

ONLINE VACATION CENTER HOLDINGS CORP  
Form 10-Q  
August 10, 2010

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended June 30, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE  
ACT OF 1934 (NO FEE REQUIRED)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-32137

Online Vacation Center Holdings Corp.  
(Exact name of registrant as specified in its charter)

Florida 65-0701352  
State or other jurisdiction of incorporation (I.R.S. Employer Identification No.)  
or organization

1801 N.W. 66th Avenue, Suite 102, Plantation, Florida 33313  
(Address of principal executive offices) (Zip Code)

(954) 377-6400  
Registrant's telephone number including area code

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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has electronically submitted and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

At August XX, 2010, the number of shares outstanding of the registrant's common stock, \$0.0001 par value was 1X,XX,XXX.

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ONLINE VACATION CENTER HOLDINGS CORP.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,107,275	\$ 2,721,658
Accounts receivable, net	686,619	958,913
Deposits and prepaid items	1,513,047	1,107,018
Deferred tax asset, net	63,958	33,442
Total Current Assets	5,370,899	4,821,031
Restricted cash	48,000	48,000
Property and equipment, net	131,227	132,277
Intangible assets, net	1,148,003	1,076,315
Goodwill	395,542	395,542
Other assets	17,127	31,281
Total Assets	\$ 7,110,798	\$ 6,504,446
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 1,972,536	\$ 2,223,363
Deferred revenue	1,949,952	1,345,687
Capital lease obligations, current portion	19,806	16,421
Total Current Liabilities	3,942,294	3,585,471
Capital lease obligations	5,528	19,415
Deferred tax liability	239,856	195,597
Total Liabilities	4,187,678	3,800,483
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, 1,000,000 shares authorized at \$.0001 par value; 0 shares issued and outstanding	-	-
Common stock, 80,000,000 shares authorized at \$.0001 par value; 14,790,178 and 15,000,478 shares issued and outstanding	1,479	1,500

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Additional paid-in capital	3,854,221	3,959,217
Accumulated deficit	(932,580)	(1,256,754)
Total Stockholders' Equity	2,923,120	2,703,963
Total Liabilities and Stockholders' Equity	\$ 7,110,798	\$ 6,504,446

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

ONLINE VACATION CENTER HOLDINGS CORP.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
NET REVENUES	\$ 1,992,887	\$ 2,213,238	\$ 4,621,312	\$ 4,950,458
OPERATING EXPENSES:				
Selling and marketing	713,424	615,152	1,409,344	1,193,207
General and administrative	1,205,378	1,144,196	2,471,926	2,263,395
Depreciation and amortization	152,373	115,225	292,480	222,250
OPERATING INCOME (LOSS)	(78,288)	338,665	447,562	1,271,606
Interest income, net	1,619	1,186	3,137	3,062
Income (Loss) from continuing operations before provision (benefit) for income taxes	(76,669)	339,851	450,699	1,274,668
Provision/ (Benefit) for income taxes	(82,030)	139,327	126,525	511,708
Income from continuing operations	5,361	200,524	324,174	762,960
DISCONTINUED OPERATIONS:				
Loss from discontinued operations, net of tax benefit	-	(32,084)	-	(64,292)
NET INCOME	\$ 5,361	\$ 168,440	\$ 324,174	\$ 698,668
EARNINGS PER SHARE - Basic				
Income from continuing operations	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.04
(Loss) from discontinued operations	\$ -	\$ (0.00)	\$ -	\$ (0.00)
Net income	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.04
Weighted average shares outstanding - Basic	14,866,002	17,261,777	14,912,145	17,259,604

EARNINGS PER SHARE -

Diluted

Income from continuing operations	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.04
(Loss) from discontinued operations	\$ -	\$ (0.00)	\$ -	\$ (0.00)
Net income	\$ -	\$ 0.01	\$ 0.02	\$ 0.04
Weighted average shares outstanding - Diluted	14,866,002	17,261,777	14,912,145	17,259,604

