

TRX, Inc.: Initial Public Offering

September 26, 2005, was not a normal Monday afternoon for Trip Davis, Chief Executive Officer of TRX, Inc. Davis sat in his Atlanta office waiting to return a call from his investment bankers at Credit Suisse First Boston (CSFB). Just back from a marathon two-and-half-week road show across the country and Europe to market the initial public offering (IPO) of his company, Davis had been in touch with his bankers on a daily basis. Although Davis and his team had prepared extensively to help investors understand TRX's business model and promising growth potential, many investors still seemed reluctant to purchase shares. The first few days, the bankers told him not to worry—that the book never came together until the end of the road show. After that, indications of interest began to come in, but at prices below the original file range of \$11 to \$13 per share. The last call from his bankers earlier that day brought news that the book remained “very thin” even at a lowered price of \$9 per share.

This was Davis's second go-round trying to take TRX public. His first attempt in 2000 was cancelled due to unfavorable market conditions related to the dot-com collapse. Since then, TRX had experienced fast growth under Davis's management and had become a major data-transaction and -integration company for the travel industry. Davis knew the company needed to raise capital to support future growth and, more importantly, to recapitalize TRX's current ownership structure. When TRX's first IPO failed, the firm had turned to strategic investors to raise capital, but these investors now wished to exit. While the IPO could provide them liquidity, Davis knew the investors would be loath to agree to an IPO price of less than \$11 per share, the price they had paid for TRX's shares. As the four o'clock hour approached, the bankers waited anxiously in New York for his decision.

Company History

After graduating from business school in 1994, Davis had worked for one year in the new ventures group of a large firm before founding a Web development and

This case was prepared by Susan Chaplinsky, Professor of Business Administration, Kensei Morita (MBA '08), and Xing Zeng (MBA '08). It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2008 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail to sales@dardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.

technology-integration company for the travel industry in San Francisco in July 1995. "When your name is Trip, I guess it's inevitable you end up in the travel business," he said. That company was acquired by iXL Enterprises, Inc., a rapidly growing Internet services firm, in February 1998, and Davis joined iXL to run its travel practice business.

Business was booming. Clients such as Delta, Virgin Atlantic, Starwood, and Budget all needed Web strategy and technology-integration services. One of his clients, WorldTravel Partners (WTP), was a major corporate travel agency in Atlanta. With sales topping \$2 billion in 1999, WTP was the third-largest travel agency behind American Express and Carlson Wagonlit. In 1998 and 1999, Davis met regularly with WTP's CEO and other executives about their technology strategy. WTP used online booking and processing automation technologies to generate better profit margins than its competitors. These technology assets were housed in a subsidiary it created called WorldTravel Technologies, LLC (WTT). As WTP grew, competitors took note of the technology and inquired about using it for their own operations. The competitors, however, expressed one concern: They were reluctant to do business directly with WTP.

Davis and the WTP executives created a plan to spin off the WTT entity. The spin-off was completed in December 1999, and Davis was named CEO of the new company. He renamed the venture TRX, an abbreviation for "transaction," and set out to establish the company's mission and culture now that it was independent of WTP.

At the time of the spin-off in 1999, TRX's major investors included BCD Technology, a Dutch holding company, which was also the majority owner of WTP. BCD was owned by John Fentener van Vlissingen, the scion of a wealthy Dutch family.¹ Dutch investment tradition called for a long-term perspective and conservative financing, principles van Vlissingen embraced. In addition, TRX sold a minority ownership stake to Hogg Robinson Holdings, a large travel company based in the United Kingdom, in order to establish strategic joint ventures in Europe.

In the "go-go" days of the late 1990s, eight days after being appointed CEO of TRX, Davis held a meeting to discuss going public. On February 18, 2000, TRX filed to do an IPO with Goldman Sachs as lead manager. But those plans came to a halt shortly thereafter when the dot-com bubble burst, forcing TRX to abandon its IPO.

Having withdrawn the IPO, Davis decided in the spring of 2001 to seek \$20 million through a private placement to support the firm's growth. That process, which took place over the ensuing months, had identified four investors by August 2001. The four were narrowed to two investors—a strategic buyer, Sabre Investments, Inc. (Sabre), and a financial buyer, General Atlantic Capital Partners. Sabre, a travel technology company, was a spin-off of American Airlines. It was attractive because of its

¹Van Vlissingen's personal net worth was estimated by *Forbes* at \$1.6 billion in 2004. The Fentener van Vlissingen family owned SHV Holdings, N.V., the largest family-owned business in the Netherlands. For background on the family and John Fentener van Vlissingen, see "Family Portrait: The Fentener van Vlissingens' Sense of Duty," *Elseviers* magazine, December 16, 2006; and "Dutch Billionaire Keeps Ideas Coming: Internet Product May Follow Travel Acquisitions," Rachel Tobin Ramos, *Atlanta Business Chronicle*, May 5, 2006.

strong data-transaction technology serving the travel industry and its ownership of Travelocity.com, a major online travel business. With Sabre being a minority shareholder in TRX, Davis hoped to realize synergies from its data-transaction technology and to pursue business opportunities with Travelocity. General Atlantic Capital Partners, the other strong candidate, focused on travel technology and the Asian market. Although the events of September 11 caused some delay, TRX reached agreement to issue a \$15 million convertible promissory note to Sabre with a conversion price of \$11 per share in November 2001.² The remaining \$5 million of funding was provided by BCD Technology and Hogg Robinson at the same terms.

Company Overview

Davis described TRX as a "behind the scenes" travel-processing service company. TRX focused on managing travel- and data-processing activities for its clients so they could concentrate on their own core businesses. Based on his experience, Davis knew each step in the value chain of the travel industry used a different process, and he used this knowledge to identify business opportunities. TRX targeted clients with significant transaction volume in four areas: travel agencies (traditional and online), travel suppliers, large corporations, and credit-card issuers. In 2004, TRX served more than 150 clients on a global basis, with Expedia, Inc., its largest single account, accounting for 53% of its 2004 revenue. TRX provided technology applications that automated and streamlined the entire travel-processing life cycle, including booking, ticketing, settlement (payment), and reporting. **Exhibit 1** describes some of these services.

