

Edgar Filing: Travelstar, Inc. - Form 10QSB/A

Travelstar, Inc.  
Form 10QSB/A  
December 10, 2007

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

FORM 10-QSB/A  
(Amendment No. 1)

- (X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2006
- ( ) Transition report pursuant of Section 13 or 15(d) of the Securities Exchange Act of 1939 for the transition period \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 000-25973

JOYSTAR, INC.  
(Exact name of registrant as specified in its charter)

California 68-0406331  
-----  
(State or other jurisdiction of (IRS Employer Identification No.)  
incorporation or organization)

95 Argonaut St. Aliso Viejo, CA 92656, Telephone (949) 837-8101  
-----  
(Address of Principal Executive Offices, including Registrant's zip code  
and telephone number)

-----  
Former address

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 [ ]

The number of shares of the registrant's common stock as of March 31, 2006:  
40,301,485 shares.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

1

TABLE OF CONTENTS

	PAGE
	----
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
(a) Balance Sheets	3

# Edgar Filing: Travelstar, Inc. - Form 10QSB/A

(b)	Statements of Operations	4
(c)	Statement of Stockholders' Equity (deficit)	5
(d)	Statements of Cash Flows	6
(e)	Notes to Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Controls and Procedures	14
PART II. OTHER INFORMATION		15
Item 1.	Legal Proceedings	
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	
Item 3.	Defaults On Senior Securities	
Item 4.	Submission of Items to a Vote	
Item 5.	Other Information	
Item 6.		16
(a)	Exhibits	
(b)	Reports on Form 8K	
SIGNATURES AND CERTIFICATES		17

2

## JOYSTAR, INC. BALANCE SHEETS

	March 31, 2006 (UNAUDITED) (Restated)	December 31, 2005 (Restated)
	-----	-----
ASSETS		
Current assets:		
Cash	\$ 1,029,120	\$ 218,948
Commission receivables	1,131,695	398,827
Prepaid expenses	76,072	48,572
	-----	-----
Total current assets	2,236,887	666,347
Property and equipment, net	182,957	138,723
Intangible asset	53,285	54,205
	-----	-----
Total assets	\$ 2,473,129	\$ 859,275
	=====	=====

## LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:

# Edgar Filing: Travelstar, Inc. - Form 10QSB/A

Accounts payable	\$ 172,591	\$ 198,814
Accounts payable-merchants	174,908	321,643
Accrued salaries	71,896	46,786
Accrued expenses	128,865	128,865
Accrued payroll taxes	591,454	412,258
Accrued rent	34,500	35,000
Accrued Liability related to warrants and stock purchase rights	940,502	--
Loans from shareholder	472	472
	-----	-----
Total current liabilities	2,115,188	1,143,838
Commitments and contingency	--	--
Stockholders' equity (deficit):		
Preferred stock, no par value, 10,000,000 shares authorized; none issued	--	--
Common stock, no par value, 50,000,000 shares authorized; 40,301,485 and 34,103,309 shares issued and outstanding at March 31, 2006 and December 31, 2005 respectively	10,254,611	7,952,026
Stock issued for deferred compensation	(292,500)	(356,000)
Stock subscribed not issued, 1,727,333 shares at March 31, 2006 and 2,584,476 shares at December 31, 2005, respectively	534,800	834,800
Accumulated (deficit)	(10,138,970)	(8,715,389)
	-----	-----
Total stockholders' equity (deficit)	357,941	(284,563)
	-----	-----
Total liabilities and stockholders' Equity (Deficit)	\$ 2,473,129	\$ 859,275
	=====	=====

The accompanying notes are an integral part of these financial statements

3

## JOYSTAR, INC. STATEMENTS OF OPERATIONS (UNAUDITED)

	For the three months ended March 31, 2006 (Restated)	For the three months ended March 31, 2005 (Restated)
	-----	-----
Revenue	\$ 2,182,672	\$ 120,575
	-----	-----
Operating expenses:		
Selling and marketing	1,480,238	282,048
General and administrative	1,128,422	504,193
Technology and content	57,091	--
	-----	-----
Total operating expenses	2,665,751	786,241

