

ONLINE VACATION CENTER HOLDINGS CORP
Form 10KSB
March 28, 2008

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

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

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

For the transition period _____ from _____ to

Commission file number: 0-32137

ONLINE VACATION CENTER HOLDINGS CORP.

(Name of Small business Issuer in Its Charter)

Florida

65-0701352

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer Identification No.)

1801 N.W. 66TH Avenue, Suite 102, Plantation, FL

33313

(Address of Principal Executive Offices)

(Zip Code)

Issuer's Telephone Number, Including Area Code:

(954) 377-6400

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.0001 par value per share

Check whether the issuer is not required to file reports pursuant to Section 13
or 15(d) of the Exchange Act. []

Check whether the issuer (1) filed all reports required to be filed by Section
13 or 15(d) of the Exchange Act during the past 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 []

Check if there is no disclosure of delinquent filers in response to Item 405 of
Regulation S-B contained in this form, and no disclosure will be contained, to
the best of registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-KSB or any
amendment to this Form 10-KSB. [X]

Indicate by check mark whether the registrant is a shell company (as defined in

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

rule 12b-2 of the Exchange Act). Yes [] No [X]

The issuer's revenues for the most recent fiscal year ended December 31, 2007 were \$9,324,386.

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$1,911,833 as of March 3, 2008 based on the closing price of the issuer's common stock on the Over-the-Counter Bulletin Board on said date (\$0.51 per share). For purposes of the foregoing computation, all executive officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates.

The number of shares outstanding of the registrant's common stock as of December 31, 2007: 18,492,977

Documents Incorporated By Reference: None.

Transitional Small Business Disclosure Format: Yes [] No [X]

TABLE OF CONTENTS

PART I

- ITEM 1. DESCRIPTION OF BUSINESS
- ITEM 2. DESCRIPTION OF PROPERTY
- ITEM 3. LEGAL PROCEEDINGS
- ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

PART II

- ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES
- ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION
- ITEM 7. FINANCIAL STATEMENTS
- ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
- ITEM 8A. CONTROLS AND PROCEDURES
- ITEM 8A. (T). MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
- ITEM 8B. OTHER INFORMATION

PART III

- ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT
- ITEM 10. EXECUTIVE COMPENSATION
- ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS
- ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
- ITEM 13. EXHIBITS
- ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

SIGNATURES

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information in this Annual Report on Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations, assumptions, estimates and projections about Online Vacation Center Holdings Corp. (the "Company") and our industry. These forward-looking statements are subject to the many risks and uncertainties that exist in our operations and business environment that may cause actual results, performance or achievements of the Company to be different from those expected or anticipated in the forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as "may", "will", "should", "estimates", "predicts", "potential", "continue", "strategy", "believes", "anticipates", "plans", "expects", "intends", and similar expressions are intended to identify forward-looking statements. The Company's actual results and the timing of certain events could differ significantly from those anticipated in such forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed in "Risk Factors" contained in Part I, Item 1 of this Annual Report on Form 10-KSB and the risks discussed in our other filings with the Securities and Exchange Commission ("SEC"). 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, even if new information becomes available or other events or circumstances occur.

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

PART I

Item 1 - Description of Business

Overview

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

- o Online Vacation Center, Inc., an internet-based vacation seller focused on serving the affluent retiree market;
- o Dunhill Vacations, Inc., a travel newsletter and media provider, and
- o Curves Travel, the licensed travel management company of Curves International, Inc.

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

We were originally incorporated in the State of Florida under the name of Online Vacation Center Holdings, Inc. in October 2000 by Edward B. Rudner. On March 16, 2006, we acquired control of Alec Bradley Cigar Corp, a publicly traded company and the predecessor to our Company in a reverse merger transaction. Under a share exchange agreement ("Share Exchange Agreement") dated August 25, 2005, effective as of March 15, 2006, Alec Bradley Cigar Corp issued to Online Vacation Center Holdings, Inc. interest holders an aggregate of 15,000,000 shares of its common stock in exchange for a 100% interest in Online Vacation Center Holdings, Inc and sold all of its assets (and transferred all of its liabilities) to Alan Rubin, its sole executive officer, director and principal shareholder. For accounting purposes the consummation of these actions resulted in a reverse merger and Online Vacation Center Holdings, Inc. is the accounting survivor and surviving business entity; however, Alec Bradley Cigar Corp is the surviving legal entity. As part of the Share Exchange Agreement, Alec Bradley Cigar Corp changed its name to Online Vacation Center Holdings Corp.