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

ONLINE VACATION CENTER HOLDINGS CORP.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	For the Six Months Ended June 30,	
	2010	2009
Cash flows from continuing operating activities:		
Net income	\$ 324,174	\$ 698,668
Loss from discontinued operations, net of tax	-	\$ 64,292
Income from continuing operations	324,174	762,960
Adjustments to reconcile to net cash inflow from operating activities:		
Depreciation and amortization	292,480	222,250
Stock based compensation expense	16,323	49,328
Imputed interest expense- net	(1,111)	1,646
Deferred income tax expense	13,743	59,003
Decrease in accounts receivable	272,294	732,534
(Increase)/Decrease in deposits and prepaid items	(405,136)	280,969
Increase (Decrease) in accounts payable and accrued liabilities	(250,827)	42,495
Increase (Decrease) in deferred revenue	604,265	(438,541)
Net cash provided by operating activities	866,205	1,712,644
Cash flows from continuing investing activities:		
Capital expenditures	(57,627)	(62,344)
(Increase) in intangible assets	(305,491)	(253,611)
Decrease in receivable upon disposition of discontinued operation	15,000	15,000
Cash used in investing activities	(348,118)	(300,955)
Cash flows from continuing financing activities:		
Purchase of common stock under approved purchase plan	-	(91,473)
Purchase of common stock	(121,340)	(368,245)
Payments under capital lease obligations	(11,130)	(12,985)
Repayment of notes payable	-	(100,000)
Cash used in financing activities	(132,470)	(572,703)
Discontinued Operations		
Cash provided by operating activities		20,677
Cash provided by discontinued operations	-	20,677
Increase in cash during the period	385,617	859,663
Cash at the beginning of the period	2,721,658	1,693,447
Cash at the end of the period	\$ 3,107,275	\$ 2,553,110
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 628	\$ 1,230
Cash paid for taxes	\$ 2,386	\$ 266,700



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Non-cash investing and financing activities:

Retirement of treasury stock	\$	121,340	\$	485,346
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The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

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ONLINE VACATION CENTER HOLDINGS CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements of Online Vacation Center Holdings Corp., (the “Company”), and the notes thereto have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K, for the year ended December 31, 2009, and filed with the Securities and Exchange Commission on March 29, 2010 (the “2009 Annual Report”). The interim financial information contained herein is not certified or audited; it reflects all adjustments (consisting of only normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the operating results for the periods presented, stated on a basis consistent with that of the audited financial statements.

The results of operations for the three months and six months ended June 30, 2010 are not necessarily indicative of annual results. The Company manages its business as one reportable segment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For the Company, key estimates include allowance for doubtful accounts, the fair value of goodwill and intangible assets, asset lives used in computing depreciation and amortization, including amortization of intangible assets, and accounting for income taxes, contingencies and litigation. While the Company believes that such estimates are fair when considered in conjunction with the condensed consolidated financial position and results of operations taken as a whole, actual results could differ from those estimates and such differences may be material to the financial statements.

2. DISPOSITION

On September 30, 2009, the Company’s Board of Directors authorized the sale of Thoroughbred Travel LLC (“Thoroughbred”) and La Tours and Cruises, Inc. (“La Tours”), Houston, Texas based travel agencies focused on providing luxury based personal travel products, such as cruises, European tours and all inclusive vacations. Additionally, the Company’s Board of Directors authorized the dissolution of La Fern, Inc. (“La Fern”) a Florida travel agency focused on providing land-based vacations. The Company acquired Thoroughbred in September 2006, La Fern in October 2006 and La Tours in January 2007.

On October 19, 2009, the Company entered into a definitive agreement (the “Sales Agreement”) to sell the assets and liabilities arising from customer travel after November 2, 2009 of La Tours and Thoroughbred to West University Travel LLC (“West U”), a Texas limited liability company. The principal members of West U are Ray Schutter, President of La Tours and Thoroughbred, and Cecilia Schutter from whom the Company purchased La Tours in January 2007.



