Recro Pharma, Inc.
Form 3
September 18, 2014

FORM 3

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

OMB APPROVAL

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INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Â Broadfin Healthcare Master Fund Ltd

(Last) (First) (Middle)

C/O 20 GENESIS CLOSE,Â ANSBACHER HOUSE, SECOND FLOOR, 1344

(Street)

GRAND CAYMAN,Â E9Â KY1-1108

(City) (State) (Zip)

2. Date of Event Requiring Statement (Month/Day/Year)
09/05/2014

3. Issuer Name **and** Ticker or Trading Symbol
Recro Pharma, Inc. [REPH]

4. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director __X__ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

5. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
___ Form filed by One Reporting Person
_X_ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Beneficially Owned

1.Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Common Stock	1,172,195	D (1)	Â

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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Table II - Derivative Securities Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date	3. Title and Amount of Securities Underlying	4. Conversion	5. Ownership	6. Nature of Indirect Beneficial Ownership

(Month/Day/Year)		Derivative Security (Instr. 4)		or Exercise Price of Derivative Security	Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 5)	(Instr. 5)
Date Exercisable	Expiration Date	Title	Amount or Number of Shares			

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Broadfin Healthcare Master Fund Ltd C/O 20 GENESIS CLOSE ANSBACHER HOUSE, SECOND FLOOR, 1344 GRAND CAYMAN,Â E9Â KY1-1108	Â	Â X	Â	Â
KOTLER KEVIN C/O BROADFIN CAPITAL, LLC 237 PARK AVENUE, SUITE 900 NEW YORK,Â NYÂ 10017	Â	Â X	Â	Â
Broadfin Capital, LLC 237 PARK AVENUE SUITE 900 NEW YORK,Â NYÂ 10017	Â	Â X	Â	Â

Signatures

Broadfin Healthcare Master Fund, Ltd. By: /s/ Kevin Kotler, Director	09/18/2014
**Signature of Reporting Person	Date
/s/ Kevin Kotler	09/18/2014
**Signature of Reporting Person	Date
Broadfin Capital, LLC By: /s/ Kevin Kotler, Managing Member	09/18/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The Common Stock is held in the account of Broadfin Healthcare Master Fund, Ltd., a private investment fund managed by Broadfin Capital, LLC and may be deemed to be beneficially owned by Kevin Kotler, managing member of Broadfin Capital, LLC. Each of Broadfin Capital, LLC, Broadfin Healthcare Master Fund, Ltd. and Kevin Kotler disclaim beneficial ownership of the reported securities except to the extent of his or its pecuniary interest therein, and affirmatively disclaim being a "group" for purposes of Section 16 of the Securities Exchange Act of 1934, as amended.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. /TD> 9,221
Issuance of common stock to directors
70,000 700 4,752 5,452
Net income
361,686 361,686

Balances, December 31, 2000					
	19,425,147	194,251	(116,078)	495,975	574,148
Net income					
				363,735	363,735
Balances, December 31, 2001					
	19,425,147	$194,251	$(116,078)	$859,710	$937,883
Net income					
				853,071	853,071
Balances, December 31, 2002					
	19,425,147	$194,251	$(116,078)	$1,712,781	$1,790,954

Explanation of Responses:

See accompanying notes to consolidated financial statements

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TRAVELZOO INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 853,071	$ 363,735	$ 361,686
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	194,373	138,628	54,914
Deferred income taxes	(33,018)	28,196	(93,381)
Provision for losses on accounts receivable	14,571	(88,507)	135,144
Loss on disposal of property and equipment		567	4,212
Stock-based compensation expense			9,221
Non-cash revenues	(3,410)	(16,449)	
Changes in operating assets and liabilities:			
Accounts receivable	(433,633)	(19,870)	(591,562)
Deposits	(54,754)	78,244	(102,566)
Prepaid expenses and other current assets	(96,730)	92,819	(92,765)
Accounts payable	266,998	(1,541)	113,086
Accrued expenses	263,362	60,839	133,975
Deferred revenue	5,295	11,384	(3,300)
Income tax payable	(207,025)	122,653	479,881
Net cash provided by operating activities	769,100	770,698	408,545
Cash flows from investing activities:			
Purchases of property and equipment	(120,746)	(31,365)	(227,589)
Purchases of intangible assets		(125,000)	(200,000)
Net cash used in investing activities	(120,746)	(156,365)	(427,589)
Cash flows from financing activities:			
Proceeds from issuance of common stock			3,500
Loans from principal stockholder			50,000
Repayment of loans from principal stockholder		(50,000)	
Cash (used in) provided by financing activities		(50,000)	53,500
Net increase in cash and cash equivalents	648,354	564,333	34,456
Cash and cash equivalents at beginning of year	609,919	45,586	11,130
Cash and cash equivalents at end of year	$ 1,258,273	$ 609,919	$ 45,586

