| Gross profit | 32,258 | 35,418 |
| Operating expenses: | | |
| Sales and marketing | 17,996 | 17,843 |
| General and administrative | 10,460 | 10,578 |
| Total operating expenses | 28,456 | 28,421 |
| Income from operations | 3,802 | 6,997 |
| Other income | (87 |) 122 |
| Income before income taxes | 3,715 | 7,119 |
| Income taxes | 1,806 | 2,481 |
| Net income | \$1,909 | \$4,638 |
| Basic net income per share | \$0.13 | \$0.31 |
| Diluted net income per share | \$0.13 | \$0.31 |
| Shares used in computing basic net income per share | 14,730 | 14,880 |
| Shares used in computing diluted net income per share | 14,730 | 14,970 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2015 | 2014 |
| Net income | \$1,909 | \$4,638 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustment | (2,269 |) (83 |
| Total comprehensive income (loss) | \$(360 |) \$4,555 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---------------------------------|---------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net income | \$1,909 | \$4,638 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 771 | 701 |
| Provision for losses on accounts receivable | 25 | (52) |
| Stock-based compensation | 148 | 395 |
| Deferred income tax | (222) |) 76 |
| Net foreign currency effect | | |