Edgar Filing: Travelstar, Inc. - Form 10QSB/A

	-----	-----
Operating loss	(483,079)	(665,666)
Interest expense	--	--
Loss on fair value of warrants and stock purchase rights	(940,502)	--
	-----	-----
Loss before income taxes	(1,423,581)	(665,666)
Income tax provision	--	--
	-----	-----
Net loss	\$ (1,423,581)	\$ (665,666)
	=====	=====
Loss per share-basic and diluted	\$ (0.04)	\$ (0.03)
	=====	=====
Weighted average number of common shares outstanding	37,781,741	23,438,466
	=====	=====

The accompanying notes are an integral part of these financial statements

4

JOYSTAR, INC.  
STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)  
(Restated)

	COMMON STOCK		Stock issued for Deferred Compensation	Stock Subscribed not Issued
	Number of Shares	Amount		
Balance at December 31, 2005	34,103,309	\$ 7,952,026	\$ (356,000)	\$ 834,800
Stock issued for services	246,455	91,901	--	--
Stock issued for cash	5,951,721	2,049,102	--	(300,000)
Deferred compensation earned	--	--	63,500	--
Share based compensation	--	161,582	--	--
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance March 31, 2006 (Unaudited)	40,301,485	\$ 10,254,611	\$ (292,500)	\$ 534,800
	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements

5

JOYSTAR, INC.  
STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	For the three months ended	For the three months ended
-----		

# Edgar Filing: Travelstar, Inc. - Form 10QSB/A

	March 31, 2006 (Restated)	March 31, 2005 (Restated)
Cash flows from operating activities:		
Net loss	\$ (1,423,581)	\$ (665,666)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	11,049	2,889
Stock issued for services	155,401	274,750
Share based compensation	161,582	
Non-cash expense	102	--
Changes in assets and liabilities:		
(Increase) in prepaid expenses	(27,500)	(23,936)
(Increase) in other receivables	(732,767)	(2,354)
(Decrease) increase in accounts payable	(173,459)	13,472
Increase in accrued salaries and payroll Taxes	204,306	100,643
Increase in Accrued Liability related to warrants And stock purchase rights	940,502	--
Net cash used in operating activities	(884,465)	(300,202)
Cash flows from investing activities:		
Acquisition of property and equipment	(54,363)	(14,000)
Net cash used in investing activities	(54,363)	(14,000)
Cash flows from financing activities:		
Loans from shareholders	--	105,997
Issuance of common stock	1,749,000	--
Net cash provided by financing activities	1,749,000	105,997
Increase (Decrease) in cash	810,172	(208,205)
Cash at the beginning of the year	218,948	283,869
Cash at the end of the period	\$ 1,029,120	\$ 75,664
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of stock for services	\$ 155,401	\$ 274,750
Share based compensation	\$ 161,582	\$ --
Income taxes paid	\$ --	\$ --
Interest paid	\$ --	\$ --
Subscribed shares issued	\$ 300,000	\$ 200,000
Shares issued for accrued prior year compensation	\$ 63,500	\$ 68,250

# Edgar Filing: Travelstar, Inc. - Form 10QSB/A

The accompanying notes are an integral part of these financial statements

6

## JOYSTAR, INC. NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005 (UNAUDITED)

### 1. BASIS OF PRESENTATION

-----

Joystar, Inc., a California corporation (the "Company") was incorporated on February 5, 1998. The Company specializes in selling complex travel products including cruises, vacation packages and group travel through its national sales force of independent travel agents.

All adjustments (consisting only of normal recurring adjustments) have been made which, in the opinion of management, are necessary for a fair presentation. The Company has re-classified certain accounts of March 31, 2005 to be consistent with March 31, 2006 classifications.

