

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 September 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 incorporation or organization) (IRS Employer Identification No.)

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 September 30, 2006: 44,281,742 shares.

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

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### JOYSTAR, INC. BALANCE SHEETS (UN-AUDITED)

	September 30, 2006 (Restated)	December 31, 2005
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,275,098	\$ 218,948
Other receivables	3,638,454	398,827
Prepaid expenses	71,727	48,572
	-----	-----
Total current assets	4,985,279	666,347
Property and equipment, net	181,898	138,723
Intangible asset, net amortization	51,445	54,205
	-----	-----
Total assets	\$ 5,218,622	\$ 859,275
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 156,179	\$ 198,814
Accounts payable-merchants	1,446,429	321,643
Accrued salaries	124,411	46,786
Accrued expenses	128,865	128,865
Accrued payroll taxes	972,907	412,258

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Accrued Liability related to warrants and stock purchase rights		3,302,671
Accrued rent	34,525	35,000
Loans from shareholder	472	472
	-----	-----
Total current liabilities	6,166,459	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; 44,281,742 and 34,103,309 shares issued and outstanding at September 30, 2006 and December 31, 2005 respectively	11,590,716	7,952,026
Stock issued for deferred compensation	(175,000)	(356,000)
Stock subscribed not issued, 77,733 shares at September 30, 2006 and 2,584,476 shares at December 31, 2005, respectively	115,001	834,800
Accumulated (deficit)	(12,478,554)	(8,715,389)
	-----	-----
Total stockholders' equity (deficit)	(947,837)	(284,563)
	-----	-----
Total liabilities and stockholders' Equity (deficit)	\$ 5,218,622	\$ 859,275
	=====	=====

The accompanying notes are an integral part of these financial statements

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JOYSTAR, INC.  
STATEMENTS OF OPERATIONS  
(UN-AUDITED)

	For the nine months ended September 30, 2006 (Restated)	For the nine months ended September 30, 2005	For the three months ended September 30, 2006 (Restated)	For the th months end September 2005
	-----	-----	-----	-----
Revenue	\$ 6,850,791	\$ 621,000	\$ 2,114,540	\$ 135,0
	-----	-----	-----	-----
Operating expenses:				
Selling and marketing	4,208,591	1,369,862	1,308,643	566,4
General and administrative	2,965,856	1,718,975	800,477	567,8
Technology and content	135,556	--	52,633	
	-----	-----	-----	-----
Total operating expenses	7,310,003	3,088,837	2,161,753	1,134,2
	-----	-----	-----	-----
Operating loss	(459,212)	(2,467,837)	(47,213)	(999,2
Loss on fair value of warrants and stock purchase rights	(3,302,671)			(1,610,0

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Interest expense	--	(9,641)	--	
Loss before income taxes	(3,761,883)	(2,477,478)	(1,657,274)	(999,2
Income tax provision	1,282	--	1,282	
Net income (loss)	\$ (3,763,165)	\$ (2,477,478)	(1,658,556)	\$ (999,2
Loss per share- Basic and diluted	\$ (0.09)	\$ (0.10)	\$ (0.04)	\$ (0.
Weighted average number of common shares outstanding	40,971,493	26,033,552	43,502,474	29,972,5

The accompanying notes are an integral part of these financial statements

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

	COMMON STOCK		Stock issued for Deferred Compensation	Stock Subscribe not Issued
	Number of Shares	Amount		
Balance at December 31, 2005	34,103,309	\$ 7,952,026	\$ (356,000)	\$ 834,8
Stock issued for services	3,174,169	1,207,077	--	(420,0
Cost of issuing stock included in services	--	(345,107)	--	
Stock issued for cash	7,004,264	2,594,855	--	(300,0
Subscribed stock (400 shares)	--	--	--	2
Deferred compensation earned	--	--	181,000	
Share based compensation	--	181,865	--	
Net loss	--	--	--	
Balance September 30, 2006 (Un-audited)	44,281,742	\$ 11,590,716	\$ (175,000)	\$ 115,0

The accompanying notes are an integral part of these financial statements

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JOYSTAR, INC.  
STATEMENTS OF CASH FLOWS  
(UN-AUDITED)