Since completing the reverse merger transaction on March 15, 2006, we have acquired six companies, and certain assets of a seventh company.

All references in this Annual Report to the "Company", "we" or "our" refer to Online Vacation Center Holdings Corp. and our subsidiaries unless otherwise noted. Our main telephone number is 954-377-6400 and our web site is located at www.onlinevacationcenter.com. The content on our web site is not incorporated by reference into this filing.

The Industry

As reported by Travel Industry Association, the total domestic US travel and tourism market was estimated at \$646 billion dollars in 2005. Our core target market is the tour and cruise portion of that market, estimated at approximately \$17 billion dollars in 2005. Cruise industry sources estimate that the global cruise industry carried 16.6 million cruise passengers in 2007 compared to 15.3 million cruise passengers carried in 2006. North America represents the primary source of cruise passengers and has experienced a compound annual growth rate of approximately 8.5% since 1970. Almost 70% of the cruise passengers in the world are sourced from North America, where cruising has developed into a mainstream

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

alternative to land-based resort and sightseeing vacations. Approximately 10.4

4

million North American-sourced cruise passengers took cruise vacations for two consecutive nights or more in 2006, and industry sources estimate this amount increased to about 11.3 million passengers in 2007.

Additionally, increased usage and familiarity with the internet have driven rapid growth in online penetration of travel expenditures. According to PhoCusWright, an independent travel, tourism and hospitality research firm, the U.S. travel market entered a new era of channel balance in 2007, which was the first year that more travel was purchased online than offline in the U.S. PhoCusWright believes that the gap between online and offline will continue to widen as more and more travelers shift behavior to online shopping and buying. It also predicts that the online leisure/unmanaged business travel market will surpass US\$94 billion in 2007, over one-third of the total travel market (which includes offline leisure/unmanaged business and on-and offline corporate travel).

Operations

We provide vacation marketing services from our call center located in Plantation, Florida, our retail location in Houston, Texas, and our offices in Dallas, Texas and London and Horsham, England. Sales are completed via the Internet, by telephone, or in person.

Marketing

Marketing of vacation services utilizes publications, direct mail, outbound telemarketing and email blasts. We are able to stay in touch with consumers by utilizing these methods.

Principal Suppliers

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

Intellectual Property

We have registered three service marks: two for "Online Vacation Center" and one for "Your Personal Vacation Managers".

Personnel

At December 31, 2007, we had approximately 60 full-time employees; 38 are sales and marketing personnel, and 22 hold administrative and executive positions. No personnel are covered by a collective bargaining agreement. We believe our relationship with our employees is good.

Competition

The travel service industry is extremely competitive and has low barriers to entry. We compete with other distributors of travel services, travel providers,

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

travel agents, tour operators, central reservation service providers and with conventional and electronic publishers of travel media. Companies including, but

5

not limited to, Travelocity, Expedia and Orbitz, have greater experience, brand name recognition and financial resources than us.

Regulation

We believe that we are in material compliance with all federal and state regulatory requirements applicable to our business, including the CAN-SPAM Act of 2003 which regulates commercial electronic mail on a nationwide basis. We adhere to the law by properly representing the nature of our commercial email messages, not tampering with source and transmission information and obtaining email addresses through lawful means.

Risk Factors

An investment in our common stock involves a high degree of risk. You should consider the following factors carefully before deciding to purchase shares of our common stock. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

If we do not have adequate financing, we may not be able to implement our

business growth strategy

If we have insufficient cash resources, our growth could be limited unless we are able to obtain additional capital through debt or equity financings. There can be no assurance that other financing will be available to us on terms we deem acceptable or if at all. If we are unable to obtain financing sufficient for all of our organic growth, we may be unable to fully carry out our development strategy. If funding is insufficient, we may be required to delay, reduce the scope of or eliminate some or all of our development programs.

Factors beyond our control could result in impairments.

We operate in a highly competitive and sensitive marketplace whereby international events, pricing pressures, unanticipated competition, adverse changes in business climate and loss of key personnel are not uncommon events. The potential impact of these events could adversely affect future cash flows and fair values of goodwill and other intangibles in relationship to their respective carrying values resulting in future impairments.

We operate in an increasingly competitive global environment.