Supplemental disclosure of cash flow information:			
Cash paid for income taxes net refunds received	$ 812,653	$ 385,102	$ 1,356
Non cash investing activities:			
Intangible asset acquired for future advertising Services	$	$ 89,286	$
Reduction in carry amounts of intangible asset and deferred revenue	$ (69,427)		$

See accompanying notes to consolidated financial statements

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TRAVELZOO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002, 2001, and 2000

(1) Summary of Significant Accounting Policies

(a) Description of Business and Basis of Presentation

The consolidated financial statements include the accounts of Travelzoo Inc. and its wholly-owned subsidiaries (the Company or Travelzoo). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company publishes the *Travelzoo* website, the *Travelzoo Top 20*e-mail newsletter, and the *Weekend.com* e-mail newsletter which provide advertising opportunities for the travel industry.

The Company was formed as a result of a combination and merger of entities founded by the Company s majority stockholder, Mr. Ralph Bartel. In 1998, Mr. Bartel founded Travelzoo.com Corporation, a Bahamas corporation, which also issued 5,155,874 shares via the Internet to approximately 700,000 stockholders (the Netsurfer stockholders) for no cash consideration. In 1998, Mr. Bartel also founded Silicon Channels Corporation, a California corporation, to operate the *Travelzoo* website. During 2001, Travelzoo Inc. was formed as a subsidiary of Travelzoo.com Corporation, and Mr. Bartel contributed all of the outstanding shares of Silicon Channels to Travelzoo Inc. in exchange for 8,129,273 shares of Travelzoo Inc. and options to acquire an additional 2,158,349 shares at $1.00. The merger was accounted for as a combination of entities under common control using as-if pooling-of-interests accounting. Under this method of accounting, the assets and liabilities of Silicon Channels Corporation and Travelzoo Inc. were carried forward to the combined company at their historical costs. In addition, all prior period financial statements of Travelzoo Inc. were restated to include the combined results of operations, financial position and cash flows of Silicon Channels Corporation.

During January 2001, the Board of Directors of Travelzoo.com Corporation proposed that Travelzoo.com Corporation be merged with Travelzoo Inc. whereby Travelzoo Inc. would be the surviving entity. On March 15, 2002, the stockholders of Travelzoo.com Corporation approved the merger with Travelzoo Inc. On April 25, 2002, the certificate of merger was filed in Delaware upon which the merger became effective and Travelzoo.com Corporation was dissolved. Each outstanding share of common stock of Travelzoo.com Corporation was converted into the right to receive one share of common stock of Travelzoo Inc. Stockholders have a period of two years to receive shares of Travelzoo Inc. Travelzoo.com Corporation had 11,295,874 shares outstanding. As of December 31, 2002, 6,791,612 shares of Travelzoo.com Corporation had been exchanged for shares of Travelzoo Inc. The remaining 4,504,262 shares of Travelzoo Inc. that may be exchanged are included in the issued and outstanding common stock of Travelzoo Inc. and earnings per share calculations. The merger was accounted for as a combination of entities under common control using as-if pooling-of-interests accounting. Under this method of accounting, the assets and liabilities of Travelzoo.com Corporation and Travelzoo Inc. were carried forward at their historical costs. In addition, all prior period financial statements of Travelzoo Inc. were restated to include the combined results of operations, financial position and cash flows of Travelzoo.com Corporation. The restated results of Travelzoo Inc. are identical to the combined results of Travelzoo.com Corporation and Travelzoo Inc.

(b) Revenue Recognition

Revenue consists of advertising sales and commissions from e-commerce transactions. Advertising revenues are derived principally from the sale of display advertising, classified advertising, and banner advertising on the *Travelzoo* website and in the *Travelzoo Top 20* e-mail newsletter. Commissions are generated from bookings of travel services through customer advertising on the *Travelzoo* website.

Advertising revenues are recognized in the period in which the advertisement is displayed, provided that evidence of an arrangement exists, the fees are fixed or determinable, no significant obligations remain at the end of the period, and collection of the resulting receivable is deemed probable. If fixed-fee advertising is

displayed over a term greater than one month, revenues are recognized ratably over the period. To the extent that any minimum guaranteed impressions are not met during the contract period, the Company defers recognition of the corresponding revenues until the guaranteed impressions are achieved. Fees for banner advertising and other variable-fee advertising arrangements are recognized based on the number of impressions displayed or clicks delivered during the period.

The Company had outsourced part of its advertising sales and production activities to DoubleClick, Inc. (DoubleClick). Under the terms of the agreement with DoubleClick, the Company received a portion of the revenue received by DoubleClick from customers for the display of advertising on the *Travelzoo* website. The Company recorded these revenues on a net basis. The gross revenue received by DoubleClick from advertising on the *Travelzoo* website was $82,939, $600,454, and $430,130 for the years ended December 31, 2002, 2001, and 2000 respectively. The Company s share of this income, which has been recorded as revenue, was $38,354, $332,736, and $231,885 for the years ended December 31, 2002, 2001, and 2000 respectively. The agreement with DoubleClick was canceled as of August 23, 2002.

