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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 June 30, 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 June 30, 2006:
43,212,160 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 |
| (b) Statements of Operations | 4 |

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| | | |
|-----------------------------|--|----|
| (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 | 14 |
| Item 3. | Controls and Procedures | 17 |
| PART II. OTHER INFORMATION | | 18 |
| 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. | | 19 |
| (a) | Exhibits | |
| (b) | Reports on Form 8K | |
| SIGNATURES AND CERTIFICATES | | 20 |

2

JOYSTAR, INC. BALANCE SHEETS (Unaudited)

| | June 30, 2006 | December 31, 2005 |
|---|---------------|-------------------|
| | ----- | ----- |
| | (Restated) | |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 835,484 | \$ 218,948 |
| Commissions receivable | 4,047,673 | 398,827 |
| Prepaid expenses | 68,572 | 48,572 |
| | ----- | ----- |
| Total current assets | 4,951,729 | 666,347 |
| Property and equipment, net | 185,922 | 138,723 |
| Intangible asset | 52,365 | 54,205 |
| | ----- | ----- |
| Total assets | \$ 5,190,016 | \$ 859,275 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable | \$ 167,316 | \$ 198,814 |
| Accounts payable-merchants | 2,297,284 | 321,643 |

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| | | |
|--|--------------|-------------|
| Accrued salaries | 91,706 | 46,786 |
| Accrued expenses | 128,865 | 128,865 |
| Accrued payroll taxes | 711,752 | 412,258 |
| Accrued rent | 34,450 | 35,000 |
| Accrued Liability related to warrants and stock purchase rights | 1,692,611 | -- |
| Loans from shareholder | 472 | 472 |
| | ----- | ----- |
| Total current liabilities | 5,124,456 | 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; 43,212,160 and 34,103,309 shares issued and outstanding at June 30,, 2006 and December 31, 2005 respectively | 10,999,758 | 7,952,026 |
| Stock issued for deferred compensation | (229,000) | (356,000) |
| Stock subscribed not issued | 114,800 | 834,800 |
| Accumulated (deficit) | (10,819,998) | (8,715,389) |
| | ----- | ----- |
| Total stockholders' equity (deficit) | 65,560 | (284,563) |
| | ----- | ----- |
| Total liabilities and stockholders' Equity (deficit) | \$ 5,190,016 | \$ 859,275 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements

3

JOYSTAR, INC. STATEMENTS OF OPERATIONS (UNAUDITED)

| | For the six months ended June 30, 2006 (Restated) | For the six months ended June 30, 2005 | For the three months ended June 30, 2006 (Restated) | For the th months end June 30, 2 |
|---|--|--|--|--|
| | ----- | ----- | ----- | ----- |
| Revenue | \$ 4,736,251 | \$ 486,000 | \$ 2,553,579 | \$ 365,0 |
| | ----- | ----- | ----- | ----- |
| Operating expenses: | | | | |
| Selling and marketing | 2,899,948 | 803,455 | 1,419,710 | 520,9 |
| General and administrative | 2,165,378 | 1,151,168 | 1,036,956 | 646,9 |
| Technology and content | 82,923 | -- | 25,832 | |
| | ----- | ----- | ----- | ----- |
| Total operating expenses | 5,148,249 | 1,954,623 | 2,482,498 | 1,167,9 |
| | ----- | ----- | ----- | ----- |
| Operating loss | (411,998) | (1,468,623) | 71,081 | (802,9 |
| Interest expense | -- | (9,641) | -- | (9,6 |
| Loss on fair value of warrants and stock purchase rights | (1,692,611) | -- | (752,108) | |

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| | | | | |
|--|----------------|----------------|--------------|-----------|
| | ----- | ----- | ----- | ----- |
| Loss before income taxes | (2,104,609) | (1,478,624) | (681,027) | (812,5 |
| Income tax provision | -- | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Net loss | \$ (2,104,609) | \$ (1,478,624) | \$ (681,027) | \$ (812,5 |
| | ===== | ===== | ===== | ===== |
| | ----- | ----- | ----- | ----- |
| Loss per share basic and diluted | \$ (0.05) | \$ (0.06) | \$ (0.02) | \$ (0. |
| | ===== | ===== | ===== | ===== |
| | ----- | ----- | ----- | ----- |
| Weighted average number of common shares outstanding | 39,782,316 | 24,031,395 | 41,829,599 | 24,618,0 |
| | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these financial statements

