

TRAVELZOO INC
 Form 424B4
 October 28, 2003

Filed Pursuant to Rule 424(b)(4)
 Registration Statement Nos.
 333-107304, 333-109924

404,400 Shares

Common Stock

This prospectus relates to resales of up to 404,400 shares of our common stock, par value \$.01 per share, by the selling stockholders listed in this prospectus starting on page 33.

Subject to the terms and conditions of the underwriting agreement described in this prospectus, Wedbush Morgan Securities has agreed as underwriter to purchase from Ralph Bartel, our Chief Executive Officer, 350,000 shares of common stock owned by him. Such shares are being sold pursuant to this prospectus in blocks of not more than 1,000 and not less than 100 shares. In connection with such underwriting arrangements, Mr. Bartel has agreed to issue to Wedbush Morgan Securities a warrant to purchase up to 30,000 additional shares of our common stock at a purchase price equal to 120% of the price to the public hereunder. The shares offered hereby include the shares issuable upon exercise of that warrant. Wedbush Morgan Securities is not purchasing the shares of common stock offered by selling stockholders other than Mr. Bartel. See Plan of Distribution Underwriting beginning on page 37.

The selling stockholders other than Ralph Bartel or their transferees may sell their shares of common stock from time to time in accordance with the plan of distribution described in this prospectus. See Plan of Distribution Selling Stockholders Other than Mr. Bartel beginning on page 38.

Our shares are included in the OTC Bulletin Board under the symbol TVZO. On October 20, 2003, the last reported sale price of our common stock was \$7.00 per share. We have submitted an application for listing on the NASDAQ SmallCap Market under the symbol TZOO. This offering is intended primarily to allow Travelzoo to satisfy the requirement for listing on the NASDAQ SmallCap Market that we have 300 round lot holders of our common stock. A qualifying round lot holder is a stockholder who owns at least 100 shares of Travelzoo stock. There can be no assurance that we will satisfy all of the other requirements for listing on the NASDAQ SmallCap Market or that our shares will be listed on the NASDAQ SmallCap Market upon consummation of this offering or ever. See Risk Factors beginning on page 6.

Investing in these securities involves risks. You should carefully consider the risk factors beginning on page 6 of this prospectus before purchasing the common stock.

	Per Share	Total
Price to the public (1)	\$ 3.25	\$1,137,500
Underwriting discount (1)	.23	79,625
Proceeds to the selling stockholder (1)(2)(3)	3.02	1,057,875

- (1) This refers only to the shares covered by the underwriting agreement with Wedbush Morgan Securities which are held by Ralph Bartel. The shares of the other selling stockholders may be sold at varying prices from time to time, as described under Plan of Distribution.
- (2) Ralph Bartel has granted Wedbush Morgan Securities an option for 45 days to purchase up to an additional 52,500 shares of common stock held by Mr. Bartel at the public offering price per share, less the underwriting discount, solely to cover overallotments. If such option is exercised in full, the total proceeds to the selling stockholder will be \$1,216,556. See Plan of Distribution Underwriting.
- (3) We intend to pay the expenses of the offering, which are estimated to be \$265,000.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is October 27, 2003.

To facilitate this offering, the Underwriter may engage in transactions that stabilize, maintain or otherwise affect the market price of our common stock, including overallocating shares of our common stock in connection with this offering and bidding for and purchasing shares of our common stock at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. See Plan of Distribution -- Underwriting.

SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before making an investment decision. You should read the entire prospectus carefully, including Risk Factors beginning on page 6, before making an investment decision.

TRAVELZOO INC.

Overview

We are an Internet media company that publishes online advertisements of sales and specials for hundreds of travel companies. We provide airlines, hotels, cruise lines, vacation packagers, and other travel companies with a fast, flexible, and cost-effective way to reach millions of potential consumers. While our products provide advertising opportunities for travel companies, they also provide Internet users with a free source of information on current sales and specials from hundreds of travel companies.