Revenues from advertising barter transactions are recognized in the period during which the advertisements are displayed on the *Travelzoo* website. Expenses from barter transactions are recognized in the period during which the advertisements are displayed on the barter partner s website. Barter transactions are recorded at the fair value of the advertising provided based on cash received by the Company for transactions involving similar types of advertising during the six months preceding the transaction in accordance with Emerging Issues Task Force (EITF) Issue No. 99-17, *Accounting for Advertising Barter Transactions*. The amounts included in advertising revenues and sales and marketing expenses for barter transactions were $-0-, $-0-, and $37,000 for the years ended December 31, 2002, 2001, and 2000, respectively.

Commissions are recorded as the net amount received by the Company and are recognized in the period in which the commissions earned are reported to the Company by the e-commerce partner.

(c) Net Income Per Share

Net income per share has been calculated in accordance with SFAS No. 128, *Earnings 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 for the effect of 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 income per share:

	Year Ended December 31,		
	2002	**2001**	**2000**

Basic net income per share:			
Net income	$ 853,071	$ 363,735	$ 361,686
Weighted average common shares	19,425,147	19,425,147	19,372,791
Basic net income per share	$ 0.04	$ 0.02	$ 0.02
Diluted net income per share:			
Net income	$ 853,071	$ 363,735	$ 361,686
Weighted average common shares	19,425,147	19,425,147	19,372,791
Effect of dilutive securities-stock options	471,206		94,019
Weighted average common and potential common shares	19,896,353	19,425,147	19,466,810
Diluted net income per share	$ 0.04	$ 0.02	$ 0.02

For the year ended December 31, 2001, all outstanding stock options were excluded from the calculation of diluted earnings per share because their effect was antidilutive.

(d) Use of Estimates

Management of the Company have made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(e) Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2002	**2001**
Computer hardware and software	$ 249,801	$ 182,461
Office equipment	141,266	95,063
	391,067	277,524
Less accumulated depreciation	248,976	140,324
Total	$ 142,091	$ 137,200

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TRAVELZOO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(f) Intangible Assets

Intangible assets consist of the following:

	December 31,	
	2002	2001
Acquired amortized intangible assets:		
Internet domain names	$ 344,857	$ 414,286
Less accumulated amortization	132,564	54,048
Total	$ 212,293	$ 360,238

Amortization expense was $78,518, $50,714, and $3,333 for the years ended December 31, 2002, 2001 and 2000, respectively.

In October 2001, the Company completed the acquisition of the *Weekends.com* domain name. As consideration for the purchase, the Company paid the seller $125,000 and agreed to provide a minimum number of clicks to the seller s other websites through advertising placed on the *Travelzoo* website. The fair value of the advertising services of $89,286 was determined based on the cash price of similar advertising services and recorded as deferred revenue. The revenue was recognized as the clicks were delivered. During the years ended December 31, 2002 and 2001, $3,410 and $16,449 of revenues related to this arrangement were recognized. The agreement with the seller to provide advertising services expired on September 30, 2002. As such, $69,427 of advertising was not delivered and the carrying amounts of the intangible asset and related deferred revenue were reduced accordingly.

Estimated future amortization expense related to intangible assets at December 31, 2002 is as follows:

2003	$ 65,500
2004	65,500
2005	62,167
2006	19,126
	$ 212,293

(g) Advertising Costs

Advertising costs (including barter advertising) amounted to $3,960,464, $2,264,488 and $1,161,800 for the years ended December 31, 2002, 2001, and 2000, respectively. During the years ended December 31, 2002, 2001 and 2000, $546,214, $492,672 and $256,920, respectively, of advertising services were purchased from the Company s customers under non-barter arrangements.

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized for deductible temporary differences, along with net operating loss carryforwards and credit carryforwards, if it is more likely than not that the tax benefits will be realized. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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TRAVELZOO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(i) Impairment of Long-Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Impairment of Long-Lived Assets.* SFAS No. 144 requires an impairment loss to be recognized on assets to be held and used if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows. The amount of the impairment loss is measured as the difference between the carrying amount and the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(j) Stock-Based Compensation

As allowed under SFAS No. 123, *Accounting for Stock-Based Compensation,* the Company has elected to follow Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations in accounting for fixed plan stock awards to employees. Deferred stock-based compensation for options granted to employees is determined as the excess of the fair value of the common stock over the exercise price on the date options were granted. Stock-based compensation is amortized over the vesting period of the individual award.

Had all stock-based compensation awards granted to employees and directors been accounted for using the fair value based method net income and net income share would have been adjusted to the amounts reported in the following table.