ONLINE VACATION CENTER HOLDINGS CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

The results of operations and cash flows of La Tours, Thoroughbred and La Fern have been removed from the results of continuing operations for the three months and six months ended June 30, 2009. The results of operations of La Tours, Thoroughbred and La Fern for the three months and six months ended June 30, 2009 are as follows:

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Revenues	\$ 135,571	\$ 223,095
(Loss) before income taxes	(50,585)	(101,370)
Income taxes (benefit)	(18,501)	(37,078)
(Loss) from discontinued operations	\$ (32,084)	\$ (64,292)

### 3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (the "FASB") has codified a single source of U.S. Generally Accepted Accounting Principles (GAAP), the Accounting Standards Codification™. Unless needed to clarify a point to readers, we will refrain from citing specific section references when discussing application of accounting principles or addressing new or pending accounting rule changes. There are no recently issued accounting standards that are expected to have a material effect on our financial condition, results of operations or cash flows.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations and various regulatory agencies. Because of the tentative and preliminary nature of these proposed standards, management has not determined whether implementation of such proposed standards would be material to the Company's consolidated financial statements.

### 4. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if stock options and other commitments to issue common stock were exercised or equity awards vest resulting in the issuance of common stock or conversion of notes into shares of the Company's common stock that could increase the number of shares outstanding and lower the earnings per share of the Company's common stock. This calculation is not done for periods in a loss position as this would be antidilutive. As of June 30, 2010, there were no stock options or stock awards that would have been included in the computation of diluted earnings per share that could potentially dilute basic earnings per share in the future. The information related to basic and diluted earnings per share is as follows:

ONLINE VACATION CENTER HOLDINGS CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Numerator:				
Continuing operations:				
Income from continuing operations	\$ 5,361	\$ 200,524	\$ 324,174	\$ 762,960
Discontinued operations				
(Loss) from discontinued operations	--	(32,084)		(64,292)
Net income	\$ 5,361	\$ 168,440	\$ 324,174	\$ 698,668
Denominator:				
Weighted average number of shares outstanding – basic and diluted	14,866,002	17,261,777	14,912,145	17,259,604
EPS:				
Basic:				
Continuing operations	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.04
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Net income	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.04
Diluted				
Continuing operations	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.04
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Net income	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.04

#### 5. DEPOSITS AND PREPAID ITEMS

Deposits and prepaid items consist of the following:

	June 30, 2010	December 31, 2009
Deposits with suppliers	\$ 919,664	\$ 761,653
Advanced employee commissions	335,503	--
Prepaid expenses and current portion of note receivable	257,880	345,365
Deposits and prepaid items	\$1,513,047	\$1,107,018

In January 2010, the Company initiated a compensation plan for a part of its sales force. Employees in this unit are solely compensated by commission. Commission payments are treated as an asset (“Advanced employee commissions”) and are



ONLINE VACATION CENTER HOLDINGS CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

expensed at the time of client's travel when the related revenue is recognized. Other sales employees, in accordance with the existing compensation plan, are paid a salary with a bonus which are expensed immediately.

#### 6. INTANGIBLE ASSETS, NET

Intangible assets are capitalized at their respective fair values and are amortized at their estimated useful lives ranging from four to fifteen years. The Company conducts its annual tests for impairment during the fourth quarter of the fiscal year or whenever events or changes in circumstances indicate that they may be impaired.

Intangible assets consist of the following:

	June 30, 2010	December 31, 2009
Trade names	\$ 188,322	\$ 186,322
Customer lists and relationships	1,904,820	1,601,329
	2,093,142	1,787,651
Less: Accumulated amortization	(945,139)	(711,336)
Intangible assets, net	\$ 1,148,003	\$ 1,076,315

Amortization expense for the quarters ended June 30, 2010 and 2009 and the six months ended June 30, 2010 and 2009 was \$120,959, \$83,397, \$233,803 and \$161,443, respectively.

#### 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

	June 30, 2010	December 31, 2009
Accounts payable	\$ 1,480,378	\$1,687,448
Accrued compensation	415,476	374,552
Accrued professional fees	76,682	94,132
Other accrued expenses	--	67,231
Total	\$ 1,972,536	\$ 2,223,363

#### 8. STOCK REPURCHASES

On August 1, 2008, the Company announced that its Board of Directors had approved a program to repurchase of up to \$200,000 of the Company's common stock which would be funded from available working capital and subject to the rules and regulations of the SEC and other applicable legal requirements. The plan does not require the Company to acquire a specific number of shares and may be suspended from time to time or discontinued. As initially

adopted, the program did not extend beyond June 30, 2009.