Results of operations for the three months ended March 31, 2006 and 2005 are not necessarily indicative of the results that may be expected for any future period. The balance sheet at December 31, 2005 was derived from audited financial statements.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been omitted. These financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2005.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### REVENUE RECOGNITION

-----

The Company passes reservations booked by customers to the relevant travel supplier and receives a commission or ticketing fee from the travel supplier for its services. The supplier sets the price to be paid by the consumer and the travel supplier appears as merchant of record for the transactions. The revenues are typically recognized at the time the reservation is booked.

The Company generates membership services revenue derived from the operation of the host-agency model in which the Company provides support services to travel agents. These revenues include fee-based month-to-month non-obligatory payments, set-up fees and ongoing membership dues for members in renewal periods paid annually.

The Company receives overrides from certain travel suppliers in the form of commissions as well as co-op marketing earnings based on the Company's gross travel bookings with the supplier recognized each period based upon the Company's actual attainment of predetermined target sales levels.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful life of the assets, which is seven years for furniture and equipment and three years for computer equipment.

INTANGIBLE ASSET

Management reviews, on an annual basis, the carrying value of its intangible asset in order to determine whether impairment has occurred. Impairment is based on several factors including the Company's projection of future discounted operating cash flows. If an impairment of the carrying value were to be indicated by this review, the Company would perform the second step of the impairment test in order to determine the amount of impairment, if any. There was no impairment charge during the three months ended March 31, 2006.

USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INCOME TAXES

Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

ACCRUED LIABILITY RELATED TO WARRANTS AND STOCK PURCHASE RIGHTS

The Company accounts for freestanding derivative financial instruments potentially settled in its own common stock under Emerging Issues Task Force ("EITF") Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." As the Company potentially does not have sufficient authorized shares available to settle its open stock-based contracts, the initial fair value of the applicable contracts (consisting primarily of non-employee stock warrants and rights to purchase common stock - (see Note 4) has been classified as "accrued liability related to warrants and stock purchase rights" on the accompanying balance sheet and measured subsequently at fair value (based on a Black-Scholes computation), with gains and losses included in the statement of operations. The accrued liability had a balance of \$940,502 at March 31, 2006.

NET LOSS PER SHARE

-----

In February 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128 "Earnings Per Share" which requires the Company to present basic and diluted earnings per share, for all periods presented. The computation of loss per common share (basic and diluted) is based on the weighted average number of shares actually outstanding during the period. The Company has common stock equivalents, including warrants, which would dilute earnings per share.

RECLASSIFICATIONS

-----

The Company has reclassified certain amounts relating to prior period March 31, 2005 results to conform to our March 31, 2006 results. The reclassifications did not affect our financial position, cash flows, revenue, operating loss or net loss of the prior period.

3. GOING CONCERN

-----

The accompanying financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America, contemplates the continuation of the Company as a going concern. Continuation of the Company as a going concern is contingent upon establishing and achieving profitable operations. Such operations will require management to secure additional financing for the Company in the form of debt or equity.

4. COMMON STOCK

-----

During the three months ended the Company issued 246,455 shares of common stock for services for \$91,901 and 5,951,721 shares of common stock for cash for \$2,049,102 of which \$300,000 shares had been subscribed.

At March 31, 2006 the Company has 12,478,161 warrants outstanding to purchase shares of common stock at exercise price between \$0.35 and \$0.50. The warrants have remaining lives of one to five years remaining.

During the three months ended March 31, 2006, two officers earned \$63,500 in deferred stock Compensation.

5. RESTATEMENT OF FINANCIAL STATEMENTS

In connection with the preparation of audit of the December 31, 2006 audit of the Company's financial statements and letters of comment received from the Securities and Exchange Commission, we determined that there were errors in the accounting treatment and reported amounts in our previously filed financial statements. As a result, we determined to restate our financial statements for both the year ended December 31, 2006 and the interim financial periods.

In connection with the restatement, we are designing internal procedures and controls for purposes of the preparation and certification of our financial statements going forward. In this process, we identified certain errors in accounting determinations and judgments, which have been reflected in the



## Edgar Filing: Travelstar, Inc. - Form 10QSB/A

restated financial statements.

