TRAVELZOO
Form 10-Q
August 03, 2017

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

Form 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
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

(Exact name of registrant as specified in its charter)

DELAWARE	36-4415727
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
590 Madison Avenue, 37th Floor New York, New York	10022
(Address of principal executive offices)	(Zip code)

Registrant’s telephone number, including area code: (212) 484-4900

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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	x
Non-accelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company	¨
		Emerging growth company	¨

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 revisited 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 x

The number of shares of Travelzoo common stock outstanding as of July 26, 2017 was 12,712,000 shares.

TRAVELZOO
Table of Contents

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$21,331	$ 26,838
Accounts receivable, less allowance for doubtful accounts of $288 and $295 as of June 30, 2017 and December 31, 2016, respectively	12,576	14,415
Income tax receivable	639	542
Deposits	709	105
Deferred tax assets	—	793
Prepaid expenses and other	1,481	1,773
Total current assets	36,736	44,466
Deposits and other	413	702
Deferred tax assets	1,860	1,052
Restricted cash	1,413	1,152
Property and equipment, net	5,418	6,158
Total assets	$45,840	$ 53,530
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$14,194	$ 19,714
Accrued expenses and other	9,334	8,699
Deferred revenue	954	719
Income tax payable	1,056	691
Total current liabilities	25,538	29,823
Long-term tax liabilities	2,602	2,879
Long-term deferred rent and other	2,674	2,764
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value (40,000 shares authorized; 12,753 shares and 13,462 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively)	128	135
Additional paid in capital	—	—
Retained earnings	18,585	21,716
Accumulated other comprehensive loss	(3,687)	(3,787)
Total stockholders' equity	15,026	18,064
Total liabilities and stockholders' equity	$45,840	$ 53,530

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues	$26,411	$29,798	$54,840	$60,626
Cost of revenues	3,222	3,471	6,429	7,322
Gross profit	23,189	26,327	48,411	53,304
Operating expenses:				
Sales and marketing	14,213	15,455	29,569	30,985
Product development	2,344	2,001	4,701	4,789
General and administrative	5,246	5,434	10,693	11,247
Total operating expenses	21,803	22,890	44,963	47,021
Income from continuing operations	1,386	3,437	3,448	6,283
Other income (loss), net	18	(91)	25	42
Income from continuing operations before income taxes	1,404	3,346	3,473	6,325
Income tax expense	771	1,548	1,980	2,702
Income from continuing operations	$633	$1,798	$1,493	$3,623
Income from discontinued operations, net of income taxes	54	222	1,938	446
Net income	$687	$2,020	$3,431	$4,069
Income per share—basic:				
Continuing operations	$0.05	$0.13	$0.11	$0.26
Discontinued operations	—	0.01	0.15	0.03
Net income per share—basic	$0.05	$0.14	$0.26	$0.29
Income per share—diluted:				
Continuing operations	$0.05	$0.13	$0.11	$0.26
Discontinued operations	—	0.01	0.15	0.03
Net income per share—diluted	$0.05	$0.14	$0.26	$0.29
Shares used in computing basic net income per share	13,030	14,066	13,224	14,246
Shares used in computing diluted net income per share	13,058	14,066	13,229	14,246

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$687	$2,020	$3,431	$4,069
Other comprehensive income:				
Foreign currency translation adjustment	133	91	100	283
Total comprehensive income	$820	$2,111	$3,531	$4,352

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$3,431	$4,069
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,101	1,250
Discontinued operations gain on sale of Fly.com domain name	(2,890)	—
Provision for losses on accounts receivable	(27)	44
Stock-based compensation	480	442
Deferred income tax	(69)	(211)
Net foreign currency effect	(224)	236
Changes in operating assets and liabilities:		
Accounts receivable	2,087	(2,265)
Income tax receivable	35	525
Prepaid expenses and other	(218)	182
Accounts payable	(6,054)	(2,210)
Accrued expenses	441	484
Income tax payable	179	1,268
Other non-current liabilities	(278)	91
Net cash provided by (used in) operating activities	(2,006)	3,905
Cash flows from investing activities:		
Proceeds from sale of Fly.com domain name	2,890	—
Purchases of property and equipment	(306)	(648)
Net cash provided by (used in) investing activities	2,584	(648)
Cash flows from financing activities:		
Acquisition of the Asia Pacific business	—	58
Payment of loan to related party	—	(5,658)
Repurchase of common stock	(6,824)	(4,956)
Net cash used in financing activities	(6,824)	(10,556)
Effect of exchange rate changes on cash and cash equivalents	739	(269)
Net decrease in cash and cash equivalents	(5,507)	(7,568)
Cash and cash equivalents at beginning of period	26,838	35,128
Cash and cash equivalents at end of period	$21,331	$27,560
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net	$3,230	$1,072
Cash paid for interest on related party loan	$—	$110

See accompanying notes to unaudited condensed consolidated financial statements.

TRAVELZOO
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: The Company and Basis of Presentation

Travelzoo (the “Company” or “Travelzoo”) is a global publisher of travel and entertainment offers. The Company informs its members in Asia Pacific, Europe and North America, as well as website users, about the best travel, entertainment and local deals available from thousands of companies. The Company's deal experts source, research and test-book offers, recommending only those that meet Travelzoo’s rigorous quality standards. The Company provides travel, entertainment, and local businesses with a fast, flexible, and cost effective way to reach consumers. The Company's revenues are generated primarily from advertising fees.