Travel scheduling was a particularly data-intensive process, and suppliers, agencies, and credit-card companies all used different data structures and hardware and software systems. TRX took data feeds from banks, travel agencies, and travel suppliers and combined and normalized the data to provide clients with standard formats and enhanced content. The transaction processing and data integration associated with travel transactions could also be complex; as many as 500 distinct data fields could be required for a single booking by a single traveler. When a travel reservation was booked online, checked for quality, ticketed electronically, subsequently changed or modified by the traveler, and then reported to the client through TRX's products or services, TRX was paid a fee based on each of these processing services.³

TRX's strength was its ability to automate and engineer travel and travel-related processes. Because of the high transaction volume, TRX could achieve economies of scale by aggregating transaction volume from its large clients and passing these savings on to its clients. In many companies, travel was the second-largest expense after personnel. Most of TRX's clients were developed through long-term partnerships.

²The convertible promissory note initially paid interest of 7% per annum (later increased to 11%) on a cash or accrued basis. The note would mature in November 2006 at which point investors either would be repaid \$20 million or convert the note into common shares at \$11 per share. The terms of such securities typically allowed for an event such as an IPO to trigger automatic conversion of the note into common shares.

³TRX had an arrangement with most of its clients to pay one to three months in advance of performing the services. This form of supplier financing was helpful in reducing the firm's working capital requirements.

An important aspect of keeping these relationships was TRX's independence, which provided clients with unbiased and confidential processing capabilities and permitted nonexclusionary business relationships. In Davis's view, TRX's independence was a major factor behind the company's success, "We want to be the Switzerland of travel and do business with everyone," he said.

TRX generated revenue primarily from three service offerings: transaction processing, data integration, and customer care. Customer care required that the company staff and maintain call centers to respond directly to customer inquiries. Although TRX generated more than 50% of its revenue from customer care in 2000, Davis's long-term strategy was to focus on the higher-margin data-transaction and -integration sectors. TRX had gradually shifted away from customer care to transaction processing and data integration. By 2004, transaction processing and data integration accounted for 70% of total revenues, while customer care had fallen to 30%. His intent was to exit the customer-care segment entirely, but this would likely take several more years to accomplish.

By 2004, TRX was processing nearly 73.5 million travel transactions a year, up from 9.3 million in 1999. From a revenue perspective, TRX generated \$113.4 million in total revenues in 2004 up from \$63.2 million in 2000, and was ahead of the previous year's pace for the first six months of 2005. Despite the strong growth in revenue, the company still had not reported positive net income. Exhibits 2 and 3 present selected financial and balance sheet information.

Industry Overview

In 2004, travel was one of the largest global industries, totaling nearly \$400 billion from annual airline, lodging, car, cruise, and vacation-package bookings. The travel-service industry originated with the development of local travel agencies to serve the corporate- and leisure-travel industry. These travel agencies were designed to assist clients in arranging corporate or leisure travel on a regular basis. By using a travel agency, a client could significantly reduce the cost and time associated with booking flights, rental vehicles, and hotels through multiple sources.

The growth in online access and low-cost carriers increased price transparency and competition, which drove prices down. The overall impact on the industry was a decrease in the cost per mile travelers paid. The number of travel agencies decreased significantly because travelers could essentially act as their own travel agents. The resulting consolidation concentrated a growing share of travel purchasing with a short list of large agencies. As a result, there was an increased willingness to outsource noncore "back office" business functions. Reliable reservation-processing and data management were essential for good service; but they were not functions that directly mattered to the end customer—provided they were handled well. Thus, companies such as TRX, which specialized in transaction-processing and data management, were poised to serve this new market.

As the Internet and electronic retailing exploded in the 1990s, the travel industry focused its efforts on Web-based sales. Such companies as Priceline, Expedia, and Travelocity thrived with Web sites that provided one-stop travel shopping without the

need for an agent as an intermediary. The rapid growth of the Internet enabled clients to make travel arrangements easily, based on price, availability, schedule compatibility, and amenities.

The fortunes of TRX were tied to the overall health of the travel industry. Recently, the travel industry had experienced some serious headwinds. Following the terrorist attacks of September 11, 2001, passenger air travel declined in 2001 and further still in 2002. Air travel began to recover in 2003, but 2004 was the first year in which revenue passenger ton-miles had exceeded the level reached in 2000.⁴ Subsequent terrorist attacks in Madrid, London, and elsewhere kept travel concerns in the public eye. In addition, oil prices had roughly doubled from \$28 per barrel in 2000 to \$55 per barrel in the summer of 2005. Rising fuel costs, which accompanied increased oil prices, had caused airlines to retrench certain routes and otherwise increased the cost of air travel.

IPO in 2005

By the fall of 2004, TRX was generating double-digit top-line revenue growth, but the company was still losing money. Davis knew that the company needed to grow further and to continue the shift away from the low-margin customer-care business.

In the meantime, the relationships with Hogg Robinson and Sabre Investments, TRX's two minority shareholders, had become problematic. Davis chose to raise capital from Sabre in 2001 mainly for the credibility he thought it would bring in the marketplace and for the business opportunity with Travelocity. Disappointingly, few synergies had materialized and Travelocity never became a client of TRX. In retrospect, Davis had come to believe that the Sabre investment had been a mistake. "I'd become frustrated by their lack of urgency in improving TRX's core business, no business with Travelocity had ever come through, and their agenda was different from TRX's." Sabre focused on utilizing global distribution system (GDS) technology with ties to major airlines.⁵ In an industry with relatively few players, Sabre's stake increasingly undermined TRX's goal to be seen as a company independent from any major travel agency or airline. For its part, Sabre had also reached the decision that it was in its best interest to sever the relationship with TRX. Hogg Robinson's change of circumstance was more straightforward. It had been bought by a private-equity firm in 2000, and the investors wanted to exit the investment in TRX. Meanwhile, van Vlissingen, TRX's largest shareholder, took a longer-term view and urged Davis to plan over a three-year horizon, asking him, "What do we want to do?"

Davis had determined that TRX would need to raise capital to fund future growth, and at the same time, he wanted to achieve a strategic recapitalization of TRX. Davis

⁴U.S. Department of Transportation, Bureau of Transportation Statistics.

⁵Global distribution systems were computer reservations systems used to store and retrieve information and conduct transactions related to air travel. Originally designed and operated by airlines, they were later extended for use by travel agents and consumers through Internet gateways.

believed there were three possible capital-raising options: (1) an IPO, (2) a private placement of equity, or (3) a private placement of debt. To Davis, the IPO seemed the best option. An IPO would be an important milestone for TRX; the offering would provide equity capital and facilitate future access to the public markets. In addition, it offered liquidity for exiting minority shareholders, which would ultimately lead to a better alignment of his stakeholders.