The market for the services we offer is increasingly and intensely competitive. We compete with both established and emerging online and traditional sellers of travel services with respect to each of the services we offer. Some of our competitors, particularly travel suppliers such as cruise lines, airlines and hotels, may offer products and services on more favorable terms, including lower prices, no fees or unique access to proprietary loyalty programs, such as points and miles. Many of our competitors, such as cruise lines, airlines and hotels, have been steadily focusing on increasing online demand on their own websites in lieu of third-party distributors such as us. For instance, some low cost airlines, which are having increasing success in the marketplace, distribute

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

their online inventory exclusively through their own websites. Suppliers who sell on their own websites typically do not charge a processing fee, and, in some instances, offer advantages such as increased or exclusive product availability and their own bonus miles or loyalty points, which could make their offerings more attractive to consumers than offerings like ours. In addition, we

6

face increasing competition from other travel agencies, which in some cases may have favorable offerings for both travelers and suppliers, including pricing, connectivity and supply breadth. Increased competition has resulted in and may continue to result in reduced margins, as well as loss of travelers, transactions and brand recognition. We cannot assure you that we will be able to compete successfully against current, emerging and future competitors or provide differentiated travel products and services to our client base.

We are dependent upon travel providers for access to their inventory. Other distributors may have similar arrangements with travel providers, some of which may provide better availability or more competitive pricing than that offered by us.

We anticipate that a significant portion of our revenues will continue to be derived from the sale of inventory from relatively few travel providers. Our agreements with our travel providers can generally be canceled or modified by the travel provider upon relatively short notice. The loss of a contract, changes in our pricing agreements or commission schedules or more restricted access to travel providers' inventory could have a material adverse effect on our business, financial condition and results of operations.

Over recent years, we have experienced downward pressure on remuneration from our suppliers.

A substantial portion of our revenue is derived from compensation negotiated with travel suppliers. Over recent years, cruise, air and hotel travel suppliers have generally reduced or in some cases eliminated payments to travel agents and other travel intermediaries. No assurances can be given that travel suppliers will not further reduce or eliminate compensation, or attempt to charge travel agencies for content, any of which could reduce our revenue and margins thereby adversely affecting our business and financial performance.

Our business is currently dependent upon a number of different information and telecommunication technologies and any failure of this technology would decrease our revenues.

Our business is currently dependent upon a number of different information and telecommunication technologies to facilitate our access to information and manage a high volume off inbound and outbound calls. Any failure of this technology would have a material adverse effect on our business, financial condition and results of operations. In addition, we are dependent upon certain third party vendors, for access to certain information. Any failure of these systems or restricted access by us would have a material adverse effect on our business, financial condition and results of operations.

We rely on third-parties for many systems and services.

We rely on third-party service providers for certain fulfillment, processing, and other services. If these third-parties experience difficulty meeting our requirements or standards, it could damage our reputation or make it difficult

7

for us to provide certain services to our clients and operate some aspects of our business. In addition, if such third-party service providers were to cease operations, temporarily or permanently, or face financial distress, we could suffer increased costs and delays in our ability to provide similar services until an equivalent service provider could be found or we could develop our own technology or operations. In addition, we rely increasingly on outsourced providers of traveler care and information technology services. If we are unsuccessful in choosing high quality partners or we ineffectively manage these partnerships it could have an adverse impact on our operations and financial results.

There can be no assurance that our systems, procedures and controls will be

adequate to support our operations as it expands which could significantly

increase our expenses and delay or prevent growth.

We expect to continue to grow internally. We expect to spend significant time and effort expanding our existing businesses. There can be no assurance that our systems, procedures and controls will be adequate to support our operations as they expand. Any future growth also will impose significant added responsibilities on members of senior management, including the need to identify, recruit and integrate new senior level managers and executives. There can be no assurance that such additional management will be identified or retained by us. To the extent that we are unable to manage our growth efficiently and effectively, or are unable to attract and retain qualified management, our business, financial condition and results of operations could be materially adversely affected.

Our revenues and earnings are especially sensitive to global events that are out

of our control.

Our results of operations are dependent upon factors generally affecting the travel industry. Our revenues and earnings are especially sensitive to events that affect domestic and international air travel and vacation. A number of factors could result in an overall decline in demand for travel, including political instability, armed hostilities, international terrorism, extreme weather conditions, a rise in fuel prices, a decline in the value of the U.S. dollar, labor disturbances, excessive inflation, a general weakening in economic activity and reduced employment in the U.S. These types of events could have a material adverse effect on our business, financial condition and results of operations.