Our publications and products include the Travelzoo website (travelzoo.com), the Travelzoo iPhone and Android apps, the Travelzoo Top 20 e-mail newsletter, the Newsflash e-mail alert service, and the Travelzoo Network, a network of third-party websites that list travel deals published by Travelzoo. Our Travelzoo website includes Local Deals and Getaway listings that allow our members to purchase vouchers for deals from local businesses such as spas, hotels and restaurants. We receive a percentage of the face value of the voucher from the local businesses.

Ralph Bartel, who founded Travelzoo and who is a Director of the Company, is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro Capital Inc. ("Azzurro"). As of June 30, 2017, Azzurro is the Company's largest stockholder, holding approximately 56.6% of the Company's outstanding shares.

During the first quarter of 2017, the Company discontinued operations of its SuperSearch and Fly.com products to focus on its global Travelzoo® brand and reflected the revenues and expenses for these products as discontinued operations, net of taxes, for the current and prior periods presented. See "Note 9: Discontinued Operations" for further information.

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, 2016, included in the Company’s Form 10-K filed with the SEC on March 15, 2017.

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 results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or any other future period, and the Company makes no representations related thereto.

Recently Adopted Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The updated standard is effective for us beginning on January 1, 2017 with early application permitted as of the beginning of any interim or annual reporting period. The Company adopted ASU 2015-17 in the first quarter of 2017 on a prospective basis. Accordingly, the Company reclassified current deferred taxes of $793,000 to noncurrent on its March 31, 2017 consolidated balance sheet. No prior periods were retrospectively adjusted.

In March, 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting," which is intended to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This accounting standard update was effective for the Company on January 1, 2017 with early adoption permitted. The Company adopted ASU 2016-09 in the first quarter of 2017. The Company elected to account for forfeitures as they occur and did not have unrecognized tax benefits of stock-based compensation; therefore, the adoption of this guidance did not have a material impact on our financial position or results of operations.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most of the existing revenue recognition guidance in U.S. GAAP when it becomes effective. This new accounting standard is effective for the Company for annual periods in fiscal years beginning after December 15, 2017 (as amended in August 2015 by ASU 2015-14, "Deferral of the Effective Date"). In December 27, 2016, FASB issued ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," which addresses loan guarantee fees, impairment testing of contract costs, provisions for losses on construction-type and production-type contracts, and various disclosures. ASU 2016-20 will go into effect once ASU 2014-09 takes effect. The Company is currently assessing the timing of revenue for its various advertising products including Top 20, Newsflash, Local Deals and Getaway vouchers and Hotel Platform commissions. Although the Company is still currently evaluating the impact of the adoption on its financial position, results of operations and cash flows and has not yet determined whether the effect will be material, the adoption is expected to result in additional required disclosures related to its revenue arrangements. The Company expects to adopt this standard effective January 1, 2018 with a cumulative adjustment to retained earnings as opposed to retrospectively adjusting prior periods.

In February 2016, the FASB issued an accounting standard update ASU 2016-02, "Leases," which requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability on its balance sheet. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. This accounting standard update will be effective for the Company on January 1, 2019. For operating leases with terms longer than 12 months, the Company will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The Company is currently in the process of evaluating the impact of the adoption on its financial position, results of operations and cash flows.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which addresses eight classification issues related to the statement of cash flows. In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows: Restricted Cash," which addresses classification and presentation of changes in restricted cash on the statement of cash flows. The standard requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. Both ASU 2016-15 and ASU 2016-18 are effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017 and should apply using a retrospective transition method to each period presented. These accounting standard updates will be effective for the Company on January 1, 2018. The Company is currently in the process of evaluating the impact of the adoption on its financial position, results of operations and cash flows.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory," which requires immediate recognition of the income tax consequences of intercompany asset transfers other than inventory. This update is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods. This accounting standard update will be effective for the Company on January 1, 2018 with early adoption permitted. The Company is currently in the process of evaluating the impact of the adoption on its financial position, results of operations and cash flows.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting," which gives direction on which changes to the terms or conditions of these awards require an entity to apply modification accounting in ASC Topic 718, "Compensation-Stock Compensation." The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 for all entities with early adoption permitted. The Company is currently in the process of evaluating the impact of the adoption on its financial position, results of operations and cash flows.

Note 2: Net Income Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Income from continuing operations	$633	$1,798	$1,493	$3,623
Income from discontinued operations, net of income taxes	54	222	1,938	446
Net income	$687	$2,020	$3,431	$4,069
Denominator:				
Weighted average common shares—basic	13,030	14,066	13,224	14,246
Effect of dilutive securities: stock options	28	—	5	—
Weighted average common shares—diluted	13,058	14,066	13,229	14,246
Income per share—basic:				
Continuing operations	$0.05	$0.13	$0.11	$0.26
Discontinued operations	—	0.01	0.15	0.03
Net income per share—basic	$0.05	$0.14	$0.26	$0.29
Income per share—diluted:				
Continuing operations	$0.05	$0.13	$0.11	$0.26
Discontinued operations	—	0.01	0.15	0.03
Net income per share—diluted	$0.05	$0.14	$0.26	$0.29

For the three and six months ended June 30, 2017, options to purchase 200,000 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 the three and six months ended June 30, 2016, options to purchase 600,000 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: Commitments and Contingencies

The Company was formed as a result of a combination and merger of entities founded by the Company's principal stockholder, Ralph Bartel. In 2002, Travelzoo.com Corporation was merged into Travelzoo. Under and subject to the terms of the merger agreement, holders of promotional shares of Travelzoo.com Corporation ("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 Travelzoo in exchange for each share of common stock of Travelzoo.com Corporation. 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 Netsurfer promotional shares as further described below.