4

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

| | COMMON STOCK | | Stock issued | Stock |
|--|--------------|---------------|--------------|----------|
| | Number of | Amount | for | Subscrib |
| | Shares | | Deferred | not |
| | ----- | ----- | ----- | ----- |
| Balance at December 31, 2005 | 34,103,309 | \$7,952,026 | \$ (356,000) | \$834 |
| Stock issued for services | 3,091,730 | 1,137,683 | -- | (420, |
| Cost of issuing stock included in services | -- | (345,107) | -- | |
| Stock issued for cash | 6,017,121 | 2,074,302 | -- | (300, |
| Deferred compensation earned | -- | -- | 127,000 | |
| Share based compensation | | 180,854 | | |
| Net loss | -- | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Balance June 30, 2006 (Unaudited) | 43,212,160 | \$ 10,999,758 | \$ (229,000) | \$ 114, |
| | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these financial statements

5

JOYSTAR, INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

| For the six months ended June 30, 2006 (Restated) | For the six months ended June 30, 2005 |
|---|---|
| ----- | ----- |

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| | | |
|---|----------------|----------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (2,104,609) | \$ (1,478,264) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 26,358 | 6,739 |
| Stock issued for services | 499,576 | 531,353 |
| Share based compensation | 180,854 | |
| Stock issued for interest | -- | 9,641 |
| Non-cash expense | 102 | -- |
| Changes in assets and liabilities: | | |
| (Increase)/Decrease in prepaid expenses | (20,000) | 4,609 |
| (Increase) in other receivables | (3,648,846) | (25,072) |
| Decrease increase in accounts payable | 1,944,142 | 45,985 |
| Increase in accrued salaries | 44,920 | 2,061 |
| Increase in payroll taxes | 299,494 | 164,786 |
| Increase/(decrease) in accrued rent | (550) | 7,952 |
| Increase in Accrued Liability related to Warrants and stock purchase rights | 1,692,611 | -- |
| | ----- | ----- |
| Net cash used in operating activities | (1,085,948) | (730,210) |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (71,717) | (16,081) |
| | ----- | ----- |
| Net cash used in investing activities | (71,717) | (16,081) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Loans from shareholders | -- | 470 |
| Issuance of common stock | 1,774,302 | 550,270 |
| | ----- | ----- |
| Net cash provided by financing activities | 1,774,302 | 550,740 |
| | ----- | ----- |
| Increase/(Decrease) in cash | 616,637 | (195,551) |
| Cash at the beginning of the year | 218,847 | 283,869 |
| | ----- | ----- |
| Cash at the end of the period | \$ 835,484 | \$ 88,318 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Issuance of stock for services | \$ 499,576 | \$ 531,353 |
| Share based compensation | \$ 180,854 | \$ -- |
| Income taxes paid | \$ -- | \$ -- |
| Interest paid | \$ -- | \$ -- |
| Subscribed shares issued | \$ 720,000 | \$ 590,000 |
| Shares issued for accrued prior year compensation | \$ 127,000 | \$ 172,038 |

The accompanying notes are an integral part of these financial statements

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JOYSTAR, INC. NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 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 June 30, 2005 to be consistent with June 30, 2006 classifications.

Results of operations for the six months ended June 30, 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.

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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 six months ended June 30, 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.

8

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 June 30, 2005 results to conform to our June 30, 2006 results. The reclassifications did not affect our financial position, cash flows, revenue, operating loss or net loss of the prior period.

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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 Notes --- and ---) 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 \$1,692,611 at June 30, 2006.

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 six months ended the Company issued 3,091,730 shares of common stock for services for \$1,137,683 of which \$420,000 shares had been subscribed and 6,017,121 shares of common stock for cash for \$2,074,302 of which \$300,000 shares had been subscribed.

At June 30, 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 lives of one to five years remaining.