Our products include the *Travelzoo* website, the *Travelzoo Top 20* e-mail newsletter, and the *Weekend.com* e-mail newsletter. Our *Travelzoo* website at <http://www.travelzoo.com> lists sales and specials from approximately 200 travel companies and reaches 5.1 million Internet users per month. Our *Travelzoo Top 20* is a free weekly e-mail newsletter that highlights attractive sales and specials from selected travel companies. As of September 30, 2003, the *Travelzoo Top 20* newsletter had 5,482,000 subscribers. Our *Weekend.com* newsletter is a free weekly e-mail newsletter that features ideas and travel opportunities for weekends. We launched this product in November 2002 and as of September 30, 2003, it had 1,585,000 subscribers.

More than 200 companies purchase our advertising services, including American Airlines, American Express, Alamo Rent-A-Car, Avis Rent-A-Car, British Airways, Carnival Cruise Lines, Liberty Travel, Delta Air Lines, Expedia, Fairmont Hotels & Resorts, Hilton Hotels, JetBlue Airways, Marriott Hotels, Park Place Entertainment, Southwest Airlines, Starwood Hotels & Resorts Worldwide, Royal Caribbean, United Airlines, and US Airways.

Our revenues are generated from advertising sales. Our revenues have grown rapidly since we began operations in 1998, primarily driven by an increasing number of travel companies listing their sales and specials on the *Travelzoo* website and in the *Travelzoo Top 20* newsletter. For the year ended December 31, 2002, revenues were \$9.8 million compared to \$6.1 million in 2001, an increase of 60%. Net income for 2002 was \$853,071 versus \$363,735 in the prior year. For the six months ended June 30, 2003, revenues increased 92% to \$8.0 million compared to \$4.2 million for the same period last year. For the six months ended June 30, 2003, net income increased to \$981,010 from \$281,620 for the same period last year, an increase of 248%. For the year ended December 31, 2002, our two largest clients accounted for 15% and 14% of our revenues. In the six months ended June 30, 2003, we acquired 1,472,000 new subscribers for our *Travelzoo Top 20* newsletter in addition to the 2,385,000 new subscribers we acquired in 2002.

Our Industry

According to the Newspaper Association of America, travel companies spent \$1.4 billion in 2002 on national advertising in newspapers. We believe that newspapers are currently the main medium for travel companies to advertise their sales and specials. However, we believe that travel companies will increase their spending on Internet advertising of sales and specials due to the following factors: first, market research shows that the Internet has become consumers' preferred information source for travel; second, Internet advertising provides travel companies advantages compared to print advertising such as real-time listings, real-time updates, and performance tracking; third, the Internet allows travel companies to advertise their sales and specials in a fast, flexible, and cost-effective manner that has not been possible before; and fourth, we believe that many travel suppliers prefer to sell their travel services directly to consumers, as an alternative to distribution through travel agents.

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Competitive Strengths

We have developed our company to be a leader in the field of online advertising for travel companies. We provide travel companies with the following key features:

- *Real-Time Listings of Special Offers.* Our technology allows travel companies to advertise new special offers on a real-time basis.

Competitive Strengths

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- *Real-Time Updates.* Our technology allows travel companies to update their listings on a real-time basis.
- *Real-Time Performance Reports.* We provide travel companies with real-time tracking of the performance of their advertising campaigns. Our solution enables travel companies to optimize their campaigns by removing or updating unsuccessful listings and further promoting successful listings.
- *Access to Millions of Consumers.* We provide travel companies fast access to millions of travel shoppers.
- *National Reach.* We offer travel companies access to Internet users across the U.S.

Furthermore, our products and services provide consumers information on current special offers with the following key features:

- *Aggregation of Offers from Many Companies.* Our *Travelzoo* website and our *Travelzoo Top 20* e-mail newsletter aggregate information on current special offers from approximately 200 travel companies. This saves the consumer time when searching for travel sales and specials.
- *Current Information.* Compared to newspaper ads, we provide consumers with more current information, since our technology enables travel companies to update their listings on a real-time basis.
- *Search Tools.* We provide consumers with the ability to search for specific special offers.