For the nine months ended September 30, 2006 (Restated)	For the nine months ended September 30, 2005
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Cash flows from operating activities:		
Net loss	\$ (3,763,165)	\$ (2,477,478)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	41,667	10,701
Stock issued for services	622,970	984,303
Stock issued for interest	--	9,641
Share based compensation	181,865	
Changes in assets and liabilities:		
(Increase) in prepaid expenses	(23,155)	(30,307)
(Increase) in other receivables	(3,239,627)	(71,217)
Increase (Decrease) in accounts payable	(42,635)	45,355
Increase in accounts payable-merchants	1,124,787	226,820
Increase in accrued salaries	77,625	62,356
Increase in payroll taxes	560,649	191,727
(Decrease) in accrued rent	(475)	--
Increase in accrued liability relating to Warrants and stock purchase rights	3,302,671	
Net cash used in operating activities	(1,156,823)	(1,048,099)
Cash flows from investing activities:		
Acquisition of property and equipment	(82,083)	(80,343)
Net cash used in investing activities	(82,083)	(80,343)
Cash flows from financing activities:		
Loans from shareholders	--	472
Subscribed stock	201	--
Issuance of common stock	2,294,855	1,158,632
Net cash provided by financing activities	2,295,056	1,159,104
Increase in cash	1,056,150	30,662
Cash at the beginning of the year	218,948	283,869
Cash at the end of the period	\$ 1,275,098	\$ 314,531
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of stock for services	\$ 622,970	\$ 984,303
Share based compensation	\$ 181,865	\$ --
Income taxes paid	\$ 1,282	\$ --
Shares issued for shareholder loan	--	259,834
Shares issued for interest	\$ --	\$ 9,641
Shares issued for fixed assets and customer		

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list	\$	--	\$	70,125
	=====		=====	
Subscribed shares issued	\$	720,000	\$	590,000
	=====		=====	
Shares issued for accrued prior year compensation	\$	181,000	\$	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 NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005  
 (Un-audited)

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 September 30, 2005 to be consistent with September 30, 2006 classifications.

Results of operations for the nine months ended September 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

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REVENUE RECOGNITION

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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.

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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

The Company amortizes its intangible asset over its useful life of five years. 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 nine months ended September 30, 2006.

### 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 \$3,302,671 at September 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

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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.

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### 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 no common stock equivalents, which would dilute earnings per share.

### RECLASSIFICATIONS

-----  
The Company has reclassified certain amounts relating to prior period September 30, 2005 results to conform to our September 30, 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 nine months ended September 30, 2006 the Company issued 3,174,169 shares of common stock for services valued at a total of \$1,207,077. Of the total shares issued for services for the nine months the Company issued 1,650,000 shares subscribed at a value of \$420,000, and 460,143 shares valued at \$345,107.

The Company issued 7,004,264 shares of common stock for cash for \$2,594,855 of which \$300,000 had been received in the prior year as subscribed stock.

At September 30, 2006 the Company has 9,478,572 warrants outstanding to purchase shares of common stock at \$0.50 per share and 1,407,158 warrants outstanding to purchase shares of common stock at \$0.35 per share.

### 5. RESTATEMENT OF FINANCIAL STATEMENTS



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

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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 September 30, 2006. The September 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, \$1,610,061 and \$3,302,671 of accrued liability and the loss on fair value of warrants and stock purchase rights was recognized as of and for the three and nine months respectively ended September 30, 2006. The September 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.

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

	As originally presented -----	Restated -----
Loss on fair value of warrants And stock purchase rights	0	\$ 1,610,061
Share compensation expense	0	\$ 1,011
Loss before income taxes	\$ (46,202)	\$ (1,657,274)
Net Income/(Loss)	\$ (47,484)	\$ (1,658,556)
Earnings/(Loss) per Share	\$ (0.00)	\$ (0.04)

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The following financial statement line items were corrected for the nine months ended September 30, 2006

	As originally presented -----	Restated -----
Loss on fair value of warrants		
And stock purchase rights	0	\$ 3,302,671
Share compensation expense	0	\$ 181,865
Loss before income taxes	\$ (277,347)	\$ (3,761,883)
Net Loss	\$ (278,629)	\$ (3,763,165)
Loss per Share	\$ (0.01)	\$ (0.09)

### 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.

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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 activity for all stock options for nine months ended September 30, 2006:

	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	843,000	\$ 0.53
Weighted average fair value of options		

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granted during the period \$ 0.09  
=====

The fair value of the stock options granted during the nine months ended September 30, 2006 was approximately \$27,000 or \$0.09 per stock option, and was determined using the Black Scholes option pricing model. The factors used for the nine months ended September 30, 2006, were the option exercise price of \$0.50 to \$0.90 per share, a 5 year life of the options, volatility measure of 47.5%, a dividend rate of 0% and a risk free interest rate of 4.54% for 2006.