	Year Ended December 31,		
	2002	**2001**	**2000**
Net income as reported	$ 853,071	$ 363,735	$ 361,686
Stock-based compensation included in determination of net income			9,221
Stock-based compensation determined under the fair-value based method	(1,908)	(56,182)	(11,765)
Pro-forma net income as if the fair value based method had been applied to all awards	$ 851,163	$ 307,553	$ 359,142
Pro-forma basic and diluted net income per share as if the fair value based method had been applied to all awards	$ 0.04	$ 0.02	$ 0.02

The fair value of options granted was calculated as of the grant date using the Black-Scholes method with the following assumptions:

	2002	**2001**	**2000**
Numbers of options granted	33,589	210,000	70,000
Grant date fair value of options	$ 0.06	$ 0.27	$ 0.17
Grant date fair value of the common stock	$ 0.56	$ 0.39	$ 0.18
Expected life of the option (in years)	5	10	10
Annual volatility	51%	85%	85%
Risk-free interest rates	4.5%	4.5%	4.5%
Dividend Rate			

(k) Website Development Costs

Prior to June 30, 2000, website development costs were expensed as incurred. The Company adopted EITF Issue No. 00-02, *Accounting for Website Development Costs,* on June 30, 2000. The adoption of EITF

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TRAVELZOO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Issue No. 00-02 did not have a significant impact on the combined financial statements. Subsequent to the adoption of EITF No. 00-02, no internal website development costs that qualify for capitalization have been incurred.

(l) Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 provides guidance on the accounting for a business combination at the date a business combination is completed. The statement requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001, thereby eliminating use of the pooling-of-interests method. The Company adopted SFAS No. 141 on July 1, 2001. The adoption did not have an effect on the combined financial statements. SFAS No. 142 provides guidance on how to account for goodwill and intangible assets after an acquisition is completed. The most substantive change is that goodwill will no longer be amortized but instead will be tested for impairment periodically. The Company adopted SFAS No. 142 as of the beginning of 2002 and the effect of adoption did not have a material impact on the condensed consolidated financial statements.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with retirement of tangible long-lived assets and the associated retirement costs. The Company will adopt SFAS No. 143 at the beginning of 2003, and the adoption is not expected to have a material impact on the combined financial statements.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, *Impairment of Long-Lived Assets*. SFAS No. 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*. SFAS No. 144 retains the requirements of SFAS No. 121 to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and the fair value of the asset. SFAS No. 144 removes goodwill from its scope. SFAS No. 144 is applicable to the Company s financial statements beginning in 2002. The adoption of this statement did not have a material impact on the consolidated financial statements.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145 rescinds the requirement that all gains and losses from extinguishment of debt be classified as an extraordinary item. Additionally, SFAS No. 145 requires that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 is effective for the Company beginning in 2003, and the effect of adoption is not expected to have a material impact on the consolidated financial statements.

In July 2002, the FASB issued Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This Statement requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management s commitment to an exit plan, which is generally before an actual liability has been incurred. The requirements of this Statement are effective prospectively for exit or disposal activities initiated after December 31, 2002; however, early application of the Statement is encouraged. The Company s adoption of Statement 146 will not have a material impact on its historical financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others* (FIN 45). FIN 45 requires the Company to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in the issuance of the guarantee. The disclosure requirements effective for the year ending

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TRAVELZOO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2002, expand the disclosures required by a guarantor about its obligation under a guarantee. The adoption of the disclosure requirements of this statement did not impact the Company s financial position, results of operations or cash flows.

In December 2002, the FASB issued Statement No. 148, *Accounting for Stock-Based Compensation*. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has adopted the new disclosure requirements of this statement.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). The interpretation provides guidance for determining when a primary beneficiary should consolidate a variable interest entity or equivalent structure, that functions to support the activities of the primary beneficiary. The interpretation is effective as of the beginning of Company s third quarter of 2003 for variable interest entities created before February 1, 2003. The adoption of this statement is not expected to impact the Company s financial position, results of operations or cash flows.

(2) Commitments

The Company leases office space in Mountain View, California, and in New York, New York, under operating leases which expire on December 31, 2003 and June 30, 2004, respectively. The future minimum rental payments under these operating leases as of December 31, 2002, total \$556,940 and \$197,940 for 2003 and 2004, respectively. Rent expense was \$471,766, \$302,355 and \$154,498 for the years ended December 31, 2002, 2001, and 2000, respectively.