In October 2004, Davis and TRX management met with investment banks. He selected the technology banking team from Credit Suisse First Boston (CSFB) to lead the offering. Davis and major shareholders from BCD Technology had developed a close relationship with CSFB since TRX's incorporation in 1999, and both parties were familiar with each other. More importantly, CSFB had strong analyst coverage in the online travel and data-transaction sectors, which Davis believed would help investors understand TRX's business model.

Three co-managers were also selected to assist in the public offering: Thomas Weisel Partners LLC; Legg Mason Wood Walker, Incorporated; and SunTrust Capital Markets, Inc. Choosing a co-underwriting team was important because it allowed the company to increase its research coverage and reach a larger investor audience. Ideally, the underwriting banks should bring complementary skills and a diversified investor client base. In this case, each bank brought a unique set of competencies—Thomas Weisel was known for its aggressive sales and trading effort, while Legg Mason and SunTrust had a wide investor client base in the central and southern United States.

While Davis was pleased to have a strong team on board, CSFB's research reported a choppy market for IPOs in 2004. The NASDAQ market had trended down in 2004, reaching a low in August 2004 before making a strong recovery in the final two quarters of the year (**Exhibit 4**). These broader market conditions were mirrored in the terms of IPOs. For two consecutive months from July to August 2004, pricing was poor as technology IPOs experienced a -17.6% and -23.8% decline in the file price to offer price in those months (**Exhibit 5**). In September and October 2004, however, the pricing environment improved as the IPOs issued in July and August traded up ("offer to current price"). With an improving climate, Davis and CSFB made tentative plans for an IPO filing in March 2005.

Following a strong fourth quarter in 2004, the U.S. technology IPO market experienced a difficult start to 2005, causing Davis and TRX to push back the company's IPO filing. By May, the NASDAQ began to rebound. Further, the U.S. technology IPO backlog remained flat in the range of \$3.7 billion to \$4.5 billion (**Exhibit 6**). The backlog, which was a measure of pending supply, was half the \$9 billion to \$10 billion of a year ago, when IPO giants such as Google (with \$1.9 billion in proceeds) had gone public. The hope was that firming market conditions would facilitate an IPO issue in the second half of 2005.

With the expectation of better market conditions ahead, Davis decided to officially start the IPO process. On May 9, 2005, TRX filed an S-1 registration statement with the U.S. Securities and Exchange Commission (SEC) for a proposed IPO of 6.8 million shares of common stock. TRX agreed to sell 3.4 million primary shares; the remaining 3.4 million shares were secondary shares. TRX would not receive any proceeds from the sale of secondary shares. Those proceeds would go instead to the

selling shareholders, Hogg Robinson and Sabre, which were selling 2.131 million and 1.239 million shares to the public, respectively.⁶ **Exhibit 7** provides information on the principal and selling shareholders.

Proposed Filing Range

In July 2005, Davis met with CSFB to review market conditions and to prepare for the road show. His bankers informed him that market conditions remained soft. The conversion of road show meetings into orders had been relatively low of late due to the weak performance of tech IPOs in early 2005. It was important, therefore, the bankers told him, that the IPO be reasonably priced and that he be well prepared for the road show.

CSFB had prepared a valuation of the file price range by comparing TRX to comparable publicly traded companies. Absent a perfectly comparable company, CSFB expected investors to benchmark TRX to four key sectors: online travel, payment processing, travel distribution, and corporate travel (**Exhibit 8**). CSFB believed online travel companies such as Priceline and eBookers had growth driven by similar trends and had proven track records with investors. But their business models were not directly comparable to TRX because their businesses were less capital-intensive. Payment processors, such as First Data and Fiserv, provided a large set of comparables with similar business models to TRX. Scale and cost management were critical to these firms, but their growth was driven by different fundamentals. The secondary set comparables were useful for assessing the scale of the market opportunity and provided a lower bound for valuation.

For Internet and travel companies, investors widely used enterprise and price-earnings multiples to determine valuation.⁷ CSFB and TRX's management believed both multiples would give the company credit for its strong cash flow and an improving earnings outlook. **Exhibit 9** provides multiples for comparable companies and **Exhibit 10** shows financial projections for 2005–07. CSFB based its financial projections on its own research and forecasts of TRX's business, which were more conservative than management's forecasts. Both projections, however, expected the company to grow EBITDA significantly after the IPO and to realize positive earnings in 2006 and beyond. This improving profit outlook was expected because TRX's four top clients were experiencing rapid revenue growth themselves and increasingly adopting more of TRX's higher-margin services.

⁶Typically, investment bankers were reluctant to include large amounts of secondary shares in an IPO. The 50–50 split of primary and secondary shares was the maximum CSFB would agree to. But this amount of secondary shares was not enough to fully liquidate the stakes of the minority shareholders. Therefore, an overallotment option was granted to the underwriters, which would allow the selling shareholders to sell an additional 1.02 million shares. Approximately 17.7 million common shares would be outstanding upon completion of the IPO.

⁷A commonly used enterprise multiple was Enterprise Value/Earnings Before Interest, Taxes, Depreciation, and Amortization (EV/EBITDA), and the price/earnings (P/E) multiple was Price Per Share/Earnings Per Share.

CSFB used P/E and EV/EBITDA multiples to estimate a pro forma value for TRX's equity assuming the IPO was completed. A 15% discount was then applied to this equity value. This discount reflected the bankers' belief that a newly public firm would not trade at the same value as a seasoned firm. Critics, however, contended that because IPOs were typically underpriced and closed at a higher price in the after-market than the offer price, this practice mainly resulted in "money left on the table," which served the investment bank's interests rather than the issuer's. The proposed IPO filing range based on CSFB's analysis was set between \$11 and \$13 per share.

Road Show

Davis and TRX's management had undertaken several important strategic initiatives during 2004, including European expansion and the pursuit of a major travel agency deal. Despite negative earnings, TRX had strong cash-flow generation through expanding EBITDA and aggressive working-capital management. Davis knew he would need to articulate TRX's "behind the scenes" business model and detail the progress of the transition away from customer care. CSFB had stressed to him the need to communicate the drivers of EBITDA growth and the path to profitability. To this end, Davis hired a communications consulting firm to help him and other team members, CFO Lindsey Sykes and EVP of Strategic Planning Charlie Crissman, prepare for the road show. They practiced the presentation and potential questions repeatedly before departing. His bankers were impressed, saying they had never seen a more prepared management team.