During 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 Netsurfer promotional stockholders 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 Travelzoo.com Corporation, 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 accompanying condensed consolidated financial statements include charges in general and administrative expenses of $1,000 for each of the three and six months ended June 30, 2016. The Company did not make any payment for the three and six months ended June 30, 2017.

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 Travelzoo.com Corporation 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 Travelzoo.com Corporation.

The Company leases office space in Australia, Canada, China, France, Germany, Hong Kong, Japan, Singapore, Spain, Taiwan, the U.K., and the U.S. under operating leases which expire between July 2017 and November 30, 2024. The Company has purchase commitments which represent the minimum obligations the Company has under agreements with certain suppliers. These minimum obligations are less than our projected use for those periods. Payments may be more than the minimum obligations based on actual use.

The following table summarizes principal contractual commitments as of June 30, 2017 (in thousands):

	2017 Remaining	2018	2019	2020	2021	Thereafter	Total
Operating leases	$ 2,964	$4,932	$4,274	$3,795	$3,187	$ 5,612	$24,764
Purchase obligations	388	536	—	—	—		924
Total commitments	$ 3,352	$5,468	$4,274	$3,795	$3,187	$ 5,612	$25,688

Local Deals and Getaways merchant payables included in accounts payable were $9.8 million and $14.8 million, as of June 30, 2017 and December 31, 2016, respectively.

Note 4: 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, Japan, Hong Kong, and the U.K. For the three months ended June 30, 2017 and 2016, the Company's effective tax rate was 55% and 45%, respectively. For the six months ended June 30, 2017 and 2016, the Company's effective tax rate was 57% and 42%, respectively. The Company's effective tax rate increased for the three and six months ended June 30, 2017 from the corresponding three and six months ended June 30, 2016, due primarily to the change of geographic mix of income from continuing operations for the three and six months ended June 30, 2017.

U.S. income and foreign withholding taxes have not been provided on undistributed earnings for certain non-U.S. subsidiaries. The undistributed earnings on a book basis for the non-U.S. subsidiaries as of June 30, 2017 are approximately $13.4 million. The Company intends to reinvest these earnings indefinitely in its operations outside the U.S. If the undistributed earnings are remitted to the U.S., these amounts would be taxable in the U.S. at the current federal and state tax rates net of foreign tax credits. Also, depending on the jurisdiction any distribution may be subject to withholding taxes at rates applicable for that jurisdiction. The estimated amount of the unrecognized deferred tax liability attributed to future dividend distributions of undistributed earnings is approximately $1.1 million at June 30, 2017.

The Company maintains liabilities for uncertain tax positions. At June 30, 2017, the Company had approximately $1.6 million in total unrecognized tax benefits, which if recognized, would favorably affect the Company’s effective income tax rate.

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, 2017 and December 31, 2016, the Company had approximately $953,000 and $951,000, respectively, in accrued interest and penalties related to uncertain tax positions. The Company is in various stages of multiple year examinations by federal taxing authorities. Although the timing of initiation, resolution and/or closure of audits is highly uncertain, it is reasonably possible that the balance of the gross unrecognized tax benefits related to the method of computing income taxes in certain jurisdictions and losses reported on certain income tax returns could significantly change in the next 12 months. These changes may occur through settlement with the taxing authorities or the expiration of the statute of limitations on the returns filed. The Company is unable to estimate the range of possible adjustments to the balance of the gross unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is subject to U.S. federal and certain state tax examinations for certain years after 2008 and is subject to California tax examinations for years after 2005. The material foreign jurisdictions where the Company is subject to potential examinations by tax authorities are the France, Germany, Spain and United Kingdom for tax years after 2009. The Company's 2009 federal income tax return is currently under examination, including a review of the impact of the sale of Asia Pacific business segment in 2009. These examinations may lead to ordinary course adjustments or proposed adjustments to the Company's taxes or its net operating income. The Company has received a Revenue Agent’s Report (RAR) generally issued at the conclusion of an IRS examination, which was consistent with the Notice of Proposed Adjustment the Company received earlier from the IRS for the 2009 calendar year related to the sale of our Asia Pacific business segment with additional penalties. The RAR proposes an increase to the Company's U.S. taxable income which would result in additional federal tax, federal penalty and state tax expense totaling approximately $31.0 million, excluding interest and state penalties, if any. The proposed adjustment is primarily driven by the IRS’s view that the Asia Pacific business segment assets sold by the Company had a significantly higher valuation than the sales proceeds the Company received upon the sale. The Company disagrees with the proposed adjustments and intends to vigorously contest them. The Company did not make any adjustments to its liabilities for uncertain tax positions related to the RAR during the three and six months ended June 30, 2017 because the Company does not believe the IRS’s valuation of the Asia Pacific business segment assets is appropriate. If the Company is not able to resolve these proposed adjustments at the IRS examination level, it plans to pursue all available administrative and, if necessary, judicial remedies.

