TRAVELZOO INC
Form 10-Q
August 04, 2016

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

Form 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File No.: 000-50171

Travelzoo Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

The number of shares of Travelzoo common stock outstanding as of August 4, 2016 was 13,845,416 shares.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$27,560	$ 35,128
Accounts receivable, less allowance for doubtful accounts of $380 and $384 as of June 30, 2016 and December 31, 2015, respectively	18,400	16,398
Income tax receivable	833	1,356
Deposits	488	782
Deferred tax assets	1,129	1,230
Prepaid expenses and other	1,828	2,095
Total current assets	50,238	56,989
Deposits	719	501
Deferred tax assets	570	1,769
Restricted cash	1,398	1,400
Property and equipment, net	7,228	7,905
Other assets, net	—	15
Total assets	$60,153	$ 68,579
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$20,843	$ 23,655
Accrued expenses and other	10,982	10,140
Deferred revenue	1,040	1,085
Income tax payable	1,639	477
Note payable to related party	—	5,658
Total current liabilities	34,504	41,015
Long-term tax liabilities	3,053	3,000
Long-term deferred rent and other	2,906	3,177
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock, $0.01 par value per share (5,000 shares authorized; none issued)	—	—
Common stock, $0.01 par value (40,000 shares authorized; 13,889 shares issued and outstanding as of June 30, 2016 and 14,518 shares issued and outstanding as of December 31, 2015)	144	150
Additional paid-in capital	1,716	7,759
Retained earnings	21,455	17,386
Accumulated other comprehensive loss	(3,625)	(3,908)
Total stockholders’ equity	19,690	21,387
Total liabilities and stockholders’ equity	$60,153	$ 68,579

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	$34,046	$36,792	$68,850	$75,937
Cost of revenues	3,612	5,208	7,621	9,754
Gross profit	30,434	31,584	61,229	66,183
Operating expenses:				
Sales and marketing	19,135	20,715	38,094	42,792
Product development	2,089	3,206	4,964	6,295
General and administrative	5,434	5,335	11,247	11,786
Total operating expenses	26,658	29,256	54,305	60,873
Income from operations	3,776	2,328	6,924	5,310
Other income (loss), net	(91)	(218)	42	(664)
Income before income taxes	3,685	2,110	6,966	4,646
Income taxes	1,665	1,268	2,897	3,074
Net income	$2,020	$842	$4,069	$1,572
Basic net income per share	$0.14	$0.06	$0.29	$0.11
Diluted net income per share	$0.14	$0.06	$0.29	$0.11
Shares used in computing basic net income per share	14,066	14,730	14,246	14,730
Shares used in computing diluted net income per share	14,066	14,730	14,246	14,730

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$2,020	$842	$4,069	$1,572
Other comprehensive income (loss):				
Foreign currency translation adjustment	91	1,225	283	(920)
Total comprehensive income	$2,111	$2,067	$4,352	$652

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$4,069	$1,572
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,250	1,510
Provision for losses on accounts receivable	44	52
Stock-based compensation	442	296
Deferred income tax	(211)	(242)
Net foreign currency effect	236	(165)
Changes in operating assets and liabilities:		
Accounts receivable	(2,265)	(2,876)
Deposits	38	73
Income tax receivable	525	1,681
Prepaid expenses and other	182	635
Accounts payable	(2,210)	(1,236)
Reserve for unexchanged promotional shares	—	(1,393)
Accrued expenses	484	143
Income tax payable	1,268	23
Other non-current liabilities	53	795
Net cash provided by operating activities	3,905	868
Cash flows from investing activities:		
Purchases of property and equipment	(648)	(753)
Release of restricted cash	—	57
Net cash used in investing activities	(648)	(696)
Cash flows from financing activities:		
Acquisition of the Asia Pacific business	58	—
Payment of loan to related party	(5,658)	—
Proceeds from loan from related party	—	2,250
Decrease in bank overdraft	—	(237)
Repurchase of common stock	(4,956)	—
Net cash provided by (used in) financing activities	(10,556)	2,013
Effect of exchange rate changes on cash and cash equivalents	(269)	(1,125)
Net increase (decrease) in cash and cash equivalents	(7,568)	1,060
Cash and cash equivalents at beginning of period	35,128	55,417
Cash and cash equivalents at end of period	$27,560	$56,477
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net	$1,072	$733
Cash paid for interest on related party loan	$110	$—

See accompanying notes to unaudited condensed consolidated financial statements.