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

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

seasonality to continue in the future. Our quarterly results of operations may also be subject to fluctuations as a result of changes in the mix of services offered by us, internal growth rates, fare wars by travel providers, changes in relationships with certain travel providers, the timing of overrides by travel providers, extreme weather conditions or other factors affecting travel.

8

Unexpected variations in quarterly results could also adversely affect the price of our common stock.

The travel service industry is extremely competitive and has low barriers to

entry.

We compete with other distributors of travel services, travel providers, travel agents, tour operators and central reservation service providers, some of which have greater experience, brand name recognition and/or financial resources than us. Our travel providers may decide to compete more directly with us and restrict the availability and/or preferential pricing of their capacity. In addition, other distributors may have relationships with certain travel providers providing better availability or more competitive pricing than that offered by us. Furthermore, some travel agents have a strong presence in their geographic area which may make it difficult for us to attract customers in those areas.

Our operations are dependent on the efforts and relationships of Edward Rudner.

Our operations and business strategy are dependent on the efforts and relationships of Edward Rudner. Furthermore, the Company is dependent on the senior management of previously acquired businesses. If any of these individuals become unable to continue in their roles with the Company, our business could be adversely affected. Although we have entered into employment agreements with Messrs. Rudner and Todd, there can be no assurance that each will be able to continue in his present capacity for any particular period of time.

Edward Rudner has the ability to control the Company's business and corporate

affairs.

Edward Rudner and his affiliates beneficially own shares of common stock representing approximately 56.3% of the total voting power of the common stock of the Company. Mr. Rudner will be able to exercise control over the Company's affairs and be able to elect the entire board of directors and to control the disposition of any matter submitted to a vote of our shareholders.

Our websites rely on intellectual property, and we cannot be sure that this

intellectual property is protected from copying or use by others, including

potential competitors.

We regard much of our content and technology as proprietary and try to protect our proprietary technology by relying on trademarks, copyrights, trade secret laws and confidentiality agreements. In connection with our license agreements with third parties, we seek to control access to and distribution of our technology, documentation and other proprietary information. Even with all of these precautions, it is possible for someone else to copy or otherwise obtain

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

and use our proprietary technology without our authorization or to develop similar technology independently. Effective trademark, copyright and trade secret protection may not be available in every country in which our services are made available through the internet, and policing unauthorized use of our proprietary information is difficult and expensive. We cannot be sure that the steps we have taken will prevent misappropriation of our proprietary

9

information. This misappropriation could have a material adverse effect on our business. In the future, we may need to go to court to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation might result in substantial costs and diversion of resources and management attention.

We currently license from third parties some of the technologies incorporated into our websites. As we continue to introduce new services that incorporate new technologies, we may be required to license additional technology. We cannot be sure that such technology licenses will be available on commercially reasonable terms, if at all.

Our processing, storage, use and disclosure of personal data could give rise to ----- liabilities as a result of governmental regulation, conflicting legal ----- requirements or differing views of personal privacy rights. -----

In the processing of our traveler transactions, we receive and store a large volume of personally identifiable information. This information is increasingly subject to legislation and regulations in numerous jurisdictions around the world. This government action is typically intended to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. We could be adversely affected if legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, financial condition and results of operations. As privacy and data protection have become more sensitive issues, we may also become exposed to potential liabilities as a result of differing views on the privacy of travel data. These and other privacy developments that are difficult to anticipate could adversely affect our business, financial condition and results of operations.

We may be found to have infringed on intellectual property rights of others that ----- could expose us to substantial damages and restrict our operations. -----

We could face claims that we have infringed the patents, copyrights or other intellectual property rights of others. In addition, we may be required to indemnify travel suppliers for claims made against them. Any claims against us could require us to spend significant time and money in litigation, delay the release of new products or services, pay damages, develop new intellectual property or acquire licenses to intellectual property that is the subject of the infringement claims. These licenses, if required, may not be available on acceptable terms or at all. As a result, intellectual property claims against us could have a material adverse effect on our business, operating results and financial condition.

Fluctuations in the British Pound exchange rate can affect our publishing costs, ----- as it is dependent on third party production facilities which invoice the

Company in British Pounds.

Phoenix International Publishing, LLC ("Phoenix") utilizes third party publishing production facilities in the UK, therefore, a substantial number of Phoenix's transactions are denominated in British Pounds. As Phoenix's

10

functional currency is the US Dollar, it could be negatively impacted by fluctuations in the exchange rate.