During the six months ended June 30, 2006, two officers earned \$127,000 in deferred stock compensation.

9

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 the 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

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statements going forward. In this process, we identified certain errors in accounting determinations and judgments, which have been reflected in the restated financial statements.

These restated financial statements include adjustments related to the following:

Cash and Accrued expenses: During the year ended December 31, 2006, the Company issued cash disbursements totaling \$144,068. These cash disbursements were reconciling items for an extended period of time and management determined that the disbursements should have been voided and reissued. Accordingly, the balances for cash and accrued expenses have been increased by \$144,068 at June 30, 2006. The June 30, 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.

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, \$752,108 and \$1,692,611 of accrued liability and the loss on fair value of warrants and stock purchase rights was recognized as of and for the three and six months respectively ended June 30, 2006. The June 30, 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.

10

The following financial statement line items were corrected for the three months ended June 30, 2006

| | As originally presented ----- | Restated ----- |
|---|-------------------------------------|-------------------|
| Loss on fair value of warrants and stock purchase rights | 0 | \$ 752,108 |
| Share compensation expense | 0 | \$ 19,272 |
| Income/(loss) before income taxes | \$ 90,353 | \$(681,027) |
| Net Income/(Loss) | \$ 90,353 | \$(681,027) |

Earnings/(Loss) per Share \$0.00 \$(0.02)

The following financial statement line items were corrected for the six months ended June 30, 2006

| | As originally presented ----- | Restated ----- |
|---|-------------------------------------|-------------------|
| Loss on fair value of warrants and stock purchase rights | 0 | \$ 1,692,611 |

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| | | |
|----------------------------|--------------|----------------|
| Share compensation expense | 0 | \$ 180,854 |
| Loss before income taxes | \$ (231,144) | \$ (2,104,609) |
| Net Loss | \$ (231,144) | \$ (2,104,609) |
| Loss per Share | \$ (0.01) | \$ (0.05) |

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.

11

The following table summarizes annual activity for all stock options for the six month period ended June 30:

| | 2006 | |
|---|---------------------|------------------------------------|
| | NUMBER OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
| | ----- | ----- |
| Outstanding, beginning of year | 3,733,000 | \$ 0.51 |
| Granted | 385,000 | 0.76 |
| Exercised | -- | -- |
| Forfeited and expired | -- | -- |
| | ----- | ----- |
| Outstanding, end of period | 4,118,000 | \$ 0.53 |
| | ===== | ===== |
| Options exercisable, end of period | 1,050,600 | \$ 0.53 |
| Weighted average fair value of options granted during the period | \$ 0.50 | |
| | ===== | |

The fair value of the stock options granted during the six months ended June 30, 2006 was approximately \$189,000 and \$0.50 per stock option, respectively, and was determined using the Black Scholes option pricing model. The factors used for the six months ended June 30, 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

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free interest rate ranging from of 4.95% and 4.28% for 2006. There were 1,050,600 stock options exercisable with a weighted average exercise price of \$0.53 as of June 30, 2006.

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 | 4,118,000 | 4.50 | \$ 0.53 | 1,000,000 |

As of June 30, 2006, there was approximately \$602,000 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.

12

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

| | FOR THE SIX MONTHS ENDED JUNE 30, 2005 |
|--|--|
| Net loss as reported | \$ (1,478,624) |
| Less: stock based employee compensation expense included in reported net loss | -- |
| Add: compensation expense determined under fair value method, net of tax | (161,582) |
| | \$ (1,640,206) |
| Net loss per common share, basic and diluted: As reported | \$ (0.06) |
| Pro forma net loss per common share | \$ (0.07) |

7. PROPERTY AND EQUIPMENT

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Property and equipment consist of the following:

| | JUNE 30, 2006 | DECEMBER 31, 2005 |
|--------------------------------|------------------|----------------------|
| | ----- | ----- |
| Office furniture/computers | \$ 209,420 | \$ 139,313 |
| Booking engine software | 28,385 | 28,385 |
| | ----- | ----- |
| | 237,805 | 167,698 |
| Less: accumulated depreciation | (53,493) | (28,975) |
| | ----- | ----- |
| | \$ 184,312 | \$ 138,723 |
| | ===== | ===== |

13

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 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.