TRAVELZOO INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: The Company and Basis of Presentation

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

Our publications and products include the Travelzoo websites (www.travelzoo.com, www.travelzoo.ca, www.travelzoo.co.uk, www.travelzoo.de, www.travelzoo.es, www.travelzoo.fr, cn.travelzoo.com, www.travelzoo.co.jp, www.travelzoo.com.au, www.travelzoo.com.hk, www.travelzoo.com.tw, among others), the Travelzoo Top 20 e-mail newsletter, the Newsflash e-mail alert service, the SuperSearch pay-per-click travel search tool, and the Travelzoo Network, a network of third-party websites that list travel deals published by Travelzoo. The Travelzoo websites include Local Deals and Getaways listings that allow our members to purchase vouchers for deals from local businesses such as spas, hotels and restaurants. We receive a percentage of the face value of the voucher from the local businesses. We also operate Fly.com, a travel search engine that allows users to quickly and easily find the best prices on flights from hundreds of airlines and online travel agencies.

Ralph Bartel, who founded Travelzoo and who is a Director of the Company, is the sole beneficiary of the Ralph Bartel 2005 Trust, which is the controlling shareholder of Azzurro Capital Inc. ("Azzurro"). As of June 30, 2016, Azzurro is the Company's largest stockholder, holding approximately 53.5% of the Company's outstanding shares.

On August 20, 2015, we acquired the Travelzoo Asia Pacific business (“Travelzoo Asia Pacific”), which includes the Travelzoo businesses in Australia, China, Hong Kong, Japan, Taiwan, and Southeast Asia. This business was independently operated by Azzurro under a licensing agreement with Travelzoo Inc. Azzurro was the majority stockholder of Travelzoo Asia Pacific. Travelzoo Inc. accounted for the acquisition as a common control transaction and change in reporting entity. The financial results for Travelzoo Inc. have been retrospectively adjusted to include the financial results of Travelzoo Asia Pacific in the current and prior periods as though the transaction occurred at the beginning of each period presented. The Travelzoo Asia Pacific assets and liabilities have been combined with Travelzoo Inc. at their carrying values as though the transaction occurred at the beginning of each period presented. The Travelzoo Asia Pacific transaction proceeds were reflected as an equity transaction, included in retained earnings, during the period the transaction occurred, which was in the year ended December 31, 2015. See Note 10 to the accompanying unaudited condensed consolidated financial statements for further information on the acquisition of Travelzoo Asia Pacific.

Certain prior period statement of operations amounts have been reclassified to conform to the current period presentation. Starting from three months ended September 30, 2015, the Company changed the manner in which it allocates facilities costs to all of its operating activities and has a separate disclosure of product development costs as shown below (in thousands):

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Cost of revenues	$ 120	$ 242
Sales and marketing	1,858	3,816
Product development	3,206	6,294
General and administrative	(5,184)	(10,352)
	$ —	$ —

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The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted in accordance with such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company and its results of operations and cash flows. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes as of and for the year ended December 31, 2015, included in the Company’s Form 10-K filed with the SEC on March 14, 2016.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, including the recently acquired Travelzoo Asia Pacific subsidiaries reflected in the current and prior periods. All significant intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the three months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 or any other future period, and the Company makes no representations related thereto.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most of the existing revenue recognition guidance in U.S. GAAP when it becomes effective. This new accounting standard is effective for the Company for annual periods in fiscal years beginning after December 15, 2017 (as amended in August 2015 by ASU 2015-14, Deferral of the Effective Date). The Company will implement the provisions of ASU 2014-09 as of January 1, 2018. The Company has not yet evaluated nor has it determined the effect of the standard on its ongoing financial reporting.