9

These restated financial statements include adjustments related to the following:

Accrued liability related to warrants and stock purchase rights and Loss on fair value of warrants and stock purchase rights: During 2006, the Company had issued more shares of its common stock and other common stock equivalents including warrants and stock options which exceeded the authorized shares of common stock that the Company could issue. Accordingly, \$940,502 was added to the accrued liability and the loss on fair value of warrants and stock purchase rights was recognized as of and for the three months ended March 31, 2006. The March 31, 2006, financial statements, have been revised to reflect these adjustments. The above adjustment did not affect previously reported cash balances as of December 31, 2005.

Share compensation expense was recognized as of December 31, 2006 and included in the financial statements for the year ended December 31, 2006. The Company has determined that it should restate its financial statements for the interim financial periods to reflect share compensation expense as incurred during the appropriate period.

The following financial statement line items were corrected for the three months ended March 31, 2006:

	As originally presented -----	Restated -----
Loss on fair value of warrants and stock purchase rights	0	\$ 940,502
Share compensation expense	0	\$ 161,582
Loss before income taxes	\$(321,497)	\$(1,423,581)
Net Loss	\$(321,497)	\$(1,423,581)
Loss per Share	\$ (0.01)	\$ (0.04)

### 6. STOCK OPTIONS

The Board of Directors has approved in April, 2003 a Company stock option plan, which was amended by the Company in July, 2003. All the shares (480,000 shares) under 2002 Equity and Stock Option Plan were issued in June, 2003. In July, 2003, the Company approved 2003 Equity Compensation Plan which provides for the grant to directors, officers, employees and consultants of the Company of stock based awards and options to purchase up to an aggregate of 2,500,000 shares of Common Stock. On August 16, 2006 the plan was amended to provide for grants of options stock based awards up to an aggregate of 3,500,000 shares of Common Stock.

On December 13, 2005, the Company authorized for two of its officers to receive 1,500,000 shares of common stock. The shares were valued at \$330,000 or \$0.22 per share. The shares are considered subscribed and not issued at December 31, 2005. The Company has charged \$330,000 to compensation expense during the year ended December 31, 2005.

The following table summarizes annual activity for all stock options for the three month period ended March 31:

2006

Edgar Filing: Travelstar, Inc. - Form 10QSB/A

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	3,733,000	\$ 0.51
Granted	135,000	0.50
Exercised	--	--
Forfeited and expired	--	--
	-----	-----
Outstanding, end of period	3,868,000	\$ 0.51
	=====	=====
Options exercisable, end of period	150,000	\$ 0.66
Weighted average fair value of options granted during the period	\$ 0.47	
	=====	

The fair value of the stock options granted during the three months ended March 31, 2006 and 2005, was approximately \$64,000 or \$0.47 per stock option, respectively, and was determined using the Black Scholes option pricing model. The factors used for the three months ended March 31, 2006, were the option exercise price of \$0.50 per share, a 5 year life of the options, volatility measure of 85%, a dividend rate of 0% and a risk free interest rate ranging from of 4.95% and 4.28% for 2006. There were 150,000 stock options exercisable with a weighted average exercise price of \$0.66 as of March 31, 2006.

10

The following table summarizes information about stock options outstanding at March 31, 2006, with exercise prices equal to the fair market value on the date of grant with no restrictions on exercisability after vesting:

OPTIONS OUTSTANDING				
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED- AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER EXERCISED
\$0.50 to \$0.67	3,868,000	4.75	\$ 0.51	150,000
=====	=====	=====	=====	=====

As of March 31, 2006, there was approximately \$496,000 in unrecognized compensation cost related to unvested stock options. The amount unrecognized compensation cost will be recognized over its weighted average life of approximately five years.