Our stock is thinly traded.

While our stock trades on the NASDAQ Over-the-Counter Bulletin Board, our stock is thinly traded and an investor may have difficulty in reselling his or her shares quickly. The low trading volume of our common stock is outside of our control, and we can not guarantee that the trading volume will increase in the near future or that, even if it does increase in the future, it will be maintained. Without a large float, our common stock is less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock may be more volatile. In addition, in the absence of an active public trading market, an investor may be unable to liquidate his or her investment in us. Trading of a relatively small volume of our common stock may have a greater impact on the trading price for our stock than would be the case if our public float were larger. We cannot predict the prices at which our common stock will trade in the future.

Item 2 - Description of Property

Properties -----

We lease approximately 10,000 square feet of office space as our principal location in Plantation, Florida where we have our corporate offices and our call center. The current lease term is through June 30, 2008. We also lease 2,350 square feet for our retail location for La Tours and Cruises, Inc. in Houston, Texas which expires on December 31, 2009.

Item 3 - Legal Proceedings

Legal Proceedings -----

On November 15, 2007, we were notified that the Company was being sued in a putative class action lawsuit in the United States District Court for the Southern District of Florida (Joseph Kay v Online Vacation Center Holdings Corp., et al., Case No. 07-61619). The plaintiff claims that the Company violated the Fair and Accurate Credit Transactions Act. The plaintiff seeks class action status to represent all consumers of the Company since December 4, 2006. On March 20, 2008, the United States District Court for the Southern District of Florida dismissed with prejudice the lawsuit.

Additionally, 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, we do not believe that the resolution of any of these other matters, either individually or in the aggregate, will materially affect our financial position, cash flows or the results of our operations.

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

Item 4 - Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of securities holders during the fourth quarter of the fiscal year ended December 31, 2007.

11

PART II

Item 5 - Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

The Company's shares of common stock are traded over-the-counter and quoted on the OTC Electronic Bulletin Board under the symbol "ONVC". Until March 16, 2006, the Company's shares of common stock traded under the symbol "ABDC". Historically the stock is thinly traded and transactions in the stock are sporadic and infrequent. The following table sets forth the high and low bid quotations for the Company's common stock for the periods indicated. The quotations reflect inter-dealer prices and do not include retail mark-ups, mark-downs or commissions. The prices do not necessarily reflect actual transactions.

| Period ----- | High ---- | Low --- |
|---------------------------------------|--------------|------------|
| Three Months Ended March 31, 2007 | \$2.20 | \$3.28 |
| Three Months Ended June 30, 2007 | \$2.00 | \$2.80 |
| Three Months Ended September 30, 2007 | \$2.15 | \$1.70 |
| Three Months Ended December 31, 2007 | \$1.84 | \$0.56 |
| Three Months Ended March 31, 2006 | \$4.00 | \$1.05 |
| Three Months Ended June 30, 2006 | \$3.44 | \$1.35 |
| Three Months Ended September 30, 2006 | \$2.15 | \$1.25 |
| Three Months Ended December 31, 2006 | \$3.26 | \$1.68 |

On December 31, 2007, there were 539 shareholders of record of the Company's common stock.

The Company has never paid cash dividends on its common stock. The Company presently intends to retain future earnings, if any, to finance the expansion of its business and does not anticipate that any cash dividends will be paid in the foreseeable future. The future dividend policy will depend upon the Company's earnings, capital requirements, expansion plans, financial condition and other relevant factors.

Sales of Unregistered Securities

On November 7, 2007, we issued an aggregate of 240,000 options to five employees under our 2005 Management and Director Equity Incentive and Compensation Plan. The exercise price of the options is \$1.76 per share and the options vest on November 7, 2009. The expiration date of the options is November 7, 2012. We issued these stock options to our employees in reliance upon Section 4(2) of the Securities Act, as a transaction that does not constitute a public offering. All of our employees have access to comprehensive information about us and represented his or her intention to acquire the options and underlying shares for investment only and not with a view to distribute or sell the options or underlying shares. We placed restrictive legends in the option agreements stating that these options are not registered under the Securities Act and set forth restrictions on their transferability and sale.