ONLINE VACATION CENTER HOLDINGS CORP AND SUBSIDIARIES  
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(Unaudited)

On March 2, 2009 the Company announced that its Board of Directors authorized the repurchase of an additional \$150,000 of our common stock to be funded from available working capital and subsequently extended the program until December 31, 2010.

During the six months ended June 30, 2010, the Company entered into agreements with two shareholders to purchase 100,000 shares and 18,900 shares respectively, and one affiliate to purchase 100,000 shares of the Company's common stock from the Company's working capital. These repurchase transactions, totaling \$121,340, are not part of the Company's previously announced repurchase programs.

9. STOCK BASED COMPENSATION

The 2005 Management and Director Equity Incentive and Compensation Plan (the "Plan") provides for the grants of stock options, restricted stock, performance-based and other equity-based incentive awards to directors, officers and key employees. Under this Plan, stock options must be granted at an option price that is greater than or equal to the market price of the stock on the date of the grant. If an employee owns 10% or more of the Company's outstanding common stock, the option price must be at least 110% of the market price on the date of the grant. Options granted under this Plan become exercisable in accordance with the terms of the grant as determined by a committee of the Company's Board of Directors. All options granted expire no more than 10 years following the date of grant. All stock option grants currently outstanding vested either on the date of grant or will vest two years from the date of grant, provided that the individual is continuously employed with the Company. All outstanding restricted stock grants vest 20% upon grant and ratably over the successive four years, subject to continued employment with the Company.

No stock options were granted during the three months and six months ended June 30, 2010.

A summary of the activity in our Plan for the six months ended June 30, 2010 is presented below:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2009	2,402,400	\$ 1.39
Granted	-	0.00
Canceled	-	0.00
Exercised	-	0.00
Options outstanding at June 30, 2010	2,402,400	\$ 1.39

Compensation cost recognized for the three months and six months ended June 30, 2010 and 2009 was \$0, \$15,399, \$1,093 and \$33,758, respectively.

As of June 30, 2010, all awards granted under our option plan had vested resulting in no future stock based compensation expense to be recognized. At June 30, 2010, 2,402,400 shares of common stock at weighted average strike price of \$1.39 per share were exercisable.

For the quarter ended June 30, 2010, no restricted shares were granted to employees and directors under the Plan. Compensation expense for the six months ended June 30, 2010 and 2009 related to the restricted share grants was

\$15,230 and \$15,570, respectively.

ONLINE VACATION CENTER HOLDINGS CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

10. INCOME TAXES

The provision (benefit) for income taxes from continued operations for the quarter and six months ended June 30, 2010 and 2009 consist of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Current:				
Federal	\$ (54,985)	\$ 103,748	\$ 100,051	\$ 387,816
State	(13,050)	2,952	12,731	50,590
	(68,035)	106,700	112,782	438,406
Deferred:				
Federal	(11,999)	30,014	11,783	64,890
State	( 1,996)	2,613	1,959	8,412
	(13,995)	32,627	13,743	73,302
Provision/(Benefit) for income taxes	\$ (82,030)	\$ 139,327	\$ 126,525	\$ 511,708

The difference between income tax expense computed by applying the federal statutory corporate tax rate and actual income tax expense is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Statutory federal income tax rate	(35.0)%	35.0%	35.0 %	35.0%
State income taxes	(3.6)	3.6	3.6	3.6
Tax effect of non deductible items	1.1	2.4	1.3	1.5
True-ups	(68.5)	0.0	(11.7)	0.0
Other	(1.0)	0.0	(0.1)	0.0
Effective tax rate	(107.0)%	41.0%	28.1%	40.1%

The effective tax rate was less than the statutory rate for both the quarter and the six months ended June 30, 2010 primarily as a result of a true-up of the 2009 book provision to the 2009 federal tax return, related to the disposal of assets associated with La Tours and Thoroughbred with a higher tax basis than financial reporting basis and that a temporary difference was never recognized.