(3) Allowance for Doubtful Accounts

The details of changes to the allowance for doubtful accounts are as follows:

Balance at December 31, 1999	$ 10,000
Additions charged to costs and expenses	135,144
Balance at December 31, 2000	145,144
Deductions credited to costs and expenses, net	(88,507)
Deductions write-offs	(1,409)
Balance at December 31, 2001	55,228
Additions charged to costs and expenses, net	14,572
Deductions write-offs	(13,875)
Balance at December 31, 2002	$ 55,925

TRAVELZOO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Income Taxes

Income tax expense (benefit) for the years ended December 31, 2002, 2001, and 2000 consisted of the following:

	Current	Deferred	Total
2002:			
Federal	$ 453,851	$ (26,836)	$ 427,015
State	151,777	(6,182)	145,595
	$ 605,628	$ (33,018)	$ 572,610
2001:			
Federal	$ 384,153	$ 21,846	$ 405,999
State	108,669	6,350	115,019
Foreign	250		250
	$ 493,072	$ 28,196	$ 521,268
2000:			

Federal	$ 380,265	$ (79,706)	$ 300,559
State	100,722	(13,675)	87,047
Foreign	250		250
	$ 481,237	$ (93,381)	$ 387,856

Income tax expense for the years ended December 31, 2002, 2001, and 2000, differed from the amounts computed by applying the U.S. federal statutory tax rate applicable to the Company s level of pretax income as a result of the following:

	2002	2001	2000
Federal tax at statutory rates	$ 485,714	$ 307,423	$ 254,844
State taxes, net of federal income tax benefit	96,093	99,146	57,451
Foreign taxes		250	250
Non-deductible merger expenses and other	(9,197)	114,449	75,311
Total income tax expense	$ 572,610	$ 521,268	$ 387,856

TRAVELZOO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tax effects of temporary differences that give rise to significant portions of the Company s deferred tax assets and liabilities as of December 31, 2002, and 2001, are as follows:

	2002	2001
Deferred tax assets:		
Accruals and allowances	$ 39,204	$ 28,104
State income taxes	36,733	36,948
Capitalized start-up costs	760	1,531
Property and equipment		3,968
Intangible assets	$ 39,462	$ 13,073
Gross deferred tax assets	116,159	83,624
Deferred tax liabilities:		
State income taxes	$	$ (3,275)
Property and equipment	(2,792)	
Gross deferred tax liabilities	(2,792)	(3,275)
Net deferred tax assets	$ 113,367	$ 80,349

No valuation allowance has been recorded for the deferred tax assets because management believes that the Company is more likely than not to generate sufficient future taxable income to realize the related tax benefits.

(5) Stockholders Equity

As of December 31, 2002 the authorized capital stock of Travelzoo Inc. comprised 40,000,000 shares of $.01 par value common stock and 5,000,000 shares of $.01 par value preferred stock. As of December 31, 2002 19,425,147 shares of common stock and no shares of preferred stock were issued and outstanding. During 2000, the Company granted to an employee options to purchase 334,676 shares of common stock with an exercise price of $0.05 and a two-year vesting period. In September 2000, upon the termination of the employee, 70,000 options were fully vested under the original terms of the grant and the remaining unvested options were forfeited. The Company recorded stock-based compensation in 2000 of $9,221 based on the intrinsic value of the options that vested. The 70,000 vested options were exercised in September 2000.

As described in note 1(a), as part of the consideration exchanged for the outstanding shares of Silicon Channels Corporation, the Company also issued to the majority stockholder in January 2001 fully vested and exercisable options to acquire 2,158,349 shares of common stock. The options have an exercise price of $1.00 and expire in January 2011.

In October 2001, the Company granted to each director fully vested and exercisable options to purchase 30,000 shares of common stock with an exercise price of $2.00 for their services as a director in 2000 and 2001. A total of 210,000 options were granted. The options expire in October 2011.

In March 2002, Travelzoo Inc. granted to each director fully vested and exercisable options to purchase 5,000 shares of common stock with an exercise price of $3.00 for their services as a director in 2002. A total of 35,000 options were granted. In October 2002, 1,411 options were forfeited upon the resignation of a director. All other options are vested as of December 31, 2002. The options expire in March 2012.

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TRAVELZOO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Significant Customer Information and Segment Reporting

SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, establishes standards for the reporting by business enterprises of information about operating segments, products and services, geographic areas, and major customers. The method for determining what information to report is based on the way that management organizes the operating segments within a company for making operational decisions and assessing performance. As of December 31, 2002, the Company has one operating segment: online advertising.

Significant customer information is as follows:

	Percentage of Total Revenue			Percent of Accounts Receivable	
	Year Ended December 31,			December 31,	
Customer	**2002**	**2001**	**2000**	**2002**	**2001**
A	*	*	*	12%	*
B	13%	15%	22%	*	19%
C	*	*	11%		
D	*	13%	*		15%
E	14%	*		21%	11%

All of the above customers are located in the United States of America.

* Less than 10%

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TRAVELZOO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Unaudited Quarterly Information

The following represents unaudited quarterly financial data for 2002 and 2001.