Item 6 - Management's Discussion And Analysis Or Plan Of Operation

Management's Discussion and Analysis or Plan of Operation should be read together with our financial statements and related notes included elsewhere in this Annual Report on Form 10-KSB. This Annual Report on Form 10-KSB, including the following discussion, contains trend analysis and other forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any statements in this Annual Report on Form 10-KSB that are not statements of historical facts are forward-looking statements. These forward-looking statements are based on a number of assumptions and involve risks and uncertainties. Actual results may differ materially from those set forth in such forward-looking statements as a result of factors set forth elsewhere in this Annual Report on Form 10-KSB, including under "Risk Factors."

Overview

We are focused on internally growing and developing our group of diversified vacation marketers with a range of products that can be cross-sold to an extensive customer base and provide a high degree of personalized service to help consumers research, plan and purchase a vacation.

We provide vacation marketing services through nine wholly owned subsidiaries. Our portfolio of travel companies include:

- o 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,
- o Dunhill Vacations, Inc., a travel newsletter and media provider, and
- o Curves Travel, the licensed travel management company of Curves International, Inc.

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

In the last sixteen months, we have completed seven acquisitions. We acquired Phoenix International Publishing, LLC, Thoroughbred Travel, LLC, and La Fern, Inc. in the latter half of 2006, La Tours and Cruises, Inc., Dunhill Vacations, Inc. and certain assets of SmartTraveler.com, Inc. in the first quarter of 2007 and Curves Travel in May 2007 (collectively the "Acquisition Companies", sans Phoenix).

13

We generate revenues from:

- o commissions on cruises
- o commissions on other travel related products
- o commissions on travel insurance
- o marketing performed for travel suppliers

We currently market our services by:

- o producing travel-related publications for consumers
- o telemarketing to our existing customer base
- o direct mailing to our existing customer base as well as targeted prospects
- o email blasting to our opt in 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 and general and administrative expenses including rent and computer maintenance fees.

In November 2007, the Company's Board of Directors granted the Company the authority to sell Phoenix, a company acquired in August 2006. Phoenix is a publisher of consumer magazines and guides about travel to the U.S. and Canada. We expect the sale will be completed within one year of the Board of Director's authorization date and Phoenix has been accounted for as discontinued operations. The results of operations and cash flows of Phoenix has been removed from the results of continuing operations and the assets and liabilities of Phoenix have been classified as available for sale, for all periods presented.

Results of Operations

Year Ended December 31, 2007 Compared To Year Ended December 31, 2006

Continuing Operations

Revenues increased by \$2,436,532 or 35.4% to \$9,324,386 for the year ended December 31, 2007 ("2007") compared to \$6,887,854 for the year ended December 31, 2006 ("2006"). The increase is attributable to an increase in our core Online Vacation Center business as well as the revenues from the Acquisition Companies. We derived revenues from six Acquisition Companies during 2007 compared to revenues from two Acquisition Companies in 2006.

Selling and marketing expenses increased by \$1,480,798 or 67.3% to \$3,680,837 for 2007 compared to \$2,200,039 for 2006. The increase is primarily attributable to the increased expenses associated with the Acquisition Companies and to an increase in Online Vacation Center's co-op marketing projects and sales staff compensation during 2007. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

G&A expenses increased by \$1,042,066 or 25.5% to \$5,126,479 for 2007 compared to \$4,084,413 for 2006. The increase is attributable to the increased G&A expenses associated with the Acquisition Companies and an increase in Online Vacation Center's non sales staff compensation costs. G&A expenses primarily include management and non sales staff compensation, professional services, and occupancy costs.

14

Depreciation and amortization expense for 2007 was \$262,966 compared to \$92,197 for 2006. The increase of \$170,769 is primarily attributable to the increased amortization expenses associated with six Acquisition Companies during 2007 compared to expenses associated with two Acquisition Companies during 2006. The remaining increase of \$23,340 is attributable to an increase in depreciation expense during this time period.

Interest income/(expense) decreased from \$16,770 of net interest income for 2006 compared to net interest expense of \$15,454 for 2007. Net interest income in 2006 was attributable to interest expense on \$3,000,000 of subordinated debt (which was ultimately exchanged for 1,500,310 shares of our common stock in conjunction with the Share Exchange Agreement in March 2006), offset by interest income earned on our invested cash balances which were higher than during the same period of 2007. Net interest expense in 2007 primarily represents the excess of the interest expense on the debt issued by us in conjunction with our acquisition of Thoroughbred Travel, LLC, La Fern, Inc., and La Tours and Cruises, Inc., totaling \$42,039 offset by the interest income earned on our invested excess cash balances.