Deferred income taxes result from temporary differences in the recognition of income and expenses for the financial reporting purposes and for tax purposes. The tax effect of these temporary differences representing deferred tax assets and liabilities result principally from the following:

	June 30, 2010	December 31, 2009
Net operating loss carryforwards and AMT tax credit	\$ 7,763	\$ 7,763
Depreciation and amortization	(347,160)	(302,828)
Accruals and other	(163,499)	132,910
Deferred income tax (liability), net	\$ (175,898)	\$ (162,155)



ONLINE VACATION CENTER HOLDINGS CORP AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

The net deferred tax assets and liabilities are comprised of the following:

	June 30, 2010	December 31 2009
Current	\$ 63,958	\$ 33,442
Non-current	(239,856)	(195,597)
Net deferred tax (liability)	\$ (175,898)	\$ (162,155)

#### 11. COMMITMENTS AND CONTINGENCIES

The Company is involved from time to time in various legal claims and actions arising in the ordinary course of business. While from time to time claims are asserted that may make demands for sums of money, the Company does not believe that the resolution of any of these matters, either individually or in the aggregate, will materially affect its financial position, cash flows or the results of its operations.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance, industry prospects or future results of operations or financial position, made in this Quarterly Report on Form 10-Q are forward-looking. We use words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons, including, those risks described in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission ("SEC") on March 29, 2010 and the risks discussed in other SEC filings. These risks and uncertainties, as well as other risks and uncertainties, could cause our actual results to differ significantly from management's expectations. The forward-looking statements included in this report reflect the beliefs of our management on the date of this report. We undertake no obligation to update publicly any forward-looking statements for any reason.

### Overview

Online Vacation Center Holdings Corp., a Florida holding company ("we," "us," or the "Company"), provides vacation travel services through its wholly-owned subsidiaries. Our travel companies include:

Online Vacation Center, Inc. ("Online Vacation Center"), a full service vacation seller focused on serving the affluent retiree market. Historically, this subsidiary has been the core business, accounting for the majority of revenue and net income through the sale of high margin cruise packages, and

Dunhill Vacations, Inc. ("Dunhill"), the publisher of three travel newsletters, "Top Travel Values", "Spotlight", and "TRAVELFLASH".

We are focused on internally growing and developing our company with a range of products that can be cross-marketed to our extensive customer base and providing a high degree of personalized service to help customers research, plan and purchase a vacation.

We generate revenues from:

commissions on cruises  
commissions on other travel related products  
commissions on travel insurance  
advertising and marketing services provided to travel suppliers

We currently market our services by:

producing travel-related publications for consumers  
telemarketing to our existing customer base  
direct mailing to our existing customer base as well as targeted prospects





email communications to our subscription base

Operating expenses include those items necessary to advertise our services, produce our marketing materials, maintain and staff our travel reservation and fulfillment center including technological enhancements, payroll, commissions and benefits, telephone, ticket delivery, general and administrative expenses, rent and computer maintenance fees.

## Results of Operations

Three Months Ended June 30, 2010 Compared to the Three Months Ended June 30, 2009

Continuing operations:

Revenues decreased by \$220,351, 10.0%, to \$1,992,887 for the three months ended June 30, 2010 (“the second quarter of 2010”) compared with \$2,213,238 for the three months ended June 30, 2009 (“the second quarter of 2009”). The decrease is attributable to a decrease in commission revenues offset by an increase in marketing and publishing revenues.

Selling and marketing expenses increased by \$98,272, 16.0%, to \$713,424 for the second quarter of 2010 compared with \$615,152 for the second quarter of 2009. The increase is primarily attributable to an increase in marketing material expenses. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

General and administrative expenses increased by \$61,182, 5.3%, to \$1,205,378 for the second quarter of 2010 compared with \$1,144,196 for the second quarter of 2009. The increase is primarily attributable to an increase in professional and credit card processing fees. General and administrative expenses primarily include management and non sales staff compensation, professional services, and occupancy costs.