CSFB had targeted top institutional holders of online travel companies and payment processors for the road show. The two-and-a-half-week road show commenced September 6, 2005 (**Exhibit 11**). Once again, the timing proved difficult. The first Tuesday of the road show occurred after Hurricane Katrina slammed into New Orleans, and one week later, Delta and Northwest Airlines declared bankruptcy. "Normally, investors raise issues about the industry, and I was prepared to talk about it," Davis recalled, "but in this case, the general view was that the industry was so awful nobody even asked." The schedule was grueling—starting at 7:30 a.m., attending working lunches with investors, finishing at 5:30 p.m., traveling to the next city, arriving at midnight, or sometimes early in the morning. Even though Davis and his team put every effort into communicating the company's promise to investors, explaining the company's "behind the scenes" business model proved frustrating. "I'd be halfway through the presentation," Davis said, "having answered a number of questions, when some guy would ask, 'What is it that you guys do again?'" Throughout the road show, the bankers were "building the book," taking orders from potential buyers. These orders were non-binding, but nonetheless helped the bankers gauge interest in a new offer.

Decision

When Davis returned to Atlanta at the end of the road show, he got a call from two managing directors of the Global Technology Group at CSFB. From the book-building results, CSFB concluded that the proposed file range of \$11 to \$13 per share could

not be achieved with current investor demand. Based on their experience, the final IPO offer price would need to be lowered to \$9 per share to secure enough investors. This below-the file-range adjustment would reduce the company's expected IPO proceeds by \$10.2 million, a 25% decrease.

Davis decided the company had two options: (1) go ahead with the IPO at the lower price of \$9 per share, or (2) withdraw the IPO and wait for a better time to try again.

The first option would allow TRX to raise capital (albeit less than originally expected) to support growth and accelerate the transition away from customer care. The challenge would come from the two selling shareholders, Hogg Robinson and Sabre. How would they respond to the lower price? The revised price of \$9 per share was lower than the price they had paid for their shares in November 2001, and their lack of agreement to proceed at the lower price could potentially block the IPO. He had placed calls to both parties to discuss the situation and was prepared for difficult conversations. How likely were they to agree to the \$9 price? What options existed if they said no?

The second option to withdraw the IPO would allow TRX time to grow and complete the exit from the customer-care business before the next IPO attempt. With an increased focus on higher-margin businesses, some of TRX's operational uncertainty would be reduced, and Davis believed the valuation of the company would become more favorable. Davis also knew his majority shareholder (BCD Technology) was patient and would allow him to make the best decision. In the interim, though, he would have to find a way to cash out Hogg Robinson, whose intention to exit was most pressing.

The bankers at CSFB waited anxiously to hear back from him. If Davis decided to proceed with the IPO, the pricing meeting would commence after the close of trade that day, and the allocation process of new shares would begin in earnest.

EXHIBIT 1 | TRX Products and Services

TRX offered five major business solutions to manage transaction processing and data integration for its clients. TRX generated its revenue by providing these solutions and charging a fee on a per-transaction basis. As TRX solutions become more integrated in the clients' end-to-end business processes, it increased the transaction volume and, in turn, generated more revenue.

RESX was an online corporate booking tool that is offered through a Web-based interface for business travelers and corporate travel managers, enabling the client to arrange airline, vehicle, and hotel reservations. Notable RESX clients included Carlson Travel Group, Adelman Travel Group, Intel Corporation, and World Travel BTI.

SELEX was an online reservation technology platform that allowed travel agents and customer care representatives to make travel reservations, process service requests, and manage customer profiles in a real-time customer service environment. SELEX was a Web-based interface that provided access to traveler profiles and behavior data, corporate travel policies, and interoffice communications. SELEX was used by large travel agencies and their designated customer-service providers. Notable clients included American Airlines, Expedia, and ebookers.

CORREX was a transaction processing platform enabling efficient, automated quality control, file finishing, and electronic ticketing of travel reservations. CORREX processed all transactions for leisure and corporate travel that are booked on-line and off-line by agents. The software enabled such systems as seat assignment, low-fare searches, travel upgrades, and alternate-route searches. CORREX also managed all electronic ticketing, including e-ticket issuance, e-mail notification and communication, and pretrip reporting. CORREX was hosted by TRX and managed by clients. Notable CORREX clients included American Express, Boeing, Carlson Wagonlit Travel Inc., Expedia, and WorldTravel BTI.

TRANXACT was a transaction processing platform providing transaction settlement, exception handling, document distribution, and back office accounting. TRANXACT managed transaction processing and fulfillment activities for travel agencies, airlines and non-air suppliers. TRANXACT handled multiple activities for our clients including exchanges, refunds, waivers and split payments, commission management, fare loading, document distribution, debit memo processing, back office hosting, and settlement and client reporting. TRANXACT was hosted and operated by TRX on behalf of its clients, which included American Airlines, ebookers plc, Expedia, lastminute.com plc, and Opodo.

DATATRAX was an integration platform enabling the aggregation, enhancement, extraction, and reporting of transaction data. DATATRAX consolidated data records from a variety of sources, including credit card issuers, credit card networks, back office travel systems, hotel suppliers, airlines, and GDSs, and normalized the records into a common structure in a single data repository. DATATRAX also enabled enhancement of data records with more detailed transaction data from other sources, increasing the value and utility of the data to the clients. DATATRAX clients included British Airways PLC, Citibank, Ford Motor Company, Lockheed Martin Corporation, and UBS AG.

Source: Prospectus for TRX, Inc, September 27, 2005.