In August 2014, the FASB issued an accounting standard update that requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity’s ability to continue as a going concern. This accounting standard update applies to all entities and is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter, with early adoption permitted. This accounting standard update will be effective for the Company beginning in the first quarter of fiscal year 2017. The adoption of this accounting standard update is not expected to have a material impact on the Company’s consolidated results of operations, financial position or cash flows.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The updated standard is effective for us beginning on January 1, 2017 with early application permitted as of the beginning of any interim or annual reporting period. The adoption of this accounting standard update is not expected to have a material impact on the Company’s consolidated statement of financial position.

In February 2016, the FASB issued an accounting standard update ASU 2016-02, Leases, which requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. This accounting standard update will be effective for the Company on January 1, 2019. The Company is currently evaluating the effects that the adoption of ASU 2016-02 will have on the Company’s consolidated results of operations, financial position, and cash flows and anticipates the adoption of this accounting standard will have a significant impact on the Company's consolidated financial statements given the Company has a significant number of leases.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This accounting standard update will be effective for the Company on January 1, 2017 with early adoption permitted. The Company has not yet evaluated nor has it determined the effect of the standard on its ongoing financial reporting.

Note 2: Net Income Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic net income per share:				
Net income	$2,020	$ 842	$4,069	$1,572
Weighted average common shares	14,066	14,730	14,246	14,730
Basic net income per share	$0.14	$ 0.06	$0.29	$0.11
Diluted net income per share:				
Net income	$2,020	$ 842	$4,069	$1,572
Weighted average common shares	14,066	14,730	14,246	14,730
Effect of dilutive securities: stock options	—	—	—	—
Diluted weighted average common shares	14,066	14,730	14,246	14,730
Diluted net income per share	$0.14	$ 0.06	$0.29	$0.11

For the three and six months ended June 30, 2016 and June 30, 2015, options to purchase 600,000 and 425,000 shares of common stock, respectively, were not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

Note 3: Financial Instruments

The following tables summarize our financial assets measured at fair value on a recurring basis at June 30, 2016 and December 31, 2015 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance at June 30, 2016				
Cash	$27,560	$ 27,560	$ —	$ —
Total cash	$27,560	$ 27,560	$ —	$ —
Certificates of deposit	$709	$ —	$ 709	$ —
Merchant bank deposit	722	722	—	—
Total restricted cash and cash equivalent	$1,431	$ 722	$ 709	$ —
Balance at December 31, 2015				
Cash	$35,128	$ 35,128	$ —	$ —
Total cash	$35,128	$ 35,128	$ —	$ —
Certificates of deposit	$708	$ —	$ 708	$ —
Merchant bank deposit	725	725	—	—
Total restricted cash and cash equivalent	$1,433	$ 725	$ 708	$ —

At June 30, 2016, and December 31, 2015, accounts receivable, accounts payable and accrued expenses are not measured at fair value; however, the Company believes that the carrying amounts of these assets and liabilities are a reasonable estimate of their fair value because of their relative short maturity.

At December 31, 2015, the note payable to related party was not measured at fair value; however, the Company believes that the carrying amount of these assets and liabilities was a reasonable estimate of their fair value because of its relatively short maturity and subsequent payment.

There have been no transfers and no changes in valuation methods for these assets or liabilities for the periods ended June 30, 2016 and December 31, 2015.