Quarters Ended

	Dec 31, 2002	Sept 30, 2002	June 30, 2002	Mar 31, 2002	Dec 31, 2001	Sept 30, 2001	June 30, 2001	Mar 31, 2001
				(In thousands)				
Revenues:								
Advertising	$ 3,132	$ 2,538	$ 2,211	$ 1,966	$ 1,723	$ 1,574	$ 1,537	$ 1,308
Commissions						1	3	3
Total revenues	3,132	2,538	2,211	1,966	1,723	1,575	1,540	1,311
Cost of revenues	89	90	86	86	79	74	75	77
Gross profit	3,043	2,448	2,125	1,880	1,644	1,501	1,465	1,234
Operating expenses:								
Sales and marketing	1,904	1,510	1,316	996	1,115	920	790	450
General and administrative	647	522	562	562	418	373	366	197
Merger expenses				55	29	62	113	128
Total operating expenses	2,551	2,032	1,878	1,613	1,562	1,355	1,269	775
Income from operations	492	416	247	267	82	146	196	459
Interest income	2	1		1	1	1	1	
Income before income taxes	494	417	247	268	83	147	197	459
Income taxes	168	171	101	133	68	86	127	241
Net income	$ 326	$ 246	$ 146	$ 135	$ 15	$ 61	$ 70	$ 218
Basic and diluted net income per share	$ .02	$ .01	$ .01	$	$	$	$ .01	$ .01

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TRAVELZOO INC.
Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2003	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 2,343,037	$ 1,258,273
Accounts receivable, less allowance for doubtful accounts of $96,778 and $55,925 as of June 30, 2003 and December 31, 2002, respectively	1,696,472	1,311,399
Deposits	108,188	22,339
Prepaid expenses and other current assets	140,383	114,909
Deferred income taxes	81,313	81,313
Total current assets	4,369,393	2,788,233
Deposits	--	64,923
Deferred income taxes	32,054	32,054
Property and equipment, net	105,318	142,091
Intangible assets, net	179,543	212,293

Total assets	$ 4,686,308	$ 3,239,594
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 552,548	$ 442,349
Accrued expenses	836,262	547,680
Deferred revenue	24,865	19,179
Income tax payable	500,669	439,432
Total liabilities	1,914,344	1,448,640
Commitments		
Stockholders' equity:		
Common stock	194,251	194,251
Additional paid-in capital	(116,078)	(116,078)
Retained earnings	2,693,791	1,712,781
Total stockholders' equity	2,771,964	1,790,954
Total liabilities and stockholders' equity	$ 4,686,308	$ 3,239,594

See accompanying notes to unaudited condensed consolidated financial statements.

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TRAVELZOO INC.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Revenues	4,291,359	2,211,180	8,004,936	4,177,204
Cost of revenues	81,031	86,171	164,169	172,000
Gross profit	4,210,328	2,125,009	7,840,767	4,005,204
Operating expenses:				
Sales and marketing	2,294,521	1,316,213	4,218,442	2,312,316
General and administrative	903,119	562,298	1,959,803	1,124,616
Merger expenses	--	--	--	54,538
Total operating expenses	3,197,640	1,878,511	6,178,245	3,491,470
Income from operations	1,012,688	246,498	1,662,522	513,734
Interest income	3,084	350	5,137	1,487
Income before income taxes	1,015,772	246,848	1,667,659	515,221
Income taxes	419,375	100,968	686,649	233,601
Net income	$ 596,397	$ 145,880	$ 981,010	$ 281,620
Basic net income per share	$ 0.03	$ 0.01	$ 0.05	$ 0.01

Diluted net income per share	$ 0.03	$ 0.01	$ 0.05	$ 0.01
Shares used in computing basic net income per share	19,425,147	19,425,147	19,425,147	19,425,147
Shares used in computing diluted net income per share	20,498,665	19,425,147	20,501,602	19,425,147

See accompanying notes to unaudited condensed consolidated financial statements.

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TRAVELZOO INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30,	
	2003	2002
Cash flows from operating activities:		
Net income	$ 981,010	$ 281,620
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	87,940	88,685
Provision for losses on accounts receivable	40,853	36,791
Loss on disposal of property and equipment	415	--
Non-cash revenues	--	(3,410)
Changes in operating assets and liabilities:		
Accounts receivable	(425,926)	(257,485)
Deposits	(20,926)	(29,227)
Prepaid expenses and other current assets	(25,474)	(39,354)
Accounts payable	110,199	(21,358)
Accrued expenses	288,582	106,134
Deferred revenue	5,686	13,296
Income tax payable	61,237	(307,259)
Net cash provided by (used in) operating activities	1,103,596	(131,567)
Cash flows from investing activities:		
Purchases of property and equipment	(18,832)	(98,818)
Net cash used in investing activities	(18,832)	(98,818)
Net increase (decrease) in cash and cash equivalents	1,084,764	(230,385)
Cash and cash equivalents at beginning of period	1,258,273	609,919
Cash and cash equivalents at end of period	$ 2,343,037	$ 379,534
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 625,412	$ 540,860

See accompanying notes to unaudited condensed consolidated financial statements.