Our income before income taxes was \$238,650 in 2007 compared to income before income taxes of \$527,975 in 2006. The decrease in income is due to an increase in sales and marketing expenses and G&A expenses, partially offset by an increase in revenues during this time period.

Our provision for income taxes decreased from \$300,317 for 2006 to \$133,411 for 2007. The decrease is directly related to a decrease in our results from operations in which income before income taxes was \$527,795 for 2006 compared to income before income taxes of \$238,650 for 2007. The tax rate in 2006, 56.9%, was higher than the statutory rate because of tax rate differentials, the true-up of permanent tax differences, the tax effect of deductible items for book but not tax purposes, and the gain on sale of cigar assets, the result of the transaction wherein we distributed the assets relating to the cigar business to a former director and majority shareholder in exchange for 2.7 million shares of its common stock. We recognized gain on each asset distributed based upon the difference between the fair market value and our adjusted basis in each asset at the time of closing. The tax rate in 2007, 55.9%, is primarily because of the tax effect of stock based compensation expense associated with incentive stock options and imputed interest expense associated with Acquisition debt which are deductible for book but not for tax purposes.

As a result of the foregoing, our net income from continuing operations was \$105,239 for 2007 compared to net income from continuing operations of \$227,658 for 2006.

Discontinued Operations

We acquired Phoenix, the United Kingdom's leading publisher of consumer magazines and guides about travel to the U.S. and Canada, on August 31, 2006. In November 2007, the Company's Board of Directors granted the Company the authority to sell Phoenix. The sale is anticipated to be completed within one year of the Board of Director's authorization date and Phoenix has been accounted for as discontinued operations. The results of operations and cash

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

flows of Phoenix has been removed from the results of continuing operations and the assets and liabilities of Phoenix have been classified as available for sale, for all periods presented. The comparison of the results of operations of Phoenix between 2007 (calendar year 2007) and 2006 (August 31, 2006 through December 31, 2006) is as follows:

15

| | 2007 | 2006 | Increase/ (Decrease) |
|--|--------------|------------|-------------------------|
| | ----- | ----- | ----- |
| Revenues | \$ 1,681,083 | \$ 897,506 | \$ 783,577 |
| Operating income (loss) | (228,673) | 16,445 | (245,118) |
| Net income (loss) from discontinued operations | \$ (147,859) | \$ 10,195 | \$ (158,054) |

The Company is actively marketing Phoenix for sale, however, no formal offers have been received from any prospective purchasers.

Liquidity and Capital Resources

Cash at December 31, 2007 and 2006 was \$1,189,842 and \$2,658,885 respectively. The primary source of our liquidity and capital resources has historically come from our operations.

Cash flows provided by operating activities for 2006 were \$962,508 whereas cash flows used by operating activities in 2007 were \$47,094. The decrease of \$1,009,602 was primarily attributable to an increase in cash used for working capital of \$858,776 in 2007, a decline of income from continuing operations of \$122,419 in 2007; from \$227,658 in 2006 to \$105,239 in 2007, and a decrease in non-cash operating items of \$28,407 in 2007..

Cash flows used in investing activities for 2007 increased to \$1,333,720 from \$405,870 during 2006. The primary cash out flows related to an increase in the excess of cash paid over cash received totaling \$794,764 in conjunction with the four acquisitions completed during 2007 and an increase in capital expenditures and intangible assets totaling \$139,112 during 2007.

Cash flows used in financing activities for the year ended December 31, 2007 totaled \$125,000 as result of payment of a note issued in conjunction with the Thoroughbred Travel LLC acquisition. There were no cash flows from financing activities for the year ended December 31, 2006.

Cash flows provided by discontinued operations increased by \$146,906 as a result of an increase in 2007 cash provided by operating activities of \$63,060 over 2006. There were no investing activities of discontinued operations during 2007, however, \$83,846 was paid in excess of cash received in conjunction with the acquisition of Phoenix in 2006.

At December 31, 2007, we had a working capital deficit of \$847,857, as compared to a working capital surplus of \$581,481 at December 31, 2006, a decrease of \$1,429,338. We had an accumulated deficit of \$1,400,147 at December 31, 2007, an increase of \$42,620.

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

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

longer-term liquidity and capital requirements. There is no assurance that we will be able to obtain additional capital or financing in amounts or on terms acceptable to the Company, if at all or on a timely basis.