We have been very successful in attracting profession travel agents and at the

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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 the first six months of 2006, Joystar's membership revenue and commission levels with our preferred suppliers increased substantially. As we continue to add travel agents into our network, commissions and overrides increase with higher bookings with our preferred suppliers, we believe this will have a positive impact on the increased profitability of the Company.

14

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 six months of 2006. We intend to raise an additional 5 million dollars in the next twelve months 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 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 six months ended June 30 2006 increased 712% to \$33,056,000 Compared to \$4,644,000 for the six months ended June, 30 2005. Revenues for the six months increased 974% to \$4,736,000 compared to \$486,000 for the six months ended June 30, 2005. The increase of \$4,250,000 is due to the substantial increase in professional agent membership and commission levels and overrides from our preferred suppliers.

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

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ongoing performance because they enable a more meaningful comparison of performance with its historical results from prior periods.

15

Revenues increased sequentially 17% to \$2,553,579 compared to \$2,182,672 for the quarter ended March 31, 2006. This represents the seventh sequential quarter of double-digit revenue growth

Revenue margins (defined as net revenue as a percentage of gross bookings) for the six months ended June 30, 2006 increased to 14% compared to 10.5% for the six months ended June 30, 2005. The 33% increase is due to substantial increases in commissions, overrides, and membership fees. We believe revenue margins will continue to increase as our paid membership continues to grow and as we negotiate better commissions and overrides with more and more travel suppliers.

Net loss for the three months ended June 30, 2006 was \$681,027 compared to a net loss of \$812,598 for the three months ended June 30, 2005. Net losses for the six months ended June 30, 2006 increased to \$2,104,609 compared to \$1,478,624 for the six months ended June 30, 2005.

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 six months ended June 30, 2006 were \$2,900,000 compared to \$803,000 for the six months ended June 30, 2005. The increase was due entirely to commissions paid to our travel agent network on the increased revenues generated.

General and Administrative

General and Administrative expenses for the six months ended June 30, 2006 were \$2,165,000 compared to \$1,151,000 for the six months ended June 30, 2005. The increase of \$1,014,000 was due primarily to increased headcount and payrolls (\$580,000) in our new Miami office, share based compensation expense of \$181,000, increased accounting and legal (17,000), increased rent (\$61,000) due to new office in Miami, and an increase in travel expenses (\$31,000).

16

Technology and Content

Technology and content expense includes product development expenses such as payroll and related expenses and depreciation of website development costs.

Technology and content expenses for the six months ended June 30, 2006 were \$83,000 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.

LIQUIDITY AND SOURCES OF CAPITAL

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During the six months ended June 30, 2006 the Company issued 6,017,121 shares of common stock for cash \$2,074,302 of which \$300,000 had been received in the prior year as subscribed stock. The Company intends to raise an additional 5 million dollars during the next twelve months. 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 June 30, 2006 the Company had a cash balance of \$835,484 as compared to a cash balance of \$218,948 at December 31, 2005.

Item 3. Controls and Procedures

Our President and Treasurer/Chief Financial Officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures and internal controls and procedures for financial reporting for the Company. The Certifying Officers have designed such disclosure controls and procedures and internal controls and procedures for financial reporting to ensure that material information are made known to them, particularly during the period in which this report was prepared. The Certifying Officers have evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls and procedures for financial reporting as of June 30, 2006 and believes that the Company's disclosure controls and procedures and internal controls and procedures for financial reporting are effective based on the required evaluation. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

17

PART II. OTHER INFORMATION

Item 1. Legal proceedings NONE

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds NONE

Item 3. Defaults on Senior Securities NONE

Item 4. Submission of Items to a Vote NONE

Item 5. Other Information NONE

18

Item 6.

(a) Exhibits

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

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

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| | |
|----------------|--|
| * Exhibit 10.1 | Subscription Agreement |
| * 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.

19

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.

Date: December 10, 2007

JOYSTAR, INC.

By: /s/ William Alverson

Chief Executive Officer

20