Depreciation and amortization expense for the second quarter of 2010 was \$152,373 compared with \$115,225 for the second quarter of 2010. Amortization expense increased by \$37,109 during the second quarter of 2010, as a result of an increase in the amortization expense of the Dunhill subscriber list.

Net interest income increased to \$1,619 for the second quarter of 2010 compared with net interest income of \$1,186 for the second quarter of 2009. The increase in net interest income for the second quarter of 2010 was primarily attributable to interest expense in 2009 associated with debt issued in conjunction with the acquisition of La Tours and Cruises Inc. (“La Tours”) which was forgiven as a part of the sale of La Tours in November 2009.

Our loss before income taxes was \$76,669 in the second quarter of 2010 compared with income before income taxes of \$339,851 in the second quarter of 2009. These results are primarily attributable to the decrease in revenues, an increase in selling and marketing costs and depreciation and amortization expenses during the second quarter of 2010.

The provision for income taxes decreased to a benefit of \$82,030 for the second quarter of 2010 compared with a provision for income taxes of \$139,327 for the second quarter of 2009. The decrease is related to a decrease in income before income taxes of \$416,520 during the second quarter of 2010 and a true-up of the 2009 income tax provision with the 2009 federal tax return. The benefit rate in the second quarter of 2010 was 107.0% as compared to a tax rate of 41.0% in the second quarter of 2009.



As a result of the foregoing, our income from continuing operations was \$5,361 for the second quarter of 2010 compared with income from continuing operations of \$200,524 for the second quarter of 2009.

Six Months Ended June 30, 2010 compared to Six Months Ended June 30, 2009

#### Continuing Operations

Revenues decreased by \$329,146, 6.6%, to \$4,621,312 for the six months ended June 30, 2010 (the "first half of 2010") compared with \$4,950,458 for the six months ended June 30, 2009 (the "first half of 2009"). The decrease is attributable to a decrease in commission revenues offset by an increase in publishing and marketing revenues.

Selling and marketing expenses increased by \$216,137, 18.1% to \$1,409,344 in the first half of 2010 compared with \$1,193,207 in the first half of 2009. The increase is attributable to an increase in marketing material expenses during the first half of 2010. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

General and administrative expenses increased by \$208,531 or 9.2% to \$2,471,926 in the first half of 2010 compared with \$2,263,395 in the first half of 2009. The increase is primarily attributable to an increase in credit card processing fees, professional fees and compensation costs. General and administrative expenses primarily include management and non sales staff compensation, professional services, and occupancy costs.

Depreciation and amortization expense in the first half of 2010 was \$292,480 compared with \$222,250 in the first half of 2009. Amortization expense increased by \$72,360 during the first half of 2010 as a result of the increase in the amortization expense of the Dunhill subscriber list.

Net interest income increased to \$3,137 in the first half of 2010 compared with \$3,062 in the first half of 2009.

Our income before provision for income taxes was \$450,699 in the first half of 2010 compared with our income before provision for income taxes of \$1,274,668 in the first half of 2009. The decrease in income before income taxes is due to a decrease in revenues, an increase in selling and marketing expenses, general and administrative expenses and depreciation and amortization expense.

The provision for income taxes decreased from \$511,708 in the first half of 2009 to \$126,525 in the first half of 2010. The decrease is directly related to the decrease in results from operations where income before income taxes was \$450,699 in the first half of 2010 compared with income before income taxes of \$1,274,699 in the first half of 2009. The tax rate in the first half of 2010 was 28.1% as a result of a true-up of the 2009 income tax provision with the 2009 federal tax return. The tax rate in the first half of 2009, 40.1%, was higher than the statutory rate because of the tax effect of non deductible items.

As a result of the foregoing, our income from continuing operations in the first half of 2010 was \$324,174 compared with income from continuing operations of \$762,960 in the first half of 2009.