The following table illustrates the effect on net loss and loss per share if the fair value recognition provisions of FAS 123(R) to options

## Edgar Filing: Travelstar, Inc. - Form 10QSB/A

granted under our stock option plan was applied in the previous period:

	FOR THE THREE MONTHS ENDED MARCH 31, 2005
	-----
Net loss as reported	\$ (665,666)
Less: stock based employee compensation expense included in reported net loss	--
Add: compensation expense determined under fair value method, net of tax	(161,582)
	-----
	\$ (827,248)
	=====
Net loss per common share, basic and diluted:	
As reported	\$ (0.03)
	=====
Pro forma net loss per common share	\$ (0.04)
	-----

### 7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	MARCH 31, 2006	DECEMBER 31, 2005
	-----	-----
Office furniture/computers	\$ 195,111	\$ 139,313
Booking engine software	28,385	28,385
	-----	-----
	223,496	167,698
Less: accumulated depreciation	(39,104)	(28,975)
	-----	-----
	\$ 184,392	\$ 138,723
	=====	=====

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

ALL FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE DEEMED BY THE COMPANY TO BE COVERED BY AND TO QUALIFY FOR THE SAFE HARBOR PROTECTION PROVIDED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. PROSPECTIVE SHAREHOLDERS SHOULD UNDERSTAND THAT SEVERAL FACTORS GOVERN WHETHER ANY FORWARD - LOOKING STATEMENT CONTAINED HEREIN WILL BE OR CAN BE ACHIEVED. ANY ONE OF THOSE FACTORS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED HEREIN. THESE FORWARD - LOOKING STATEMENTS INCLUDE PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS, INCLUDING PLANS AND OBJECTIVES RELATING TO THE PRODUCTS AND THE FUTURE ECONOMIC PERFORMANCE OF THE COMPANY. ASSUMPTIONS RELATING TO THE

## Edgar Filing: Travelstar, Inc. - Form 10QSB/A

FOREGOING INVOLVE JUDGMENTS WITH RESPECT TO, AMONG OTHER THINGS, FUTURE ECONOMIC, COMPETITIVE AND MARKET CONDITIONS, FUTURE BUSINESS DECISIONS, AND THE TIME AND MONEY REQUIRED TO SUCCESSFULLY COMPLETE DEVELOPMENT PROJECTS, ALL OF WHICH ARE DIFFICULT OR IMPOSSIBLE TO PREDICT ACCURATELY AND MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMPANY. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THOSE ASSUMPTIONS COULD PROVE INACCURATE AND, THEREFORE, THERE CAN BE NO ASSURANCE THAT THE RESULTS CONTEMPLATED IN ANY OF THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN WILL BE REALIZED. BASED ON ACTUAL EXPERIENCE AND BUSINESS DEVELOPMENT, THE COMPANY MAY ALTER ITS MARKETING, CAPITAL EXPENDITURE PLANS OR OTHER BUDGETS, WHICH MAY IN TURN AFFECT THE COMPANY'S RESULTS OF OPERATIONS. IN LIGHT OF THE SIGNIFICANT UNCERTAINTIES INHERENT IN THE FORWARD - LOOKING STATEMENTS INCLUDED THEREIN, THE INCLUSION OF ANY SUCH STATEMENT SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES OR PLANS OF THE COMPANY WILL BE ACHIEVED.

### General

Joystar specializes in selling complex travel products including cruises, vacation packages and group travel through its national sales force of independent travel agents. The effect of having such a large and growing network of independent and home-based travel retailers all booking under the Joystar agency umbrella is significantly increasing our sales and revenue, and building strong brand recognition.

Tens of thousands of travel agents who are closing their storefront agencies and moving to a home-based operation are creating a value migration in the rapidly emerging host travel agency model.

We have been very successful in attracting profession travel agents and at the same time, eroding our competitors' market share. Since going to market with our hosting programs in August 2004, Joystar has signed up over 3,000 travel agents making us one of the fastest growing and largest leisure travel network in the industry.

Throughout 2005, Joystar's commission levels with our preferred suppliers increased substantially. This trend has continued in the first quarter of 2006. The Company is constantly negotiating with its preferred suppliers for higher commissions and overrides. As commissions and overrides increase with higher bookings with our preferred suppliers, we believe this will have a positive impact on the profitability of the Company.

According to a report issued by Credit Suisse/First Boston, there are currently 20,000 professional travel agents working from their homes. This number is expected to grow to approximately 50,000 agents by 2010. In the management's opinion, Joystar is on track to have an approximate twenty percent market share by the end of 2006 and aims to increase that to thirty percent market share by the end of 2007.