Note 5: Accumulated Other Comprehensive Loss

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

	Three Months Ended June 30,	
	2017	2016
Beginning balance	$(3,820)	$(3,716)
Other comprehensive income due to foreign currency translation, net of tax	133	91
Ending balance	$(3,687)	$(3,625)

	Six Months Ended June 30,	
	2017	2016
Beginning balance	$(3,787)	$(3,908)
Other comprehensive income due to foreign currency translation, net of tax	100	283
Ending balance	$(3,687)	$(3,625)

There were no amounts reclassified from accumulated other comprehensive loss for the three and six months ended June 30, 2017 and 2016.

Note 6: Stock-Based Compensation and Stock Options

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

In January 2012, the Company granted certain executives stock options to purchase 100,000 shares of common stock with an exercise price of $28.98, of which 25,000 options became exercisable annually starting January 23, 2013. The options expire in January 2022. During 2015, 25,000 options were canceled and 25,000 options were forfeited upon the departure of an executive. As of June 30, 2017, 50,000 options were outstanding and vested. As of June 30, 2017, there was no unrecognized stock-based compensation expense relating to these options.

In September 2015, the Company granted an executive stock options to purchase 400,000 shares of common stock with an exercise price of $8.07, of which 50,000 options became exercisable quarterly starting March 31, 2016. The options expire in September 2025. As of June 30, 2017, 400,000 options were outstanding and 300,000 of these options were vested. Total stock-based compensation for the three and six months ended June 30, 2017, related to this option grant were $196,000 and $391,000, respectively. As of June 30, 2017, there was approximately $391,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 0.5 years.

In March 2016, the Company granted certain executives stock options to purchase 150,000 shares of common stock with an exercise price of $8.55, of which 37,500 options vest and become exercisable annually starting on March 7, 2017. The options expire in March 2026. As of June 30, 2017, 150,000 options were outstanding and 37,500 of these options were vested. Total stock-based compensation for the three and six months ended June 30, 2017, related to these option grants were $44,000 and $88,000, respectively. As of June 30, 2017, there was approximately $476,000 of unrecognized stock-based compensation expense relating to these options. This amount is expected to be recognized over 2.8 years.

Note 7: 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 January 2014, the Company announced a stock repurchase program authorizing the repurchase of up to 500,000 shares of the Company’s outstanding common stock. During the year ended December 31, 2014, the Company repurchased 261,000 shares of common stock for an aggregate purchase price of $5.9 million, which were recorded as part of treasury stock as of December 31, 2014. During the year ended December 31, 2015, the Company repurchased 212,000 shares of common stock for an aggregate purchase price of $1.7 million. The shares repurchased under this program were retired as of December 31, 2015. There were 56,000 shares remaining to be repurchased under this program as of December 31, 2015.

In February 2016, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company’s outstanding common stock. During the year ended December 31, 2016, the Company repurchased 1,056,000 shares of common stock, including the 56,000 shares from the previous stock repurchase program, for an aggregate purchase price of $9.5 million and therefore there were no shares remaining to be repurchased under the repurchase programs authorized in January 2014 and January 2016 as of December 31, 2016. The shares repurchased were retired and recorded as a reduction of additional paid-in capital until extinguished with the remaining amount reflected as a reduction of retained earnings.

In February 2017, the Company announced a stock repurchase program authorizing the repurchase of up to 1,000,000 shares of the Company’s outstanding common stock. During the three and six months ended June 30, 2017, the Company repurchased 493,912 and 708,992 shares of common stock, respectively, for an aggregate purchase price of $5.0 million and $7.0 million, respectively. The shares repurchased were retired and recorded as a reduction of additional paid-in capital until extinguished with the remaining amount reflected as a reduction of retained earnings. There were 291,000 shares remaining to be repurchased under this program as of June 30, 2017.

Note 8: Segment Reporting and Significant Customer Information

The Company manages its business geographically and has three reportable operating segments: Asia Pacific, Europe and North America. Asia Pacific consists of the Company's operations in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. Europe consists of the Company's operations in France, Germany, Spain, and the U.K. North America consists of the Company's operations in Canada and the U.S.

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 evaluating the operational performance of the Company's segments. These segment disclosures have been adjusted to remove the revenue and operating profit (loss) related to discontinued operations in the current and prior periods. See "Note 9: Discontinued Operations" for further information.

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

Three Months Ended June 30, 2017	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	$1,963	$8,005	$16,443	$ 26,411
Intersegment revenues	(13)	(108)	121	—
Total net revenues	1,950	7,897	16,564	26,411
Operating profit (loss)	$(1,165)	$268	$2,283	$ 1,386

Three Months Ended June 30, 2016	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	$2,401	$9,638	$17,759	$ 29,798
Intersegment revenues	37	(181)	144	—
Total net revenues	2,438	9,457	17,903	29,798
Operating profit (loss)	$(1,233)	$1,704	$2,966	$ 3,437

Six Months Ended June 30, 2017	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	$3,807	$17,223	$33,810	$ 54,840
Intersegment revenues	(44)	(255)	299	—
Total net revenues	3,763	16,968	34,109	54,840
Operating profit (loss)	$(2,706)	$1,217	$4,937	$ 3,448