Growth Strategy

Our objective is to become the largest online publisher of sales and specials for travel companies. Key elements of our strategy include:

- *Build Strong Brand Awareness.* We believe that it is essential to establish a strong brand with Internet users and within the travel industry. We currently utilize an online marketing program to promote our brands to Internet users. In addition, we believe that we build brand awareness by product excellence that is promoted by word-of-mouth. We utilize sponsorships at industry conferences and public relations to promote our brands within the travel industry.
- *Increase Reach.* In order to attract more users to our products, we intend to expand our advertising campaigns as our business grows. We believe that we can also attract more users by product excellence that is promoted by word-of-mouth.
- *Maintain Quality User Base.* We believe that, in addition to increasing our reach, we need to maintain the quality of our user base by producing high quality content.
- *Increase Number of Advertising Clients.* We intend to continue to grow our advertising client base by expanding the size of our sales force.
- *Provide Excellent Service.* We believe it is important to provide our advertising clients with excellent service in terms of the development and placement of their advertisements.

Corporate Information

Our principal business office is located at 590 Madison Avenue, 21st Floor, New York, New York 10022 and our telephone number is (212) 521-4200. Our website is <http://www.travelzoo.com>. Additionally, we have offices in Chicago, Miami, and Mountain View (California). Our local presence in these regions allows us to better source and publish information on travel specials which are relevant to each regional market. In addition, these regional offices provide local proximity for our sales force to better service advertisers.

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RECENT DEVELOPMENTS

On October 6, 2003, we announced the results of our operations for the third quarter of 2003. The following information is taken from that announcement:

Statements of Operations:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2003	2002	2003
	(unaudited)		(unaudited)	
Revenues	\$ 2,538,152	\$ 4,785,427	\$ 6,715,356	\$ 12,790,363
Cost of revenues	90,108	93,645	262,108	257,814
Gross profit	2,448,044	4,691,782	6,453,248	12,532,549

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Operating expenses:				
Sales and marketing	1,510,266	2,525,638	3,822,582	6,744,080
General and administrative	521,663	1,115,144	1,646,279	3,074,947
Merger expenses	--	--	54,538	--
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Total operating expenses	2,031,929	3,640,782	5,523,399	9,819,027
	<hr/>	<hr/>	<hr/>	<hr/>
Income from operations	416,115	1,051,000	929,849	2,713,522
Interest income	540	3,187	2,027	8,324
	<hr/>	<hr/>	<hr/>	<hr/>
Income before income taxes	416,655	1,054,187	931,876	2,721,846
Income taxes	171,071	437,581	404,672	1,124,230
	<hr/>	<hr/>	<hr/>	<hr/>
Net income	\$ 245,584	\$ 616,606	\$ 527,204	\$ 1,597,616
	<hr/>	<hr/>	<hr/>	<hr/>
Basic and diluted net income per share	\$ 0.01	\$ 0.03	\$ 0.03	\$ 0.08
	<hr/>	<hr/>	<hr/>	<hr/>

	<u>As of December 31, 2002</u>	<u>As of September 30, 2003</u>
Balance Sheet Data:		(unaudited)
Working capital	\$ 1,339,593	\$ 3,080,018
Total assets	3,239,594	5,850,198
Long-term debt	--	--
Stockholders' equity	\$ 1,790,954	\$ 3,388,570