## Discontinued Operations

On September 30, 2009, our Board of Directors authorized the sale of Thoroughbred Travel LLC (“Thoroughbred”) and La Tours and Cruises, Inc. (“La Tours”), our Houston, Texas based travel agencies focused on providing luxury based personal travel products, such as cruises, European tours and all inclusive vacations. Additionally, our Board of Directors authorized the dissolution of La Fern, Inc. (“La Fern”) a Florida travel agency focused on providing land-based vacations. We acquired Thoroughbred in September 2006. La Fern in October 2006 and La Tours in January 2007.

On October 19, 2009, we entered into a definitive agreement (the “Sales Agreement”) to sell the assets and liabilities arising from customer travel after November 2, 2009 La Tours and Thoroughbred to West University Travel LLC (“West U”), a Texas limited liability company. The principal members of West U are Ray Schutter, President of La Tours and Thoroughbred, and Cecilia Schutter from whom we purchased La Tours in January 2007.

The results of operations and cash flows of La Tours, Thoroughbred and La Fern have been removed from the results of continuing operations for the three months and six months ended June 30, 2009. The results of operations of La Tours, Thoroughbred and La Fern for the three months and six months ended June 30, 2009 are as follows:

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Revenues	\$ 135,571	\$ 223,095
(Loss) before income taxes	(50,585)	(101,370)
Income taxes (benefit)	(18,501)	(37,078)
(Loss) from discontinued operations	\$ (32,084)	\$ (64,292)

As a result of the foregoing, our net income was \$5,361 for the second quarter of 2010 compared with net income of \$168,440 in the second quarter of 2009. Our net income for the first half of 2010 was \$324,174 compared with net income of \$698,668 for the first half of 2009.

## Liquidity and Capital Resources

Cash at June 30, 2010 was \$3,107,275 compared with \$2,721,658 at December 31, 2009. The primary source of our liquidity and capital resources has come from cash provided by our operations.

Cash flows provided by continuing operating activities for the first half of 2010 and 2009 were \$866,205 and \$1,712,644, respectively. The decrease of \$846,439 in 2010 was attributable to an decrease of income from continuing operations of \$438,786, a decrease in cash provided by working capital items of \$396,861 and a decrease in non-cash operating items of \$10,792.

Cash flows used in continuing investing activities for the first half of 2010 increased to \$348,118 from \$300,955 for the first half of 2009. The increase in cash out flows was related to an increase in intangible assets offset by a decrease in capital expenditures during the first half of 2010.

Cash flows used in financing activities decreased to \$132,470 for the first half of 2010 compared with \$572,703 for the first half of 2009. The primary decrease in cash outflows was due to a decrease of repurchases of our common stock of \$338,378 and the absence of any repayment obligations under notes issued in conjunction with acquisition transactions.



Cash flows provided by discontinued operations, solely from operating activities in the first half of 2009 totaled \$20,677.

At June 30, 2010, we had a working capital of \$1,428,605 as compared to working capital of \$1,235,560 at December 31, 2009, an increase of working capital of \$193,045. We had an accumulated deficit of \$932,580 at June 30, 2010, a decrease of \$5,361 from December 31, 2009.

Management believes that the existing cash and cash expected to be provided by operating activities will be sufficient to fund the short term capital and liquidity needs of our operations. We may need to seek to sell equity or debt securities or obtain credit lines from financial institutions to meet our longer-term liquidity and capital requirements. We can not provide any assurances that we will be able to obtain additional capital or financing in amounts or on terms acceptable to us, if at all or on a timely basis.

We have historically been dependent on our relationships with four major cruise lines: Celebrity Cruises, Princess Cruises, Norwegian Cruise Line and Royal Caribbean Cruise Line. We also depend on third party service providers for processing certain fulfillment services.

#### Seasonality and Inflation

The domestic and international leisure travel industry is seasonal. Our results have been subject to quarterly fluctuations caused primarily by the seasonal variations in the travel industry. Net revenues and net income are generally lower in the third quarter. We expect seasonality to continue in the future. We do not expect inflation to materially affect our revenues and net income.