EXHIBIT 2 | Selected Financial Data (in thousands, except for per-share data)

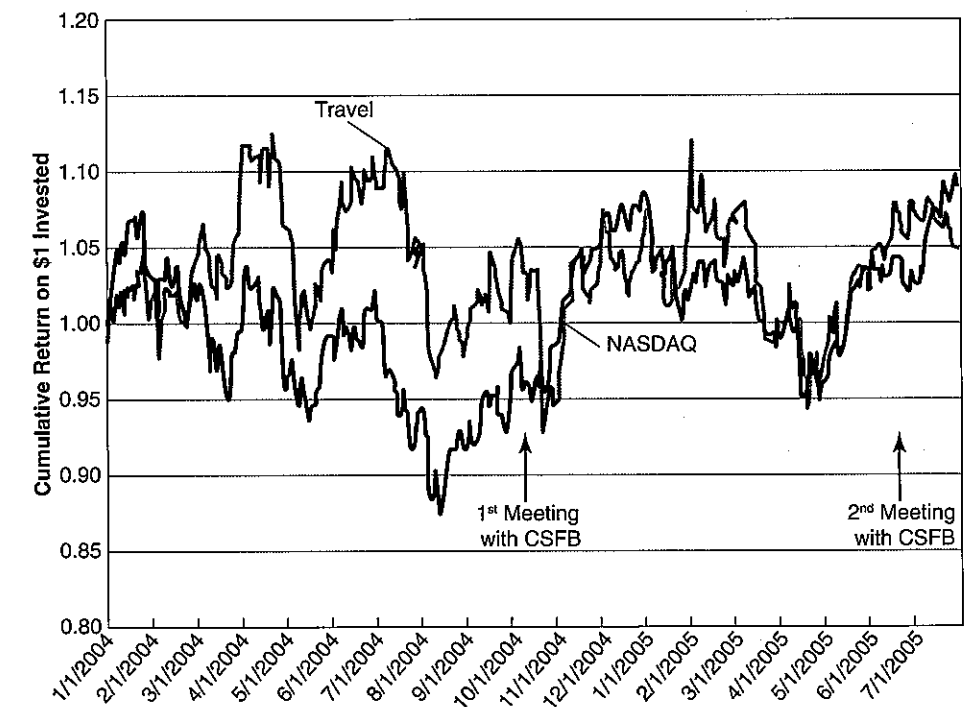
	As of June 30		Annual Basis			
	2005*	2004	2003	2002	2001	2000
Revenues:						
Transaction and other revenues	\$ 59,938	\$ 109,398	\$ 72,760	\$ 65,280	\$ 66,464	\$ 58,179
Client reimbursements	2,024	4,061	1,750	1,664	2,323	1,925
Total revenues	61,962	113,459	74,510	66,944	68,787	63,204
Expenses:						
Operating	38,657	73,230	43,734	41,254	45,073	41,038
Selling, general, and admin	10,227	19,885	16,023	16,169	16,296	15,909
Technology development	6,065	13,462	6,378	5,056	5,269	6,051
Client reimbursements	2,024	4,061	1,750	1,664	2,323	4,925
Restructuring	2,308	1,732	—	—	533	915
Depreciation and amortization	4,810	9,943	8,250	8,009	7,999	4,337
Total expenses	64,091	122,313	76,135	72,152	77,493	73,175
Operating loss	(2,129)	(8,854)	(1,625)	(5,208)	(8,706)	(9,971)
Interest expense, net	(1,493)	(2,323)	(1,867)	(1,542)	(708)	(1,466)
Loss from equity method investments	—	—	(896)	(924)	(1,946)	(635)
Cumulative effect of change in accounting	—	—	—	(1,700)	—	—
Net loss	\$ (3,622)	\$ (11,177)	\$ (4,388)	\$ (9,374)	\$ (11,360)	\$ (12,072)
Other Data:						
Adjusted EBITDA	\$ 4,989	\$ 2,821	\$ 5,729	\$ 1,877	\$ 2,120	\$ 5,354
Noncash stock compensation	42	374	690	697	807	502
Cash provided by (used in) operating activities	5,735	2,611	13,054	5,443	922	(947)
Capital expenditures	3,321	9,426	7,482	4,854	5,189	16,237
Working capital (deficit)	(27,013)	(24,894)	(1,100)	(2,091)	4,059	(7,733)
Average shares outstanding	12,462	12,248	11,482	11,481	11,491	9,270

Source: Prospectus for TRX, Inc, September 27, 2005.

EXHIBIT 3 | Balance Sheet Information

	2004	2003
Assets		
Cash and cash equivalents	\$ 10,595	\$ 18,940
Trade accounts receivable, net	11,458	4,101
Prepays and other	2,218	2,039
Total current assets	24,271	25,080
Property and equipment, net	19,513	15,154
Goodwill	21,512	3,473
Other assets, net	1,070	534
Total noncurrent assets	42,095	19,161
Total assets	\$ 66,366	\$ 44,241
Liabilities and shareholders' deficit		
Accounts payable and accrued liabilities	\$ 31,143	\$ 16,641
Customer deposits and deferred revenue	14,415	8,981
Current portion of long-term debt	3,607	558
Total current liabilities	49,165	26,180
Long-term debt, less current portion	4,583	166
Convertible notes, net of unamortized	19,317	18,960
Commitments and contingencies		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 12,544,283 and 11,910,977 shares issued; 12,461,752 and 11,910,977 shares outstanding	125	119
Additional paid-in capital	45,001	37,850
Treasury stock, at cost; 82,531 and 0 shares	(1,009)	
Note receivable from shareholder	(1,000)	(1,000)
Deferred compensation	(113)	(299)
Cumulative translation adjustment	(578)	213
Accumulated deficit	(49,125)	(37,948)
Total shareholders' deficit	(6,699)	(1,065)
Total liabilities and shareholders' deficit	\$ 66,366	\$ 44,241

Source: Prospectus for TRX, Inc, September 27, 2005.

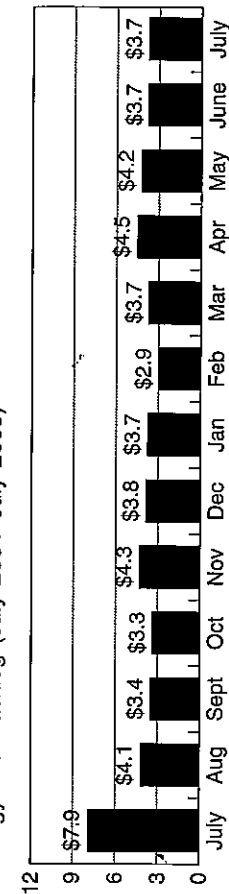
EXHIBIT 4 | NASDAQ Market and Travel Industry Performance

Source: Data from Datastream, Inc.; graph constructed by case writer.