Note 4: Commitments and Contingencies

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

Beginning in 2010, the Company became subject to unclaimed property audits of various states in the United States related to the above unexchanged promotional shares. The Company recorded charges for the estimated settlements with these states of $20.0 million, $3.0 million and $22.0 million in 2011, 2012 and 2013, respectively. In 2014, the Company released $7.6 million of the reserve related to the completion of settlements with the states and in 2015 the Company paid the final settlements outstanding.

Although the Company has settled the unclaimed property claims with all states, the Company may still receive inquiries from certain potential Netsurfer promotional stockholders that had not provided their state of residence to the Company by April 25, 2004. Therefore, the Company is continuing its voluntary program under which it makes cash payments to individuals related to the promotional shares for individuals whose residence was unknown by the Company and who establish that they satisfy the original conditions required for them to receive shares of Travelzoo.com Corporation, and who failed to submit requests to convert their shares into shares of Travelzoo Inc. within the required time period. This voluntary program is not available for individuals whose promotional shares have been escheated to a state by the Company, except those individuals for which their residence was unknown to the Company. The accompanying condensed consolidated financial statements include charges in general and administrative expenses of $1,000 for these cash payments for the three months ended June 30, 2016 and 2015. The accompanying condensed consolidated financial statements include charges in general and administrative expenses of $1,000 and $3,000 for these cash payments for the six months ended June 30, 2016 and 2015.

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

The Company leases office space in Australia, Canada, China, France, Germany, Hong Kong, Japan, Singapore, Spain, Taiwan, the U.K., and the U.S. under operating leases which expire between July 31, 2016 and November 30, 2024. The Company has purchase commitments which represent the minimum obligations the Company has under agreements with certain vendors. These minimum obligations are less than our projected use for those periods. Payments may be more than the minimum obligations based on actual use.

The following table summarizes principal contractual commitments as of June 30, 2016 (in thousands):

	2016	2017	2018	2019	2020	Thereafter	Total
Operating leases	$2,766	$5,399	$4,558	$4,090	$3,636	$ 8,522	$28,971
Purchase obligations	457	882	365	—	—	—	1,704
Total commitments	3,223	6,281	4,923	4,090	3,636	8,522	30,675

Local Deals and Getaways merchant payables included in accounts payable were $13.2 million and $19.1 million, as of June 30, 2016 and December 31, 2015, respectively.

Note 5: Income Taxes

In determining the quarterly provisions for income taxes, the Company uses an estimated annual effective tax rate, which is generally based on our expected annual income and statutory tax rates in the U.S., Canada, Japan, Hong Kong, and the U.K. For the three months ended June 30, 2016 and 2015, the Company's effective tax rate was 45% and 60%, respectively. For the six months ended June 30, 2016 and 2015, the Company's effective tax rate was 42% and 66%, respectively. Our effective tax rate decreased for the three and six months ended June 30, 2016 from the corresponding three and six months ended June 30, 2015, due primarily to the change of geographic mix of taxable income and a $565,000 income tax expense for unrecognized tax benefits related to certain state tax matters for the six months ended June 30, 2015.

U.S. income and foreign withholding taxes have not been provided on undistributed earnings for certain non-U.S. subsidiaries. The undistributed earnings on a book basis for the non-U.S. subsidiaries as of June 30, 2016 are approximately $10.6 million. The Company intends to reinvest these earnings indefinitely in its operations outside the U.S. If the undistributed earnings are remitted to the U.S., these amounts would be taxable in the U.S. at the current federal and state tax rates net of foreign tax credits. Also, depending on the jurisdiction any distribution may be subject to withholding taxes at rates applicable for that jurisdiction. The estimated amount of the unrecognized deferred tax liability attributed to future dividend distributions of undistributed earnings is approximately $491,000 at June 30, 2016.

The Company maintains liabilities for uncertain tax positions. At June 30, 2016, the Company had approximately $2.1 million in total unrecognized tax benefits, which if recognized, would favorably affect the Company’s effective income tax rate.