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THE OFFERING

Common stock offered by the selling stockholders	404,400 shares
Common stock outstanding	19,425,147 shares as of September 30, 2003 (1)
Purpose of offering	To meet the NASDAQ SmallCap Market listing requirement of having 300 round lot holders. A qualifying round lot holder is a stockholder who owns at least 100 shares of Travelzoo stock. There can be no assurance that we will satisfy all of the requirements for listing, including, but not limited to the round lot holder requirement, and become listed on the NASDAQ SmallCap Market. See "Risk Factors" beginning on page 6.
Selling Stockholders	Of the shares offered hereby, 350,000 shares are held by Ralph Bartel, our Chief Executive Officer (such shares are being sold pursuant to this prospectus in blocks of not more than 1,000 and not less than 100 shares), 24,400 shares are held by charitable organizations to which Mr. Bartel donated such shares, and 30,000 shares are issuable on exercise of a warrant to be issued to Wedbush Morgan Securities by Mr. Bartel pursuant to the underwriting agreement relating to this offering.
Use of proceeds	We will not receive any proceeds from the sale of shares offered hereby. All such proceeds will be received by the selling stockholders listed in this prospectus under "Principal and Selling Stockholders" beginning on page 33.

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Dividend policy	We have not paid, and do not anticipate paying, dividends on our common stock. See "Price Range of Common Stock and Dividend Information" on page 36.
Risk factors	See "Risk Factors" beginning on page 6, for a discussion of factors you should carefully consider before deciding to invest in our common stock.
OTC Bulletin Board symbol	TVZO
Proposed NASDAQ SmallCap Market Symbol	TZOO

(1) Excludes 2,401,938 options, all of which are currently exercisable at a weighted average exercise price of \$1.12 per share.

Common Stock Ownership and Netsurfer Shares

Travelzoo was originally incorporated as Travelzoo.com Corporation (Travelzoo Bahamas) in the Commonwealth of The Bahamas. In a Netsurfer Stockholder offering, Travelzoo Bahamas issued approximately 2.6 million shares of its common stock to approximately 700,000 visitors who registered on the *Travelzoo* website. No cash payments were required or received for any of the stock issued pursuant to the Netsurfer Stockholder offering. The number of shares issued was doubled as a result of a subsequent two-for-one stock split. In a series of transactions completed in 2002, Travelzoo Bahamas was merged into Travelzoo Inc., a Delaware corporation, and each share of Travelzoo Bahamas was converted into the right to receive one share of common stock of Travelzoo Inc. As of September 30, 2003, 129,664 former stockholders of Travelzoo Bahamas have taken the steps necessary to receive their shares in Travelzoo Inc., and 7,157,932 shares of common stock have been issued. If all former stockholders of Travelzoo Bahamas accept their shares in Travelzoo Inc., an additional 4,137,942 shares of common stock will be issued. These shares are reported as outstanding in our financial statements.

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The following table sets forth summary consolidated financial data for the periods indicated. It is important that you read this information together with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to those financial statements beginning on page F-1. The historical results are not necessarily indicative of results to be expected for future periods.

SUMMARY FINANCIAL DATA

Statements of Operations:	Period from May 21, 1998 (inception) to December 31, 1998	Year Ended December 31,				Six Months Ended June 30,	
	1998	1999	2000	2001	2002	2002	2003
						(unaudited)	
Revenues*	\$ 84,101	\$954,259	\$3,949,517	\$6,147,938	\$9,847,820	\$4,177,204	\$8,004,936
Cost of revenues	25,362	132,803	282,195	304,081	351,169	172,000	164,169
Gross profit	58,739	821,456	3,667,322	5,843,857	9,496,651	4,005,204	7,840,767
Operating expenses:							
Sales and marketing	1,595	350,720	1,484,495	3,274,747	5,726,557	2,312,316	4,218,442
General and administrative	22,046	326,686	1,201,982	1,354,088	2,293,846	1,124,616	1,959,803
Merger expenses	--	--	231,303	332,721	54,538	54,538	--
Total operating	23,641	677,406	2,917,780	4,961,556	8,074,941	3,491,470	6,178,245
expenses							