EXHIBIT 5 | Pricing Information on IPOs (July 2004 – June 2005)

	Volume (\$ billions)		%Change File Price to Offer Price		% Change Offer Price to Close Day 1		% Change Offer Price to Current	
	Tech	All	Tech	All	Tech	All	Tech	All
Jul 04	\$1.9	\$3.4	-17.6%	-14.0%	14.2%	5.1%	49.1%	34.7%
Aug 04	\$2.7	\$1.9	-23.8%	-14.5%	8.7%	2.0%	127.8%	92.7%
Sep 04	\$0.6	\$1.9	1.6%	-4.4%	24.7%	9.4%	42.8%	33.8%
Oct 04	\$0.4	\$4.3	-1.7%	-2.6%	12.1%	12.8%	(5.2)%	37.6%
Nov 04	\$0.4	\$2.6	20.1%	1.7%	35.6%	16.6%	5.8%	12.8%
Dec 04	\$0.5	\$4.4	12.8%	6.4%	14.4%	14.4%	-7.3%	11.4%
Jan 05	\$0.2	\$1.9	6.5%	-0.9%	23.0%	11.5%	-1.5%	23.3%
Feb 05	\$1.5	\$4.8	-4.5%	-8.6%	10.6%	5.9%	-3.6%	-0.3%
Mar 05	\$0.3	\$1.5	6.2%	-1.0%	34.4%	16.5%	9.1%	6.8%
Apr 05	\$0.2	\$0.6	-23.1%	-20.4%	7.5%	0.7%	76.5%	15.6%
May 05	\$0.2	\$2.4	-9.9%	-8.8%	-2.9%	4.7%	8.3%	23.8%
Jun 05	\$0.8	\$3.4	-1.1%	-7.8%	5.1%	6.9%	8.0%	11.2%

Source: Data from Equidesk; exhibit prepared by case writer.

EXHIBIT 6 | U.S. Technology IPO Backlog (July 2004–July 2005)

Filing Date	Issuer	Amount (\$MM)	Bookrunner	Industry	2004 Sector Perf	Revenue Run Rate (\$MM)	Profitability
06/30/05	Intralinks, Inc.	50.0	JPM, UBS	Internet	10.4%	44.2	No
06/15/05	Vocus	40.0	Weisel	Software	9.7%	24.4	No
06/14/05	Focus Media Holdings	151.5	GS	Services	3.5%	33.6	Yes
06/02/05	Activant Solutions Holdings	200.0	JPM, DB	Software	9.7%	238.2	Yes
05/12/05	WebMD Health Holdings	50.0	NA	Internet	10.4%	134.1	Yes
05/09/05	Chicago Board of Trade	150.0	CSFB, JPM	Services	3.5%	465.8	Yes
05/09/05	TRX, Inc.	80.0	CSFB	Services	3.5%	113.5	No
05/05/05	Hittite Microwave Corp.	87.5	LEHMAN	Semiconductors	5.0%	67.6	Yes
04/27/05	Website Pros	70.0	FBR	Internet	10.4%	29.2	No
04/13/05	Spanion	600.0	CITI, CSFB	Semiconductors	5.0%	1,947.9	No
04/08/05	Refco	575.0	CSFB, GS, BOFA	Services	3.5%	4,285.6	Yes
04/04/05	Advanced Analogic Tech	172.5	MS	Semiconductors	5.0%	56.3	Yes
03/23/05	Global Cash Access	471.5	GS, JPM	Services	3.5%	210.0	Yes
03/22/05	Intercontinental Exchange	115.0	MS, GS	Services	3.5%	114.0	Yes
01/25/05	Buy.com Inc.	86.3	RBC	Internet	10.4%	352.8	No
11/19/04	Unica Corp.	57.5	DB	Software	9.7%	55.3	Yes
10/06/04	Akron Inc.	50.0	DB	Semiconductor Capital Equipment	5.3%	69.2	No
08/20/04	ArcSoft	46.0	RBC	Software	9.7%	19.0	No
07/09/04	Eagle Test Systems Inc.	166.8	BOFA, LEHMAN	Semiconductor Capital Equipment	5.3%	94.3	Yes
06/25/04	Ikanos Communications Inc.	85.0	CITI, LEHMAN	Semiconductors	5.0%	63.7	No
04/16/04	Nextest Systems Corp.	90.0	ML	Semiconductor Capital Equipment	5.3%	37.3	Yes
04/13/04	GSI Technology Inc.	103.5	ML	Semiconductors	5.0%	46.8	No
03/31/04	Taleo Corp.	115.0	CITI	Software	9.7%	53.6	No
02/04/04	PNY Technologies Inc.	100.0	LEHMAN	Semiconductors	5.0%	344.8	No
Total = 25		\$3,693.0					

Source: Internal TRX document, July 13, 2005.

EXHIBIT 7 | Principal and Selling Shareholders

	Shares beneficially owned prior to the IPO		Shares to be sold in IPO	Shares beneficially owned after the IPO	
Name of Beneficial Owner	Number	Percentage		Number	Percentage
5% shareholders:					
BCD Technology	9,432,709	73.2%	—	9,432,709	53.1%
Hogg Robinson Holdings	2,416,100	19.2%	2,131,401	284,699	1.6%
Sabre Investments, Inc.	1,406,956	10.2%	1,239,833	167,123	0.9%
Directors and Executive Officers:					
Norwood H. ("Trip") Davis, III	740,317	5.9%	—	740,317	4.2%
Victor P. Pynn	10,000	*	—	10,000	*
Lindsey B. Skyes	38,750	*	—	38,750	*
Timothy J. Severt	46,250	*	—	46,250	*
William F. Brindle	2,416,100	19.2%	2,131,401	284,699	1.6%
John F. Davis, III	—	—	—	—	—
Johan F. ("Joop") Drechsel	9,432,709	73.2%	—	9,432,709	53.1%
Thomas Klein	1,406,956	10.2%	1,239,833	167,123	*
Michael W. Gunn	—	—	—	—	—
John A. Fentener van Vlissingen	9,432,709	73.2%	—	9,432,709	53.1%
All executive officers and directors as a group (14 people)	14,320,355	98.2%	3,386,234	10,934,121	60.7%
Other Selling Shareholders:					
Christopher Brittin	54,496	*	13,766	40,730	*
Susan R. Hopley	138,023	1.1%	15,000	123,023	*

*less than 1%.