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1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Travelzoo Inc. (the Company or Travelzoo) in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company, and its results of operations and cash flows. These condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and related notes as of and for the year ended December 31, 2002, included in the Company s Form 10-K filed with the SEC on March 28, 2003.

The consolidated financial statements include the accounts of Travelzoo and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003 or any other future period, and the Company makes no representations related thereto.

During January 2001, the Board of Directors of Travelzoo.com Corporation proposed that Travelzoo.com Corporation be merged with Travelzoo Inc. whereby Travelzoo Inc. would be the surviving entity. On March 15, 2002, the stockholders of Travelzoo.com Corporation approved the merger with Travelzoo Inc. On April 25, 2002, the certificate of merger was filed in Delaware upon which the merger became effective and Travelzoo.com Corporation was dissolved. Each outstanding share of common stock of Travelzoo.com Corporation was converted into the right to receive one share of common stock of Travelzoo Inc. Former stockholders of Travelzoo.com Corporation have a period of two years to receive shares of Travelzoo Inc. Travelzoo.com Corporation had 11,295,874 shares outstanding. As of June 30, 2003, 7,148,184 shares of Travelzoo.com Corporation had been exchanged for shares of Travelzoo Inc. The remaining 4,147,690 shares of Travelzoo Inc. that may be exchanged are included in the issued and outstanding common stock of Travelzoo Inc. and the calculations of basic and diluted earnings per share. The merger was accounted for as a combination of entities under common control using as-if pooling-of-interests accounting. Under this method of accounting, the assets and liabilities of Travelzoo.com Corporation and Travelzoo Inc. were carried forward to the combined company at their historical costs. In addition, all prior period financial statements of Travelzoo Inc. were restated to include the combined results of operations, financial position and cash flows of Travelzoo.com Corporation. The restated results for Travelzoo Inc. are identical to the combined results of Travelzoo.com Corporation and Travelzoo Inc.

2) Revenue Recognition

Substantially all revenue consists of advertising sales. Advertising revenues are derived principally from the sale of advertising on the *Travelzoo* website and in the *Travelzoo Top 20* e-mail newsletter.

Advertising revenues are recognized in the period in which the advertisement is displayed, provided that evidence of an arrangement exists, the fees are fixed and determinable, no significant obligations remain at the end of the period, and collection of the resulting receivable is deemed probable. Where collectibility is not probable, the revenue will be recognized upon cash collection, provided that the other criteria for revenue recognition have been met. If fixed-fee

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advertising is displayed over a term greater than one month, revenues are recognized ratably over the period. To the extent that any minimum guaranteed impressions are not met during the contract period, the Company defers recognition of the corresponding revenues until the guaranteed impressions are achieved. Fees for banner advertising and other variable-fee advertising arrangements are recognized based on the number of impressions displayed or clicks delivered during the period.

The Company had outsourced part of its advertising sales and production activities to DoubleClick, Inc. (DoubleClick). The agreement with DoubleClick was canceled as of August 23, 2002. Under the terms of the agreement with DoubleClick, the Company received a portion of the revenue received by DoubleClick from clients for the display of advertising on the *Travelzoo* website. The Company records these revenues on a net basis. The gross revenue received by DoubleClick from advertising on the *Travelzoo* website was $-0- and $45,521 for the six months ended June 30, 2003 and 2002, respectively. The Company s share of this income, which has been recorded as revenue, was $-0- and $20,394 for the six months ended June 30, 2003 and 2002, respectively.

Commissions are recorded as the net amount received by the Company and are recognized in the period in which the commissions earned are reported to the Company by the e-commerce partner.

In October 2001, the Company completed the acquisition of the *Weekends.com* domain name. As consideration for the purchase, the Company paid the seller $125,000 in cash and agreed to provide a minimum number of clicks to the seller s other websites through advertising placed on the *Travelzoo* website. The fair value of the advertising services of $89,286 was determined based on the cash price of similar advertising services and recorded as deferred revenue. The revenue is being recognized as the clicks are delivered, and $3,410 of such revenue was recognized for the six months ended June 30, 2002. The agreement with the seller to provide advertising services expired on September 30, 2002. As such, $69,427 of advertising was not delivered and the carrying amounts of the intangible asset and related deferred revenue were reduced accordingly.

3) Stock-based Compensation

The Company adopted Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation -- Transition and Disclosure,* during the quarter ended March 31, 2003. As required under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, and Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, the pro forma effects of stock-based compensation on net income and net earnings per common share have been estimated at the time of grant using the Black-Scholes option-pricing model.