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Income from operations	35,098	144,050	749,542	882,301	1,421,710	513,734	1,662,522
Interest income	--	--	--	2,702	3,971	1,487	5,137
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Income before income taxes	35,098	144,050	749,542	885,003	1,425,681	515,221	1,667,659
Income taxes	6,213	38,646	387,856	521,268	572,610	233,601	686,649
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net income	\$ 28,885	\$105,404	\$ 361,686	\$ 363,735	\$ 853,071	\$ 281,620	\$ 981,010
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Basic and diluted net income per share	--	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.01	\$ 0.05
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Balance Sheet Data:	As of December 31,					As of June 30,	
	1998	1999	2000	2001	2002	2002	2003
						(unaudited)	
Working capital	\$ 78,172	\$171,282	\$ 185,734	\$ 425,147	\$1,339,593	\$ 696,634	\$2,455,049
Total assets	107,051	404,796	1,555,506	2,130,730	3,239,594	2,199,753	4,686,308
Long-term debt	--	--	--	--	--	--	--
Stockholders' equity	\$ 88,885	\$194,289	\$ 574,148	\$ 937,883	\$1,790,954	\$1,219,503	\$2,771,964

* Revenues in 1998, 1999 and 2000 included commissions revenue of \$26,774, \$61,015 and \$97,451, respectively. Commissions revenue in all other periods was not material.

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RISK FACTORS

You should carefully consider the risks described below and all other information contained in this prospectus before making an investment decision. If any of the following risks, or other risks and uncertainties that are not yet identified or that we currently think are immaterial, actually occur, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of our shares could decline, and you may lose part or all of your investment.

Risks Related to Our Financial Condition and Business Model

Our limited operating history makes our business difficult to evaluate.

We were incorporated and began generating revenues in May 1998. Accordingly, we have only a limited operating history for you to consider in evaluating our business. As a young company, we face risks and uncertainties relating to our ability to successfully implement our business plan. You must consider the risks, expenses and uncertainties which can materially affect the business of an early stage company like ours. These risks include uncertainty whether we will be able to:

- increase awareness of the *Travelzoo* brand;
- attract and retain additional travel companies to list their special offers with us;
- attract additional Internet users to the *Travelzoo* website;
- increase the functionality of our products and services;
- maintain our current business relationships and develop new ones;
- respond effectively to competitive pressures; and
- continue to develop and upgrade our technology.

Our limited operating history makes our business difficult to evaluate.

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We cannot assure you that we will sustain profitability.

Although we have been profitable in the past, there is no assurance that we will continue to be profitable. We forecast our future expense levels based on our operating plans and our estimates of future revenues. We may find it necessary to accelerate expenditures relating to our sales and marketing efforts or otherwise increase our financial commitment to creating and maintaining brand awareness among travel companies and Internet users. If our revenues grow at a slower rate than we anticipate, or if our spending levels exceed our expectations or cannot be adjusted to reflect slower revenue growth, we may not generate sufficient revenues to sustain profitability. In this case, the value of Travelzoo's shares could be reduced.

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

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

- mismatches between resource allocation and client demand due to difficulties in predicting client demand in a new market;
- changes in general economic conditions that could affect marketing efforts generally and online marketing efforts in particular;
- the magnitude and timing of marketing initiatives;
- the maintenance and development of our strategic relationships;
- the introduction, development, timing, competitive pricing and market acceptance of our products and services and those of our competitors;
- our ability to attract and retain key personnel;
- our ability to manage our anticipated growth and expansion;

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- our ability to attract traffic to our website; and
- technical difficulties or system downtime affecting the Internet generally or the operation of our products and services specifically.

In addition, we plan to significantly increase our operating expenses to expand our sales and marketing, and production departments. If revenues fall below our expectations in any quarter and we are unable to quickly reduce our spending in response, our operating results would be lower than expected and our stock price may fall.

In addition, we are required under generally accepted accounting principles to review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. We may be required to record a significant expense or charge to earnings in our financial statements in the period any impairment of intangible assets is determined.

We depend on two clients for a substantial part of our revenues.