Six Months Ended June 30, 2016	Asia Pacific	Europe	North America	Consolidated
Revenues from unaffiliated customers	$4,651	$20,279	$35,696	$ 60,626
Intersegment revenues	42	(264)	222	—
Total net revenues	4,693	20,015	35,918	60,626
Operating profit (loss)	$(2,282)	$3,611	$4,954	$ 6,283

As of June 30, 2017	Asia Pacific	Europe	North America	Elimination	Consolidated
Long-lived assets	$181	$655	$4,582	$—	$ 5,418
Total assets	$4,055	$47,398	$63,099	$(68,712)	$ 45,840

As of December 31, 2016	Europe	North	Elimination	Consolidated

	Asia Pacific		America		
Long-lived assets	$209	$763	$5,186	$—	$ 6,158
Total assets	$5,295	$49,125	$65,961	$(66,851)	$ 53,530

13

Revenue for each segment is recognized based on the customer location within a designated geographic region. 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 Travelzoo and its wholly owned subsidiaries.

For the three and six months ended June 30, 2017 and 2016, the Company did not have any customers that accounted for 10% or more of revenue. As of June 30, 2017, the Company did not have any customers that accounted for 10% or more of accounts receivable. As of December 31, 2016, the Company had one customer that accounted for 16% 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, Website, Newsflash, Travelzoo Network), Getaways vouchers and hotel platform. Local revenue includes Local Deals vouchers and entertainment offers (vouchers and direct bookings).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Asia Pacific				
Travel	$1,858	$2,220	$3,525	$4,247
Local	92	218	238	446
Total Asia Pacific revenues	$1,950	$2,438	$3,763	$4,693
Europe				
Travel	$6,795	$8,075	$14,801	$17,082
Local	1,102	1,382	2,167	2,933
Total Europe revenues	$7,897	$9,457	$16,968	$20,015
North America				
Travel	$13,911	$14,240	$28,769	$28,997
Local	2,653	3,663	5,340	6,921
Total North America revenues	$16,564	$17,903	$34,109	$35,918
Consolidated				
Travel	$22,564	$24,535	$47,095	$50,326
Local	3,847	5,263	7,745	10,300
Total revenues	$26,411	$29,798	$54,840	$60,626

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue				
United States	$15,244	$16,585	$31,469	$33,378
United Kingdom	4,703	5,908	9,623	12,524
Germany	2,659	3,005	6,165	6,394
Rest of the world	3,805	4,300	7,583	8,330
Total revenues	$26,411	$29,798	$54,840	$60,626

The following table sets forth long lived asset by geographic area (in thousands):

	June 30, 2017	December 31, 2016
United States	$4,171	$ 4,755
Rest of the world	1,247	1,403
Total long lived assets	$5,418	$ 6,158

Note 9: Discontinued Operations

On March 30, 2017, the Company decided to discontinue its Search products, consisting of Fly.com and SuperSearch products. This decision supports the Company’s strategy to focus on its global Travelzoo® brand. On March 30, 2017, the Company ceased operations of SuperSearch and on March 31, 2017, the Company sold the Fly.com domain name, which had no net book value, to a third party. There were no other assets or liabilities transferred as part this transaction.

A reconciliation of the line items comprising the results of operations of the Search products to the income (loss) from discontinued operations through the date of disposal presented in the condensed consolidated statements of operations for the three and six months ended June 30, 2017 and 2016, in thousands, is included in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues from Search	$79	$4,247	$2,088	$8,222
Cost of revenues	(2)	(140)	(101)	(298)
Gross profit	77	4,107	1,987	7,924
Total operating expenses	2	(3,768)	(1,817)	(7,283)
Gain on sale of Fly.com domain name	—	—	2,890	—
Income from discontinued operations before income taxes	79	339	3,060	641
Income tax expense	25	117	1,122	195
Income from discontinued operations, net of income taxes	$54	$222	$1,938	$446

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”, a 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

Travelzoo (the “Company” or “Travelzoo”) is a global publisher of travel and entertainment offers. We inform over 28 million members in Asia Pacific, Europe and North America, as well as millions of website users, about the best travel, entertainment and local deals available from thousands of companies. Our deal experts source, research and test-book offers, recommending only those that meet Travelzoo's rigorous quality standards. We provide travel, entertainment, and local businesses with a fast, flexible, and cost effective way to reach millions of consumers. Our revenues are generated primarily from advertising fees.

Our publications and products include the Travelzoo website (travelzoo.com), the Travelzoo iPhone and Android apps, the Travelzoo Top 20 e-mail newsletter, and the Newsflash e-mail alert service. We operate the Travelzoo Network, a network of third-party websites that list deals published by Travelzoo. Our Travelzoo website includes Local Deals and Getaway listings that allow our members to purchase vouchers for deals from local businesses such as spas, hotels and restaurants. We receive a percentage of the face value of the voucher from the local businesses.

More than 2,000 companies use our services, including Air France, Air New Zealand, British Airways, Cathay Pacific Airways, Ctrip, Emirates, Etihad, Expedia, Fairmont Hotels and Resorts, Hawaiian Airlines, Hilton Hotels & Resorts, InterContinental Hotels Group, JPB Corporation, Lufthansa, Key Tours International, Princess Cruises, Royal Caribbean, Singapore Airlines, Starwood Hotels & Resorts Worldwide, Travelocity, United Airlines and Virgin America.