In 2005, we engaged an NASD member firm to provide investment banking services. The Company raised approximately 3.5 million dollars in the last two quarters of 2005 and the first quarter of 2006. We intend to raise an additional 5 million dollars in 2006 and apply for a listing on either the American Stock Exchange or NASDAQ in the fourth quarter. There are no assurances that this will occur.

Our business is dependent on the health and growth of the travel industry. Travel is highly sensitive to traveler safety concerns, and thus declines after acts of terrorism that affect the safety of travelers. The terrorist attacks of

## Edgar Filing: Travelstar, Inc. - Form 10QSB/A

September 11, 2001, resulted in a decrease in new travel bookings worldwide and may reduce our revenues in future quarters. The long-term effects of these events could include, among other things, a protracted decrease in demand for air travel due to fears regarding additional acts of terrorism, military responses to acts of terrorism and increased costs and reduced operations by airlines due, in part, to new security directives adopted by the Federal Aviation Administration. These effects, depending on their scope and directives, which we cannot predict at this time, together with any future terrorist attacks, could significantly impact our long-term results of operations or financial condition.

### RESULTS OF OPERATIONS

Gross travel bookings for the first quarter 2006 increased 1306% to \$18,036,630 from \$1,282,440 for the first quarter of 2005.

Gross travel bookings refers to the total dollar value, inclusive of all taxes and fees, of all travel services purchased by consumers. The term "gross travel bookings" is a "non-GAAP financial measure", as such term is defined by the Securities and Exchange Commission, and may differ from non-GAAP financial measures used by other companies. The measure of "gross travel bookings" is in no way derived from the financial statements. Revenue recorded in Joystar's financial statements represents a percentage of commissions or ticketing fees paid by travel suppliers on travel bookings, membership services revenue and override commissions from travel suppliers. Joystar believes that the measure "gross travel bookings" is useful for investors to evaluate the Company's future ongoing performance because they enable a more meaningful comparison of performance with its historical results from prior periods.

Revenues during the quarter increased 1710% to \$2,183,000 compared to \$121,000 for the first quarter 2005. The increase of \$2,062,000 is due to the substantial increase in professional agent membership and increase in commission levels from our preferred suppliers.

### Selling and Marketing

Selling and marketing expenses relate to primarily to agent commissions and direct advertising and distribution expense, including traffic generation from Internet, search engines, private label and affiliate programs. The remainder of the expense relates to personnel costs, including staffing in our Agent Support Services and Preferred Supplier relations to enhance supplier commission levels.

Marketing and sales expenses for the quarter ended March 31, 2006 were \$1,480,000 compared to \$282,000 for the quarter ended March 31, 2005. The increase was due entirely to commissions on the increased revenues.

### General and Administrative

General and Administrative expenses for the quarter ended March 31, 2006 were \$1,128,400, compared to \$504,000 for the quarter ended March 31, 2005. The increase of \$624,000 was due to increased headcount and payrolls (\$351,000) in our new Miami office, share based compensation expense of \$162,000, increased accounting and legal (63,000), increased rent (\$39,000) due to new office in Miami, and an increase in travel expenses (\$26,000).

### Technology and Content

Technology and content expense includes product development expenses such as

## Edgar Filing: Travelstar, Inc. - Form 10QSB/A

payroll and related expenses and depreciation of website development costs.

Technology and content expenses for the three months ended March 31, 2006 were \$57,000 as we increased our software development and engineering teams, and increased our level of site innovation. Given the increasing complexity of our business, geographic expansion, increased supplier integration, service-oriented architecture improvements and other initiatives, we expect absolute amounts spent in technology and content to increase over time.