In the six months ended June 30, 2003, two clients accounted for 13% and 10%, respectively, of our revenues. In the fiscal year ended December 31, 2002, two clients accounted for 15% and 14%, respectively, of our revenues. The loss of one client or both clients may result in a significant decrease in our revenues and results of operations, which could have a material adverse effect on our business.

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

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

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

We intend to continue to grow our business, and intend to fund our current operations and our anticipated growth from the cash flow generated from our operations and our retained earnings. However, these sources may not be sufficient to meet our needs. We may not be able to obtain additional financing on commercially reasonable terms, or at all.

We depend on two clients for a substantial part of our revenues.

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

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

Our business may be sensitive to recessions.

The demand for online advertising may be linked to the level of economic activity and employment in the U.S. and abroad. Specifically, our business is dependent on the spending of travel companies. The current recession has decreased consumer travel and caused travel companies to reduce or postpone their marketing spending generally, and their online marketing spending in particular. If the current economic downturn continues or worsens in the U.S. or abroad, our business and financial condition could be materially adversely affected, which could reduce the value of your shares.

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We may face significant costs with respect to the delivery of paper copies of reports to our stockholders.

The Securities Exchange Act of 1934 requires us to provide paper copies of certain reports to our stockholders who do not consent to receiving electronic delivery. If a significant number of our stockholders do not consent to electronic delivery of stockholder communications or revoke such consent, we may face significant costs related to the printing and mailing of such reports. These costs may drain our resources and may have a material adverse effect on our business and the value of our shares.

Risks Related to Our Markets and Strategy

The Internet is not a proven marketing medium.

The future of our business is dependent on the ongoing acceptance by travel companies of the Internet as an effective marketing tool, and on the ongoing acceptance by consumers of the Internet as a source for information on offers from travel companies. The adoption of online marketing by travel companies, particularly among those that have historically relied upon traditional advertising methods, requires the acceptance of a new way of conducting business, marketing and advertising. Many of our potential clients have little or no experience using the Internet as a marketing tool, and not all Internet users have experience using the Internet to look for travel offers. As a result, we cannot be sure that we will be able to effectively compete with traditional advertising methods. If we are unable to compete with traditional advertising methods, our business and results of operations could be materially adversely affected.

We may experience reduced visitor traffic, reduced revenue and harm to our reputation in the event of unexpected network interruptions caused by system failures.

Our servers and software must be able to accommodate a high volume of traffic. Any substantial increase in demands on our servers will require us to expand and adapt our network infrastructure. If we are unable to add additional software and hardware to accommodate increased demand, we could experience unanticipated system disruptions and slower response times. Any catastrophic failure at our co-location facility could prevent us from serving our web traffic for up to several days, and any failure of our Internet service provider may adversely affect our network's performance. Our clients may become dissatisfied by any system failure that interrupts our ability to provide our products and services to them or results in slower response times. We do not maintain business interruption insurance. Any system failure, including network, software or hardware failure, that causes an interruption in the delivery of our products and services or a decrease in responsiveness of our services could result in reduced revenue and could materially adversely affect our reputation and brand.

We may not be able to develop awareness of our brand name.

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

We may not be able to develop awareness of our brand name.

The adoption of legislation regarding the use of pop-up or pop-under ads or the adoption of filter software could adversely affect our business.

As part of our strategy, we currently utilize an online marketing program, including the use of pop-up and pop-under advertisements, to promote our brands to Internet users and sign up subscribers for

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our e-mail newsletters. To date, governmental regulations have not materially restricted the use of such online marketing. However, the legal and regulatory environment that pertains to the Internet is uncertain and may change. In addition, if filter software programs that limit or prevent advertising from being delivered to an Internet user's computer are widely adopted, our online marketing programs, and in turn our business, could be materially adversely affected.

Our business may be sensitive to events affecting the travel industry in general.

Events like the war with Iraq or the terrorist attacks on the United States in 2001 have a negative impact on the travel industry. We are not in a position to evaluate the net effect of these circumstances on our business. In the longer term, our business might be negatively affected by financial pressures on the travel industry. If the events result in a long-term negative impact on the travel industry, such impact could have a material adverse effect on our business and the value of your shares.