The Company’s policy is to include interest and penalties related to unrecognized tax positions in income tax expense. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction in the overall income tax provision in the period that such determination is made. As of June 30, 2016 and December 31, 2015, the Company had approximately $925,000 and $872,000, respectively, in accrued interest and penalties related to uncertain tax positions. The Company is in various stages of multiple year examinations by federal taxing authorities. Although the timing of initiation, resolution and/or closure of audits is highly uncertain, it is reasonably possible that the balance of the gross unrecognized tax benefits related to the method of computing income taxes in certain jurisdictions and losses reported on certain income tax returns could significantly change in the next 12 months. These changes may occur through settlement with the taxing authorities or the expiration of the statute of limitations on the returns filed. The Company is unable to estimate the range of possible adjustments to the balance of the gross unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is subject to U.S. federal and certain state tax examinations for certain years after 2008 and is subject to California tax examinations for years after 2005. The material foreign jurisdictions where the Company is subject to potential examinations by tax authorities are the France, Germany, Spain and United Kingdom for tax years after 2009. The Company's 2009 federal income tax return is currently under examination, including a review of the impact of the sale of Asia Pacific business segment in 2009. These examinations may lead to ordinary course adjustments or proposed adjustments to our taxes or our net operating income. The Company has received a Revenue Agent’s Report (RAR) generally issued at the conclusion of an IRS examination, which was consistent with the Notice of Proposed Adjustment we received earlier from the IRS for the 2009 calendar year related to the sale of our Asia Pacific business segment with additional penalties. The RAR proposes an increase to the Company's U.S. taxable income which would result in additional federal tax, federal penalty and state tax expense totaling approximately $31.0 million, excluding interest and state penalties, if any. The proposed adjustment is primarily driven by the IRS’s view that the Asia Pacific business segment assets sold by the Company had a significantly higher valuation than the sales proceeds the Company received upon the sale. The Company disagrees with the proposed adjustments and intends to vigorously contest them. The Company did not make any adjustments to its liabilities for uncertain tax positions related to the RAR during the three months ended June 30, 2016 because the Company does not believe the IRS’s valuation of the Asia Pacific business segment assets is appropriate. If we are not able to resolve these proposed adjustments at the IRS examination level, we plan to pursue all available administrative and, if necessary, judicial remedies.

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Note 6: Accumulated Other Comprehensive Loss

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

	Three Months Ended June 30,	
	2016	2015
Beginning balance	$(3,716)	$(4,747)
Other comprehensive income due to foreign currency translation, net of tax	91	1,225
Ending balance	$(3,625)	$(3,522)

	Six Months Ended June 30,	
	2016	2015
Beginning balance	$(3,908)	$(2,602)
Other comprehensive income (loss) due to foreign currency translation, net of tax	283	(920)
Ending balance	$(3,625)	$(3,522)

There were no amounts reclassified from accumulated other comprehensive loss for the three and six months ended June 30, 2016 and 2015.

Note 7: Stock-Based Compensation and Stock Options

In November 2009, the Company granted an executive stock options to purchase 300,000 shares of common stock with an exercise price of $14.97, of which 75,000 options vest and became exercisable annually starting July 1, 2011. The options' original expiration date was November 2019. As of June 30, 2016, 300,000 of these options were forfeited upon the departure of the executive.

In January 2012, the Company granted certain executives stock options to purchase 100,000 shares of common stock with an exercise price of $28.98, of which 25,000 options became exercisable annually starting January 23, 2013. The options expire in January 2022. As of June 30, 2016, 50,000 options were outstanding and vested. During 2014, 25,000 options were canceled and 25,000 options were forfeited upon the departure of an executive. Total stock-based compensation for the three months ended June 30, 2016 and 2015 related to the outstanding stock option grant were $0 and $60,000, respectively. Total stock-based compensation for the six months ended June 30, 2016 and 2015 related to the outstanding stock option grant were $5,000 and $119,000, respectively. As of June 30, 2016, there was no unrecognized stock-based compensation expense relating to these options.