The table does not include shares that might be sold through exercise of the overallotment option.

Source: Prospectus for TRX, Inc, September 27, 2005.

EXHIBIT 8 | TRX Market Comparables

Absent a perfectly comparable publicly traded company, investors will compare TRX to four key sectors:
 Online Travel: Ctrip, eBookers, InterActive, lastminute.com, priceline.com

- ✓ Growth driven by similar trends
- ✓ Proven track record with investors
- x Not directly comparable business model to TRX; less capital intensive

Payment Processing: Alliance Data Systems, Certegy, First Data, Fiserv, Global Payments, iPayment, Total System Services

- ✓ Ample sample set and relatively tight multiple range provide valid valuation benchmark; similar business models
- ✓ Fiercely competitive in each segment; investors understand scale and cost management critical
- x Growth driven by different fundamentals

Travel Distribution: Amadeus, Cendant, Pegasus, Sabre

- ✓ Scale provides indication of market opportunity
- x Low valuations due to growth potential in existing markets
- x Slow growth with legacy issues

Corporate Travel: American Express, Navigant

- ✓ Valid valuation benchmark as a floor
- x Business models not directly comparable to TRX
- x Relatively low valuations: facing segment competition from lower cost providers
- x Significantly greater scale
- x May become customers of TRX

Source: Internal company document.

EXHIBIT 9 | Summary Comparable Company Analysis

(\$ in millions, except per share values)

Company	Share Price as of			EV / EBITDA				P/E			
				2005E		2006E		2005E		2006E	
	4/15/05	7/8/05	% Change	April	July	April	July	April	July	April	July
Online Travel											
IAC/Interactive Corp.	\$22.01	\$24.27	9.3%	9.8×	12.1×	8.9×	10.5×	21.3×	22.9×	18.3×	19.7×
Priceline	24.71	22.65	-9.1%	15.6×	13.5×	13.3×	11.0×	20.7×	18.7×	17.4×	16.0×
CTrip	37.50	56.71	33.9%	20.2×	34.1×	14.7×	24.8×	29.1×	41.4×	22.1×	31.2×
			Median: 9.3%	15.6×	13.5×	13.3×	11.0×	21.3×	22.9×	18.3×	19.7×
			Mean: 11.4%	15.2×	19.9×	12.9×	15.4×	23.7×	27.7×	19.3×	22.3×
Payment Processors											
First Data Corp.	\$38.31	\$40.75	6.0%	10.5×	11.1×	9.4×	10.4×	16.3×	17.5×	14.3×	15.4×
Fiserv Inc.	40.87	44.40	8.0%	9.0×	9.4×	8.2×	8.7×	18.6×	19.9×	16.4×	17.6×
Total System Services	23.99	23.91	-0.3%	11.5×	11.4×	10.2×	10.5×	26.0×	25.0×	22.4×	21.9×
Alliance Data Systems	37.38	41.85	10.7%	10.5×	11.5×	9.0×	10.2×	20.5×	22.1×	17.7×	19.2×
Global Payment	61.90	65.20	5.1%	12.3×	11.7×	NA	10.2×	24.4×	25.5×	21.1×	22.6×
Certegy	32.78	38.57	15.0%	9.6×	10.8×	8.6×	10.0×	18.1×	20.9×	15.9×	18.3×
IPAYMENT	41.48	37.08	-11.9%	8.6×	7.9×	7.9×	7.2×	22.3×	20.0×	19.1×	17.2×
			Median: 6.0%	10.5×	11.1×	8.8×	10.2×	20.5×	20.9×	17.7×	18.3×
			Mean: 4.6%	10.3×	10.5×	8.9×	9.6×	20.9×	21.6×	18.1×	18.9×
Distribution											
Cendant	\$20.07	\$22.33	10.1%	8.5×	9.4×	7.5×	8.3×	14.3×	15.8×	12.0×	13.4×
Sabre Holdings	21.20	19.55	-8.4%	6.0×	6.1×	6.5×	6.1×	13.9×	12.8×	13.0×	11.7×
Pegasus Solutions	11.24	11.24	—	6.7×	8.5×	6.4×	8.1×	22.0×	26.3×	16.3×	21.6×
			Median: —	6.7×	8.5×	6.5×	8.1×	14.3×	15.8×	13.0×	13.4×
			Mean: 10.6%	7.1×	8.0×	6.8×	7.5×	16.7×	18.3×	13.8×	15.6×

Source: Investext equity research and company filings.

1. Based in I/B/E/S 5-year-long-term growth rates.

2. Represents fully distributed values.

EXHIBIT 10 | Summary of Financial Projections

(\$ in millions)	Actual			Management Plan			CSFB Research		
	2002	2003	2004	2005E	2006E	2007E	2005E	2006E	2007E
Revenues									
Transaction processing	\$ 40.1	\$ 49.1	\$ 67.1	\$ 74.4	\$ 91.0	\$ 116.7	\$ 73.3	\$ 89.4	\$ 102.8
Data integration	\$ 3.2	\$ 6.0	\$ 10.5	\$ 16.9	\$ 22.0	\$ 28.4	\$ 17.0	\$ 22.1	\$ 26.1
Customer care	\$ 22.0	\$ 17.7	\$ 32.5	\$ 26.7	\$ 17.0	\$ 16.9	\$ 26.0	\$ 16.6	\$ 15.8
Total Revenue	\$ 65.3	\$ 72.8	\$ 110.1	\$ 118.0	\$ 130.0	\$ 162.0	\$ 116.2	\$ 128.1	\$ 144.7
Revenue Growth									
Transaction processing	27.2%	22.4%	36.8%	10.9%	22.3%	28.2%	9.1%	22.0%	15.0%
Data integration	58.4%	89.0%	76.2%	60.8%	30.0%	29.4%	61.9%	30.0%	18.0%
Customer care	-33.1%	-19.6%	83.3%	-17.8%	-36.2%	-0.7%	-20.1%	-36.0%	-4.9%
Total Revenue Growth	-1.8%	11.5%	51.4%	7.2%	10.2%	24.6%	5.6%	10.2%	12.9%
Adjusted EBITDA⁽¹⁾	\$ 3.5	\$ 7.3	\$ 3.1	\$ 11.0	\$ 21.0	\$ 29.0	\$ 10.6	\$ 20.3	\$ 26.6
% EBITDA margin	5.4%	10.1%	2.9%	9.3%	16.2%	17.9%	9.1%	15.9%	18.4%
% Growth	452.0%	109.1%	-57.0%	250.9%	90.6%	38.0%	235.9%	92.0%	31.4%
Net Income	\$ (9.4)	\$ (4.4)	\$ (11.1)	\$ (3.1)	\$ 12.6	\$ 20.7	\$ (4.5)	\$ 10.7	\$ 17.2

⁽¹⁾Excludes restructuring and stock-based compensation expense

Source: Internal company document, July 13, 2005.