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

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

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

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

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

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

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

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

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

We have recently experienced a period of rapid growth. In order to execute our business plan, we must continue to grow significantly. As of September 30, 2003, we had 37 employees. We expect that the number of our employees will continue to increase for the foreseeable future. This growth has placed, and our anticipated future growth combined with the requirements we face as a public company will continue to place, a significant strain on our management, systems and resources. We expect that we will need to

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

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continue to improve our financial and managerial controls and reporting systems and procedures. We will also need to continue to expand and maintain close coordination among our technical, accounting, finance and sales and marketing departments. We may not succeed in these efforts. Our inability to expand our operations in an efficient manner could cause our expenses to grow disproportionately to revenues, our revenues to decline or grow more slowly than expected and otherwise have a material adverse effect on our business and the value of your shares.

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

We compete with large Internet portal sites, such as About.com, America Online, Lycos, MSN and Yahoo!, that offer listings or other advertising opportunities for travel companies. These companies have significantly greater financial, technical, marketing and other resources and larger client bases than we do. In addition, we compete with newspapers, magazines and other traditional media companies that provide online advertising opportunities. We expect to face additional competition as other established and emerging companies, including print media companies, enter the online advertising market.

We believe that there will be rapid business consolidation in the online advertising industry. Accordingly, new competitors may emerge and rapidly acquire significant market share. The development of competing technologies by market participants or the emergence of new industry standards may also adversely affect our competitive position. Competition could result in reduced margins on our services, loss of market share or less use of *Travelzoo* by travel companies and consumers. If we are not able to compete effectively with current or future competitors as a result of these and other factors, our business could be materially adversely affected.

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

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

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

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

Risks Related to the Market for our Shares

We cannot be sure that an active market for our shares will develop or be maintained in the future.

On August 28, 2002, our shares commenced trading on the OTC Bulletin Board. However, there has been only limited trading in the shares since that time, at widely varying prices, and the trading to date has not resulted in an active market for our shares. We cannot assure you that an active market for our shares will be established or maintained in the future. If such market is not established or maintained, stockholders will not be able to readily sell their shares.

We cannot be sure that our application for listing on the NASDAQ SmallCap Market will be approved.

We have submitted an application for listing on the NASDAQ SmallCap Market under the symbol TZOO. Even if we meet the requirement for 300 round lot holders of our common stock upon consummation of this offering, we would still need to meet the remaining NASDAQ SmallCap Market listing requirements, including our common stock having a minimum bid price of \$4.00 per share. There can be no assurance that our shares will be listed on the NASDAQ SmallCap Market upon consummation of this offering or ever. In the event our shares are not listed on the NASDAQ SmallCap Market, our shares will continue to trade on the OTC Bulletin Board.

We are controlled by a principal stockholder.

Ralph Bartel, who founded Travelzoo and who is our Chairman of the Board, President, Chief Executive Officer, Chief Financial Officer and Secretary, is our largest stockholder, holding approximately 72% of our outstanding shares with options to increase his percentage ownership to 74% on a fully-diluted basis, assuming all former stockholders of Travelzoo Bahamas receive shares of Travelzoo Inc. Based on the number of shares issued as of September 30, 2003 in the merger with Travelzoo Bahamas, Mr. Bartel's shares represent 92% of the outstanding shares. Assuming Mr. Bartel sells all of the shares offered by him hereunder, Mr. Bartel will hold approximately 70% of our outstanding shares, with options to increase his percentage ownership to 72% on a fully-diluted basis. Through his share ownership, he is in a position to control Travelzoo and to elect our entire board of directors.

Investors may face significant restrictions on the resale of our stock due to federal penny stock regulations.

If our shares trade at less than five dollars per share, since the shares are not listed on a recognized national exchange or on NASDAQ, our common stock may be deemed to be a penny stock under Rule 3a51-1 under the Securities Exchange