During the first quarter of 2017, the Company discontinued the operations of its SuperSearch and Fly.com products to focus on its global Travelzoo® brand and reflected the revenues and expenses for these products as discontinued operations, net of taxes, for the current and prior periods presented. See "Note 9: Discontinued Operations" to the accompanying unaudited condensed consolidated financial statement for further information.

We have three operating segments based on geographic regions: Asia Pacific, Europe and North America. Asia Pacific consists of our operations in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. Europe consists of our operations in France, Germany, Spain, and the U.K. North America consists of our operations in Canada and the U.S.

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

Our revenues are advertising revenues, consisting primarily of listing fees paid by travel, entertainment and local businesses to advertise their offers on Travelzoo’s media properties. Listing fees are based on audience reach, placement, number of listings, number of impressions, number of clicks, number of referrals, or percentage of the face value of vouchers sold. Insertion orders are typically for periods between one month and twelve months and are not automatically renewed. Merchant agreements for Local Deals and Getaway advertisers are typically for twelve months and are not automatically renewed. We have two separate groups of our advertising products: Travel and Local.

Our Travel category of revenue includes the publishing revenue for negotiated high-quality deals from travel companies, such as hotels, airlines, cruises or car rentals and includes products such as Top 20, Travelzoo website, Newsflash, Travelzoo Network as well as Getaway vouchers. The revenues generated from these products are based upon a fee for number of e-mails delivered to our audience, a fee for clicks delivered to the advertisers, a fee for placement of the advertising on our website or a fee based on a percentage of the face value of vouchers sold, hotel booking stays or other items sold. We recognize revenue upon delivery of the e-mails, delivery of the clicks, over the period of placement of the advertising, upon hotel booking stays and upon the sale of the vouchers or other items sold.
Our Local category of revenue includes the publishing revenue for negotiated high-quality deals from local businesses, such as restaurants, spas, shows, and other activities and includes Local Deals vouchers and entertainment offers (vouchers and direct bookings). The revenues generated from these products are based upon a percentage of the face value of vouchers or items sold or a fee for clicks delivered to the advertisers. We recognize revenue upon the sale of the vouchers, when we receive notification of the direct bookings or upon delivery of the clicks. The Company earns a fee for acting as an agent in these transactions, which is recorded on a net basis and is included in revenue upon completion of the voucher sale. Certain merchant contracts in foreign locations allow us to retain fees related to vouchers sold that are not redeemed by purchasers upon expiration, which we recognize as revenue after the expiration of the redemption period and after there are no further obligations to provide funds to merchants, members or others.

Trends in Our Business

Our ability to generate revenues in the future depends on numerous factors such as our ability to sell more advertising to existing and new advertisers, our ability to increase our audience reach and advertising rates, our ability to have sufficient supply of hotels offered at competitive rates and our ability to develop and launch new products.
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. 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 advertising products, hiring and relying on key employees for the continued maintenance and growth of our business and ensuring our advertising products continue to attract the audience that advertisers desire.

Existing advertisers may shift from one advertising service (e.g. Top 20) to another (e.g. Local Deals and Getaway). 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 Getaway, depending on how many vouchers are purchased by members. In addition, we are anticipating a shift from our existing hotel revenue to commission-based hotel revenue as we expand the use of our hotel platform, which may result in lower revenue depending on volume of hotel bookings.

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 sold.

Our ability to continue to generate advertising revenue 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 to continue to have, a significant impact on our financial results and can vary from period to period. We may have to increase our expenditures on acquiring traffic to continue to grow or maintain our reach of our publications due to competition. We continue to see a shift in the audience to accessing our services through mobile devices and social media. We are addressing this growing channel of our audience through development of our mobile applications and through 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 amount 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 Getaway 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 member refunds on vouchers sold. Our cost of revenues are expected to increase due to our effort to develop our hotel booking platform as well. We expect fluctuations in cost of revenues as a percentage of revenues from quarter to quarter. Some of the fluctuations may be significant and have a material impact on our results of operations.

We do not know what our sales and marketing expenses as a percentage of revenue will be in future periods. Increased competition in our industry may require us to increase advertising for our brand and for our products. In order to increase the reach of our publications, we have to acquire a significant number of new 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 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 for various strategic and tactical reasons and, as a result, increase our marketing 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 unique opportunity for a brand marketing campaign that will result in an increase of 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. Further, we expect to continue our strategy over time to replicate our business model in selected foreign markets to result in a significant increase in our sales and marketing expenses and have a material adverse impact on our results of operations. For example, in August of 2015 we acquired our Asia Pacific business, which we intend on increasing our investment in audience in this region. Due to the continued desire to grow our business in Asia Pacific, Europe and North America, we expect relatively high level of sales and marketing expenses in the foreseeable future. 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 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 have increased and may continue to increase our spending on sales and marketing to increase the number of our members and address the growing audience from mobile and social media channels, as well as to increase our analytic capabilities to continuously improve the presentation of our offerings to our audience.

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 headcount, the compensation related to existing headcount and the increased use of professional services. We expect our continued expansion into foreign markets and development of new advertising formats to result in a significant additional increase in our product development expenses. We expect to incur additional costs related to the development of our hotel platform capabilities, which we are developing, in part, to address the shift to mobile devices. We also may increase our investment in product development to ensure our products are suited for different regions such as Asia Pacific. In addition, we expect to incur additional costs related to the development of our search capabilities of our website and mobile applications.