EXHIBIT 11 | Road Show Summary Schedule

Date	City	Time	Event	Locations
TUE, 9/6/2005	NEW YORK	10:00 AM 2:00 PM	MGMT PRESENTATION MGMT PRESENTATION	THOMAS WEISEL PARTNERS CREDIT SUISSE FIRST BOSTON
WED, 9/7/2005	MILAN	3:00 PM 4:00 PM	ONE-ON-ONE MEETING ONE-ON-ONE MEETING	SANPAOLO-IMI ASSET MGMT, MARIO DI MARCANTONIO FIDEURAM FONDI SPA, MATTEO CATTANEO
THU, 9/8/2005	ZURICH FRANKFURT	8:30 AM 10:00 AM 2:00 PM 3:15 PM 4:30 PM	ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING	CREDIT SUISSE PRIVATE BANKING VONTOBEL ASSET MGMT DEKA DEUTSCHE COMINVEST (ADIG) UNION INVESTMENT GMBH
FRI, 9/9/2005	LONDON	8:00 AM 9:30 AM 11:00 AM 12:30 AM	ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING GROUP LUNCHEON	INSIGHT INVESTMENT CHEYNE CAPITAL MGMT LTD HENDERSON GLOBAL INV LTD INTERNATIONAL FINANCIAL CENTER
MON, 9/12/2005	BOSTON	7:45 AM 8:45 AM 10:00 AM 11:15 AM 12:15 PM 2:00 PM 3:00 PM 4:15 PM 5:15 PM	ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING GROUP LUNCHEON ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING	FRONTIER CAPITAL MGT PUTNAM ADVISORY INC ALYDAR CAPITAL MASS FINANCIAL SERV INC BOSTON HARBOR HOTEL FIDELITY MGMT & RESEARCH CO WELLINGTON MANAGEMENT CO LOCH CAPITAL MGMT LLC EXEC BLACKROCK INC(PNC)
TUE, 9/13/2005	NEW YORK	8:00 AM 9:15 AM 10:00 AM 11:15 AM 12:30 PM 2:00 PM 3:15 PM 4:30 PM	ONE-ON-ONE MEETING CONFERENCE CALL ONE-ON-ONE MEETING TWO-ON-ONE MEETING GROUP LUNCHEON ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING	TIMESQUARE CAPITAL MGMT INC TRAFELET COMPANY LLC GLG PARTNERS STADIA/SIGMA EXECUTION ACCOUNT NEW YORK PALACE JP MORGAN FLEMING ALLIANCE CAPITAL MGMT CORP ING FURMAN SELZ ASSET MGMT
WED, 9/14/05	BALTIMORE PHILADELPHIA BERWYN PLAINBORO	8:30 AM 11:30 AM 1:15 PM 2:45 PM 3:30 PM	ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING CONFERENCE CALL ONE-ON-ONE MEETING	T ROWE PRICE & ASSOC GARTMORE GLOBAL INVESTMENTS CHARTWELL INVESTMENTS PARTNERS FRIESS ASSOCIATES MERRILL LYNCH INVESTMENT MGMT
THU, 9/15/2005	NEW YORK	7:30 AM 8:45 AM 10:00 AM 11:15 AM 12:30 PM 3:00 PM 4:15 PM	ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING	YORK CAPITAL MANAGEMENT CHILTON EXECUTION ALGER FRED & CO INC LAZARD FRERES ASSET MGMT KINGDON CAPITAL FEDERATED GLOBAL INV MGMT PEQUOT CAPITAL MGMT

EXHIBIT 11 | Road Show Summary Schedule (continued)

Date	City	Time	Event	Locations
FRI, 9/16/2005	KANSAS CITY HOUSTON	7:45 AM 9:00 AM 10:00 AM 2:00 PM	ONE-ON-ONE MEETING CONFERENCE CALL ONE-ON-ONE MEETING ONE-ON-ONE MEETING	AMERICAN CENTURY INVESTMENTS MAZAMA CAPITAL MANAGEMENT WADDELL & REED ASSET MGMT VAN KAMPEN ASSET MGMT (AMERICAN CAPITAL)
MON, 9/19/2005	DENVER SAN MATEO SAN FRANCISCO	7:30 PM 9:00 AM 12:00 PM 12:30 PM 2:30 PM 3:30 PM	ONE-ON-ONE MEETING ONE-ON-ONE MEETING CONFERENCE CALL ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING	WELLS CAPITAL JANUS CAPITAL MGMT AIM MANAGEMENT INC FRANKLIN ADVISERS CAPITAL WORLD INVESTORS RS INVESTMENT MGMT
TUE, 9/20/2005	SAN DIEGO LOS ANGELES	7:15 AM 8:15 AM 11:30 AM 1:00 PM 2:30 PM	ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING	NICHOLAS-APPLEGATE CAP MGMT RICE HALL & ASSOC TCW ASSET MANAGEMENT CO CAPITAL RESEARCH & MGMT PROVIDENT INV COUNSEL
WED, 9/21/2005	MINNEAPOLIS MILWAUKEE	8:00 AM 11:30 AM 1:15 PM 2:15 PM	TWO-ON-ONE MEETING ONE-ON-ONE MEETING CONFERENCE CALL GROUP MEETING	PEREGRINE CAPITAL MGMT/US BANCORP ASSET MGMT WELLS CAPITAL MAGNETAR INVESTMENT MANAGEMENT LLC PFISTER HOTEL
THU, 9/22/2005	PALO ALTO SAN FRANCISCO	9:00 AM 11:00 AM 1:30 PM	ONE-ON-ONE MEETING ONE-ON-ONE MEETING ONE-ON-ONE MEETING	SELIGMAN J W AND CO RS INVESTMENT MGMT PRIDES CAPITAL

Source: Internal TRX document.