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For purposes of pro forma disclosures, the estimated fair value of the options is assumed to be amortized to expense over the options vesting periods. The pro forma effects of recognizing compensation expense under the fair value method on net income and net earnings per common share were as follows:

	Six months ended June 30,	
	2003	**2002**
Net income as reported	$ 981,010	$ 281,620
Stock-based compensation included in determination of net income	--	--
Stock-based compensation determined under the fair-value based method	--	(954)
Pro-forma net income as if the fair value based method had been applied to all awards	$ 981,010	$ 280,666
Pro-forma basic and diluted net income per share as if the fair value based method had been applied to all awards	$ 0.05	$ 0.01

The fair value of options granted was calculated as of the grant date using the Black-Scholes method with the following assumptions:

	2003	**2002**
Numbers of options granted	--	33,589
Grant date fair value of options	--	0.06
Grant date fair value of the common stock	$ --	$ 0.56
Expected life of the option (in years)	--	5
Annual volatility	--	51%

Risk-free interest rates	--	4.5%
Dividend rate	--	--

4) Net Income Per Share

Net income per share has been calculated under SFAS No. 128, *Earnings per Share*. Basic net income per share is computed by dividing the net income by the weighted-average number of common shares outstanding for the period. Diluted net income per share is computed by dividing net income by the weighted-average number of common shares and potential common shares outstanding during the period. Potential common shares included in the diluted calculation consists of incremental shares issuable upon the exercise of outstanding stock options calculated using the treasury stock method.

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The following table sets forth the calculation of basic and diluted net income per share:

	Three months ended June 30,		Six months ended June 30,	
	2003	**2002**	**2003**	**2002**
Basic net income per share:				
Net income	$ 596,397	$ 145,880	$ 981,010	$ 281,620
Weighted average common shares	19,425,147	19,425,147	19,425,147	19,425,147
Basic net income per share	$ 0.03	$ 0.01	$ 0.05	$ 0.01
Diluted net income per share:				
Net income	$ 596,397	$ 145,880	$ 981,010	$ 281,620
Weighted average common shares	19,425,147	19,425,147	19,425,147	19,425,147
Effect of dilutive securities stock options	1,073,518	--	1,076,455	--
Diluted weighted average common shares	20,498,665	19,425,147	20,501,602	19,425,147
Diluted net income per share	$ 0.03	$ 0.01	$ 0.05	$ 0.01

For the three and six months ended June 30, 2002, all outstanding stock options were excluded from the calculation of diluted earnings per share because their effect was antidilutive.

5) Commitments

The Company leases office space in Mountain View, California, New York, New York and Miami, Florida, under operating leases which expire on December 31, 2003, June 30, 2004 and May 31, 2004, respectively. The future minimum rental payments under these operating leases as of June 30, 2003 and December 31, 2002 total $626,463 and $556,940, respectively. The future lease payments consist of $359,362 of payments due in 2003 and $267,101 of payments due in 2004.

6) Significant Customer Information and Segment Reporting

SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, establishes standards for the reporting by business enterprises of information about operating segments, products and services, geographic areas, and major customers. The method for determining what information to report is based on the way that management organizes the operating segments within a company for making operational decisions and assessing performance. As of June 30, 2003, the Company has one operating segment.

Significant customer information is as follows:

Customer	Percent of revenues		Percent of accounts receivable	
	Six months ended June 30,		June 30,	
	2003	2002	2003	2002
A	13%	17%	21%	22%
B	--	*	--	12%
C	10%	15%	17%	17%

All of the above customers are located in the United States of America.

* Less than 10%

7) Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with retirement of tangible long-lived assets and the associated retirement costs. SFAS No. 143 is effective for the Company beginning in 2003 and the adoption of this statement did not have a material impact on the consolidated financial statements.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145 rescinds the requirement that all gains and losses from extinguishment of debt be classified as an extraordinary item. Additionally, SFAS No. 145 requires that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 is effective for the Company beginning in 2003, and the effect of adoption did not have a material impact on the consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). The interpretation provides guidance for determining when a primary beneficiary should consolidate a variable interest entity or equivalent structure, that functions to support the activities of the primary beneficiary. The interpretation is effective as of the beginning of the Company s third quarter of 2003 for variable interest entities created before February 1, 2003. The Company holds no interest in any variable interest entities. Accordingly, the adoption of this statement is currently not expected to have a material impact on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. The statement improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new statement requires that those instruments be classified as liabilities in statements of financial position. This statement is effective for interim periods beginning after June 15, 2003. The Company does not expect that the adoption of SFAS No. 150 will have a material effect on its consolidated financial statements.

No dealer, salesperson or any other person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offer contained herein, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or the Underwriter. This Prospectus does not constitute an offer of any securities other than those to which it relates or any offer to sell, or a solicitation of an offer to buy, those to which it relates in any state to any person to whom it is not lawful to make such offer in such state. The delivery of this Prospectus at any time does not imply that the information herein is correct as of any time subsequent to its date.

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Until December 6, 2003, all dealers that effect transactions in the Common Stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

404,400 Shares

Common Stock

PROSPECTUS