We do not know what our general and administrative expenses as a percentage of revenue will be in future periods. There may be fluctuations that have a material impact on our results of operations. We expect our headcount to continue to increase in the future. The Company’s headcount is one of the main drivers of general and administrative expenses. Therefore, we expect our absolute general and administrative expenses to continue to increase. We expect our continued expansion into foreign markets to result in an increase in our general and administrative expenses. Our general and administrative expenses as a percentage of revenue may also fluctuate depending on the number of requests received related to a program under which the Company intends to make cash payments to people who establish that they were former stockholders of Travelzoo.com Corporation, whose claims were not escheated to states and who failed to submit requests to convert shares into Travelzoo within the required time period. We expect an increase in professional fees for various initiatives.

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, such as the disposition of our Asia Pacific business in 2009 and the acquisition of our Asia Pacific business in 2015. 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.

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. We expect to continue our efforts to grow; however, we may not grow or we may experience slower growth. Some examples of our efforts to expand our business internationally since our inception in the U.S. have been expansion to the U.K. in 2005, Canada in 2006, Germany in 2006, France in 2007, and Spain in 2008. In addition, from 2007 through 2009 we began operations in Asia Pacific, including in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. We also have launched new products to grow our revenue, such as Local Deals in 2010, Getaway in 2011, as well as our mobile application launches in 2011 and 2012. In late 2012, we bought an online hotel platform to assist in our development of a product to better serve hotels and to facilitate the development of our hotel platform. We have also increased our spending on addressing the shift of our audience to mobile devices and social media.

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	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	12.2	11.6	11.7	12.1
Gross profit	87.8	88.4	88.3	87.9
Operating expenses:				
Sales and marketing	53.8	51.9	53.9	51.1
Product development	8.9	6.7	8.6	7.9
General and administrative	19.9	18.2	19.5	18.6
Total operating expenses	82.6	76.8	82.0	77.6
Income from continuing operations	5.2	11.6	6.3	10.3
Other income (loss), net	0.1	(0.3)	0.1	0.1
Income from continuing operations before income taxes	5.3	11.3	6.4	10.4
Income tax expense	2.9	5.2	3.6	4.4
Income from continuing operations	2.4	6.1	2.8	6.0
Income from discontinued operations, net of income taxes	0.2	0.7	3.5	0.7
Net income	2.6 %	6.8 %	6.3 %	6.7 %

Operating Metrics

The following table sets forth selected operating metrics for Asia Pacific, Europe and North America:

	Three Months Ended June 30, 2017	2016
Asia Pacific		
Total members (1)	3,641,000	3,610,000
Average cost per acquisition of a new member	$ 3.21	$ 3.94
Revenue per member (2)	$ 2.14	$ 2.70
Revenue per employee (3)	$ 91,000	$ 111,000
Mobile application downloads	682,000	615,000
Social media followers	536,000	392,000
Europe		
Total members (1)	8,425,000	8,146,000
Average cost per acquisition of a new member	$ 3.36	$ 3.20
Revenue per member (2)	$ 3.75	$ 4.64
Revenue per employee (3)	$ 215,000	$ 254,000
Mobile application downloads	1,630,000	1,526,000
Social media followers	675,000	654,000
North America		
Total members (1)	17,363,000	17,376,000
Average cost per acquisition of a new member	$ 1.74	$ 2.44
Revenue per member (2)	$ 3.82	$ 4.12
Revenue per employee (3)	$ 326,000	$ 346,000
Mobile application downloads	3,105,000	2,920,000
Social media followers	2,507,000	2,444,000
Consolidated		
Total members (1)	29,295,000	28,994,000
Average cost per acquisition of a new member	$ 2.50	$ 2.77
Revenue per member (2)	$ 3.61	$ 4.11
Revenue per employee (3)	$ 242,000	$ 274,000
Mobile application downloads	5,417,000	5,062,000
Social media followers	3,718,000	3,491,000

(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, Website, Newsflash, Travelzoo Network), Getaways vouchers and hotel platform. Local revenue includes Local Deals vouchers and entertainment offers (vouchers and direct bookings).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Asia Pacific				
Travel	$1,858	$2,220	$3,525	$4,247
Local	92	218	238	446
Total Asia Pacific revenues	$1,950	$2,438	$3,763	$4,693
Europe				
Travel	$6,795	$8,075	$14,801	$17,082
Local	1,102	1,382	2,167	2,933
Total Europe revenues	$7,897	$9,457	$16,968	$20,015
North America				
Travel	$13,911	$14,240	$28,769	$28,997
Local	2,653	3,663	5,340	6,921
Total North America revenues	$16,564	$17,903	$34,109	$35,918
Consolidated				
Travel	$22,564	$24,535	$47,095	$50,326
Local	3,847	5,263	7,745	10,300
Total revenues	$26,411	$29,798	$54,840	$60,626

Asia Pacific

Asia Pacific revenues decreased $488,000 for the three months ended June 30, 2017 from the three months ended June 30, 2016. The decrease was primarily due to a $304,000 decrease in Travel revenues, a $110,000 decrease in Local revenues and a $74,000 negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenue of $304,000 was primarily due to the decreased number of emails sent and paid clicks. The decrease in Local revenues of $110,000 was primarily due to the decreased number of Local Deals vouchers sold.