### ACCRUED LIABILITY RELATED TO WARRANTS AND STOCK PURCHASE RIGHTS

-----

The Company accounts for freestanding derivative financial instruments potentially settled in its own common stock under Emerging Issues Task Force ("EITF") Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." As the Company potentially does not have sufficient authorized shares available to settle its open stock-based contracts, the initial fair value of the applicable contracts (consisting primarily of non-employee stock warrants and rights to purchase common stock - (see Note 4) has been classified as "accrued liability related to warrants and stock purchase rights" on the accompanying balance sheet and measured subsequently at fair value (based on a Black-Scholes computation), with gains and losses included in the statement of operations. The accrued liability had a balance of \$940,502 at March 31, 2006.

### LIQUIDITY AND SOURCES OF CAPITAL

-----

During the three months ended March 31, 2006 the Company issued 5,951,721 shares of common stock for cash \$2,049,102 of which \$300,000 had been received in the prior year as subscribed stock. The Company intends to raise an additional 5 million dollars in 2006. The Company expects to finance the capital needed with additional issuances of its securities. In order to fund the Company's growth, the Company has engaged an NASD member firm to provide investment banking services. There is no assurance that the Company will be able to secure such financing.

At March 31, 2006 the Company had a cash balance of \$1,029,120 as compared to a cash balance of \$218,948 at December 31, 2005.

### Item 3. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of March 31, 2006, that the design and operation of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated, recorded, processed, summarized and reported to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding whether or not disclosure is required.

During the quarter ended March 31, 2006, there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## Edgar Filing: Travelstar, Inc. - Form 10QSB/A

### PART II. OTHER INFORMATION

#### Item 1. Legal proceedings

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

As of January 27, 2006, the Company sold a total of \$1,650,000 purchase price of the units consisting of shares of common stock and warrants offered in its private placement. The units consisted of the shares of the Company's common stock, no par value per share, at a purchase price of \$0.35 per share and warrants to purchase two shares of common stock at \$0.50 exercise price. The warrants expire in two years from the date of issuance. The Company issued a total of 4,714,286 shares of its common stock in its private placement. The subscribers do not have any registration rights to register the shares and the warrants purchased in the private placement. The Company received total net proceeds of approximately \$1,650,000, since no commissions were paid in cash. The net proceeds were applied by the Company for working capital purposes. The units were sold to accredited investors only, including an officer of the Company.

The shares and warrants were being offered and sold by the Company to investors whom the Company had reasonable grounds to believe are "accredited investors" within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). The investors were provided access to business and financial about the Company and had such knowledge and experience in business and financial matters that they were able to evaluate the risks and merits of an investment in the Company. Each certificate evidencing securities to be issued to the investors will include a legend to the effect that the securities have not been registered under the Securities Act and could not be resold absent registration or the availability of an applicable exemption from registration. No general solicitation or advertising has been used in connection with the transaction.

The issuance of the shares and warrants is believed to be exempt from the registration requirements of the Securities Act by reason of Section 4(2) of the Securities Act and the rules and regulations, including Regulation D thereunder, as transactions by an issuer not involving a public offering.

Item 3. Defaults on Senior Securities	NONE
Item 4. Submission of Items to a Vote	NONE
Item 5. Other Information	NONE

15

#### Item 6.

##### (a) Exhibits -----

The following Exhibits are incorporated herein by reference or are filed with this report as indicated below.

Exhibit No. -----	Description -----
----------------------	----------------------

* Exhibit 10.1	Subscription Agreement
----------------	------------------------

## Edgar Filing: Travelstar, Inc. - Form 10QSB/A

* Exhibit 10.2	Warrant Agreement
* Exhibit 10.3	Escrow Agreement
* Exhibit 10.4	Standstill Agreement
* Exhibit 10.5	Agreement for the purchase and sale of assets between Vacation and Cruise Resources, Inc. and Joystar, Inc. dated August 11, 2005.
Exhibit 10.6	Employment Agreement with William M. Alverson.
Exhibit 31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
Exhibit 32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act
Exhibit 32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

### b) Reports on 8K during the quarter:

Forms 8-K filed on January 25, 2006 and January 30, 2006.

\* Previously filed with the Securities and Exchange Commission.

16

### SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

JOYSTAR, INC.

Date: December 10, 2007

By: /s/ William Alverson

-----  
President and Chief Executive Officer

17