#### Critical Accounting Policies

The preparation of financial statements in conformity 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, liabilities, revenues, expenses and the disclosure of contingencies. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be materially different from those estimates. The following policies are those that we consider to be the most critical:

#### Revenue Recognition

We recognize revenue when it is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists, services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. Vacation travel sales transactions are billed to customers at the time of booking, however, commission revenue is not recognized in the accompanying consolidated financial statements until the customers' travel occurs. Advertising revenue is recognized upon distribution of the marketing publication.

After considering and weighing relevant qualitative factors regarding our status as a primary obligor, the extent of our pricing latitude of vacation travel sales transactions and in accordance with the various indicators, our vacation travel suppliers assume the majority of the business risks such as providing the service and the risk of unsold travel packages. As such, all vacation travel sales transactions



are recorded at the net amount, which is the amount charged to the customer less the amount to be paid to the supplier. The method of net revenue presentation does not impact operating profit, net income, earnings per share or cash flows.

#### Intangible Asset Testing

Absent any circumstances that warrant testing at another time, we test for goodwill and non-amortizing intangible asset impairment as part of our year-end closing process. Our goodwill testing consists of comparing the estimated fair values of each of our operating entities to their carrying amounts, including recorded goodwill. We estimate the fair values of our reporting unit by discounting its projected future cash flows. Developing these future cash flow projections requires us to make significant assumptions and estimates regarding the sales, gross margin and operating expenses of our reporting unit, as well as economic conditions and the impact of planned business or operational strategies. Should future results or economic events cause a change in our projected cash flows, or should our operating plans or business model change, future determinations of fair value may not support the carrying amount of our reporting units and the related goodwill would need to be written down to an amount considered recoverable. Any such write down would be included in the operating expenses. While we make reasoned estimates of future performance, actual results below these expectations, or changes in business direction can result in additional impairment charges in future periods.

#### ITEM 4(T). – CONTROLS AND PROCEDURES

As of June 30, 2010 under the supervision of and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of June 30, 2010, the end of the period covered by this report (the “Evaluation Date”). Based upon the evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the Evaluation Date. Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated to our management, including our principal executive officer and principal accounting officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Disclosure controls include controls and procedures designed to reasonably ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with this evaluation, our management identified no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.





## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We are involved from time to time in various legal claims and actions arising in the ordinary course of business. While from time to time claims are asserted that may make demands for sums of money, we do not believe that the resolution of any of these matters, either individually or in the aggregate, will materially affect our financial position, cash flows or the results of our operations.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information with respect to Company purchases made of its common stock during the second quarter of the 2010 fiscal year:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares (or Units) Purchased as Part of a Publicly Announced Plan or Program (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Programs
April 1, 2010 – April 3, 2010	--	\$ -.-	--	\$ 232,899
May 1, 2010 – May 31, 2010	--		--	\$ 232,899
June 1, 2010 – June 30, 2010				
(2)	100,000	\$ 0.600	--	\$ 232,899
Total	100,000	\$ 0.600	--	\$ 232,899

1. On August 1, 2008, we announced that our Board of Directors had approved a program to repurchase of up to \$200,000 of our common stock to be funded from available working capital and subject to the applicable rules and regulations of the SEC and other applicable legal requirements. The plan does not require us to acquire a specific number of shares and may be suspended from time to time or discontinued. As initially adopted, the program did not extend beyond June 30, 2009. On March 2, 2009 we announced that our Board of Directors authorized the repurchase of an additional \$150,000 of our common stock to be funded from available working capital and subsequently extended the program until December 31, 2010.
2. On June 8, 2010, we entered into an agreement with Reginald Flosse to purchase 100,000 shares of the Company's common stock at a purchase price of \$0.60 per share. The purchase price was paid from our working capital. Reginald Flosse is an affiliate of the Company and holds more than 10% of our issued and outstanding stock. This repurchase transaction is not part of our previously announced repurchase program.



ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. (REMOVED AND RESERVED)

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO. +
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO. +
32	Section 1350 Certification. +
+	Filed herewith



SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ONLINE VACATION CENTER HOLDINGS CORP.

/S/ Edward B. Rudner  
Chief Executive Officer, President, Chief Financial  
Officer and Director

Date: August 10, 2010