Asia Pacific revenues decreased $930,000 for the six months ended June 30, 2017 from the six months ended June 30, 2016. The decrease was primarily due to a $633,000 decrease in Travel revenues, a $189,000 decrease in Local revenues, and a $108,000 negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenue of $633,000 was primarily due to the decreased number of emails sent and paid clicks. The decrease in Local revenues of $189,000 was primarily due to the decreased number of Local Deals vouchers sold.

Europe

Europe revenues decreased $1.6 million for the three months ended June 30, 2017 from the three months ended June 30, 2016. This decrease was primarily due to a $742,000 decrease in Travel revenues, a $164,000 decrease in Local revenues and a $653,000 negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenue of $742,000 was primarily due to an decreased number of emails sent. The decrease in Local revenues of $164,000 was primarily due to the decreased number of Local Deals vouchers sold.

Europe revenues decreased $3.0 million for the six months ended June 30, 2017 from the six months ended June 30, 2016. This decrease was primarily due to a $942,000 decrease in Travel revenues and a $520,000 decrease in Local revenues and a $1.6 million negative impact from foreign currency movements relative to the U.S. dollar. The decrease in Travel revenue of $942,000 was primarily due to the decreased number of emails sent and the decreased number of Getaways vouchers sold. The decrease in Local revenues of $520,000 was primarily due to the decreased number of Local Deals vouchers sold.

North America

North America revenues decreased $1.3 million for the three months ended June 30, 2017 from the three months ended June 30, 2016. This decrease was primarily due to the decrease in Travel and Local revenues. The decrease in Travel revenue of $329,000 was primarily due to the decreased number of Getaways vouchers sold and paid clicks. The decrease in Local revenues of $1.0 million was primarily due to the decreased number of Local Deals vouchers sold.

North America revenues decreased $1.8 million for the six months ended June 30, 2017 from the six months ended June 30, 2016. This decrease was primarily due to the decrease in Travel and Local revenues. The decrease in Travel revenue of $228,000 was primarily due to the decreased number of Getaways vouchers sold and paid clicks, offset partially by the increased number of emails sent. The decrease in Local revenues of $1.6 million was primarily due to the decreased number of Local Deals vouchers sold.

For the three and six months ended June 30, 2017 and 2016, none of our customers accounted for 10% or more of our revenue.

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 member refunds and customer service costs associated with vouchers we sell and hotel bookings, and salary expenses associated with network operations and customer service staff. Cost of revenues was $3.2 million and $3.5 million for the three months ended June 30, 2017 and June 30, 2016, respectively. Cost of revenues was $6.4 million and $7.3 million for the six months ended June 30, 2017 and June 30, 2016, respectively.

Cost of revenue decreased $249,000 for the three months ended June 30, 2017 from the three months ended June 30, 2016. This decrease was primarily due to a $146,000 decrease in payments made to third-party partners of the Travelzoo Network, and a $118,000 decrease in credit card fees paid related to vouchers.

Cost of revenue decreased $893,000 for the six months ended June 30, 2017 from the six months ended June 30, 2016. This decrease was primarily due to a $538,000 decrease in payments made to third-party partners of the Travelzoo Network, and a $232,000 decrease in credit card fees paid related to vouchers.

Operating Expenses

Sales and Marketing

Sales and marketing expenses consist primarily of advertising and promotional expenses, salary expenses associated with sales, marketing and production staff, expenses related to our participation in industry conferences, public relations expenses and facilities costs. Sales and marketing expenses were $14.2 million and $15.5 million for the three months ended June 30, 2017 and 2016, respectively. Sales and marketing expenses were $29.6 million and $31.0 million for the six months ended June 30, 2017 and 2016, respectively. Advertising expenses consist primarily of online advertising referred to as traffic acquisition cost and member acquisition costs. For the three months ended June 30, 2017 and 2016, advertising expenses accounted for 16% of the total sales and marketing expenses. For the six months ended June 30, 2017 and 2016, advertising expenses accounted for 18% of the total sales and marketing expenses. The goal of our advertising was to acquire new members to our e-mail products, increase the traffic to our websites, increase brand awareness and increase our audience through mobile and social media channels.

Sales and marketing expenses decreased $1.2 million for the three months ended June 30, 2017 from the three months ended June 30, 2016. The decrease was primarily due to a $670,000 decrease in member acquisition costs and a $422,000 decrease in salary and employee related expenses due in part to a decrease in headcount.

Sales and marketing expenses decreased $1.4 million for the six months ended June 30, 2017 from the six months ended June 30, 2016. The decrease was primarily due to a $1.1 million decrease in member acquisition costs, a $861,000 decrease in salary and employee related expenses due in part to a decrease in headcount and a $352,000 decrease in brand marketing costs.

Product Development

Product development expenses consist primarily of compensation for software development staff, fees for professional services, software maintenance and amortization, and facilities costs. Product development expenses were $2.3 million and $2.0 million for the three months ended June 30, 2017 and 2016, respectively. Product development expenses were $4.7 million and $4.8 million for the three months ended June 30, 2017 and 2016, respectively.

Product development expenses increased $343,000 for three months ended June 30, 2017 from the three months ended June 30, 2016. The increase was primarily due to $182,000 in additional professional service expenses and $47,000 employee related expenses.

Product development expenses decreased $88,000 for