The following table summarizes information about stock options outstanding at September 30, 2006, with exercise prices equal to the fair market value on the date of grant with no restrictions on exercisability after vesting:

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RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
\$0.50 to \$1.50	4,447,600	4.00	\$ 0.53	843,000	\$ 0.53

As of September 30, 2006, there was approximately \$548,000 in unrecognized compensation cost related to unvested stock options. The amount unrecognized compensation cost will be recognized over its weighted average life of approximately four years.

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	SEPTEMBER 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	(67,682)	(28,975)
	\$ 170,123	\$ 138,723

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

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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.

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

Gross travel bookings for the three months ended September 30, 2006 increased 221% to \$16,220,487 compared to \$5,040,091 for the third quarter ended September, 30 2005. Gross travel bookings for the nine months ended September 30, 2006 increased 408% to \$49,276,487 compared to \$9,683,756 for the nine months ended September 30, 2005.

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### Revenues

Revenues for the three months ended September 30, 2006 increased 263% to \$2,114,540 from \$581,326 for the three months ended September 30, 2005. Revenue for the nine months ended September 30, 2006 increased 542% to \$6,850,791 compared to \$1,066,785 for the nine months ended September 30, 2005.

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The increases in both gross travel bookings and revenues are due to continued substantial growth in our leisure travel agent network and our ability to negotiate higher commissions with our preferred suppliers.

Revenue margins (defined as net revenue as a percentage of gross bookings) for the nine months ended September 30, 2006 increased to 14% compared to 11.5% for the nine months ended September 30, 2005. The increased revenue margin was due to growth in our fee-based membership as well as overrides and co-op marketing dollars.

### Travel Network

Our network of leisure travel agents increased by 616 members in the third quarter ended September 30, 2006 as compared to 536 and 374 in the second and first quarters of 2006 respectively.

Net Loss for the three months ended September 30, 2006 was \$1,658,556 compared to a net loss of \$834,073 for the three months ended September 30, 2005.

### Liquidity

At September 30, 2006 the company's net cash increased to \$1,275,098 compared to \$218,948 at December 31, 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.

Selling and Marketing expenses for the three months ended September 30, 2006 were \$1,308,643 compared to \$847,592 for the three months ended September 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 three months ended September 30, 2006 were \$800,477 compared to \$567,807 for the three months ended September 30, 2005. The increase of \$232,670 was due primarily to increased headcount to support growth, expansion of Miami operations and an increase in travel expenses relating to agent recruitment and the legal and accounting fees associated with being a public company.

General and Administrative expenses for the third quarter decreased sequentially \$236,479 from \$1,036,956 in the previous quarter ended June 30, 2006. The decrease was primary driven by management's ability to control fixed spending to stay in line with the seasonality of the travel industry and more specifically softness in consumer demand in the cruise industry.

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 nine months ended September 30, 2006 were \$135,556 as we increased our software development 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 \$3,302,671 at September 30, 2006.

LIQUIDITY AND SOURCES OF CAPITAL

-----

During the nine months ended September 30, 2006 the Company issued 7,004,264 shares of common stock for cash \$2,594,855 of which \$300,000 had been received in the prior year as subscribed stock.

At September 30, 2006 the Company had a cash balance of \$1,275,098 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 September 30, 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 September 30, 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.

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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

As of November 1, 2006, Joystar, Inc., a California corporation (the "Company") signed subscription agreements for the purchase of a total of 3,212,000 shares of its common stock, no par value per share, at a purchase price of \$0.625 per share with certain institutional and accredited investors, for a total purchase price of \$2,007,500. As a part of the private placement, the Company also signed warrant purchase agreements with such investors for the purchase of Series A and B Warrants by the investors. One Series A Warrant and one Series B Warrant is to be issued for each four Shares issued, for a total of 803,000 Series A Warrants and 803,000 Series B Warrants. The per Warrant Share exercise price to acquire a Warrant Share upon exercise of a Series A Warrant is \$0.85 and the per Warrant Share exercise price to acquire a Warrant Share upon exercise of a Series B Warrant is \$1.00. The Series A and B Warrants are exercisable until five (5) years after the Closing Date. The Company anticipates the closing of the transaction and the issuance of the securities within the next five business days.

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Item 6.

(a) Exhibits  
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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
* 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

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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:

None

\* Previously filed with the Securities and Exchange Commission.

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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

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Chief Executive Officer

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