The Company has historically been dependent on relationships with four major cruise lines: Celebrity Cruises, Norwegian Cruise Line, Princess Cruises, and

16

Royal Caribbean Cruise Line and also depends 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. Leisure travel 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.

Recent Accounting Pronouncements

Accounting for Uncertainty in Income Taxes

We adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109," effective January 1, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. Adoption of FIN 48 as of January 1, 2007 did not have a significant impact on our financial statements. At the date of adoption and as of December 31, 2007, we do not have a liability for any unrecognized tax benefits. Our policy is to record interest and penalties on uncertain tax positions as income tax expense. As of December 31, 2007, we have not accrued nor recognized interest or penalties related to uncertain tax positions. We have not recorded any significant increase or decrease to unrecognized tax benefits during 2007 related to U.S. federal or state tax positions.

We file income tax returns in the U.S. federal jurisdiction and various states. We have not been subject to U.S. federal income tax examinations by tax authorities nor state authorities since our inception in 2000. We believe that we have not taken any uncertain tax positions that would impact our consolidated financial statements as of December 31, 2007.

Other Recent Accounting Pronouncements

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

See Note 2, "Summary of Significant Accounting Policies" in the Notes to the Consolidated Financial Statements for a discussion of recent accounting pronouncements and their effect, if any, on the Company.

17

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. See Note 2, "Summary of Significant Accounting Policies," for further description of these and all other accounting policies.

Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin (SAB) No. 104 "Revenue Recognition in Financial Statements", which states that revenue 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 collectability 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.

Emerging Issues Task Force (EITF) Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent", discusses the weighing of the relevant qualitative factors regarding our status as a primary obligor and the extent of our pricing latitude. Based upon the our evaluation of vacation travel sales transactions and in accordance with the various indicators identified in EITF Issue No. 99-19, 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

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

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.

18

Item 7 - Financial Statements

The Company's financial statements as of and for the years ended December 31, 2007 and 2006 have been examined to the extent indicated in their report by Jewett, Schwartz, Wolfe and Associates, independent certified public accountants, and have been prepared in accordance with generally accepted accounting principles and pursuant to Regulation S-B as promulgated by the SEC. The aforementioned financial statements are included herein starting with page F-1.

Item 8 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 8A. Controls and Procedures.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the Company's disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in periodic filings with the Securities and Exchange Commission.

There has been no change in the Company's internal controls over financial reporting during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Item 8A(T). Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and the Chief Financial Officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our evaluation of internal control over financial reporting as of December 31, 2007, was conducted on the basis of framework in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2007.

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

financial reporting. Management's report was not subject to attestation requirements by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report

19

Item 8B - Other Information.

None.

PART III

Item 9 - Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

The following table sets forth certain information with respect to our executive officers and directors as of December 31, 2007:

| Name | Age | Position |
|---------------------|-----|--|
| ---- | --- | ----- |
| Edward B. Rudner | 57 | Chief Executive Officer, President, Chief Financial Officer and Director |
| Richard A. McKinnon | 68 | Chairman of the Board of Directors |
| Brian P. Froelich | 61 | Director |
| Frank Bracken | 67 | Director |

Edward B. Rudner has served as our Chief Executive Officer, President, Chief Financial Officer and as a director since March 15, 2006, the effective date of the Share Exchange Agreement. Mr. Rudner has served as an executive officer and director of Online Vacation Center Holdings, Inc. since its inception in October 2000. Prior to founding Online Vacation Center Holdings, Inc., Mr. Rudner served as Chief Financial Officer and then Chief Operating Officer of Alamo Rent A Car. During his tenure, Alamo Rent A Car expanded from a Florida company with 400 cars to a national car rental company with over 50,000 cars. In 1984, Mr. Rudner became President and Chief Executive Officer of Certified Tours, which grew from selling 10,000 vacation packages a year to over 250,000. In 1989, Mr. Rudner became Chairman and Chief Executive Officer of Renaissance Cruises, which expanded ship assets from \$60 million to over \$1 billion and increased revenues from \$20 million to over \$300 million by 1999. Mr. Rudner holds a BA in history, cum laude from the University of Massachusetts.

Richard Anthony (Tony) McKinnon has served as the Chairman of the Board of Directors of the Company since March 15, 2006, the effective date of the Share Exchange Agreement. With a background at senior levels in marketing and executive management, Mr. McKinnon has accumulated over thirty years of experience in the travel industry. His experiences include executive responsibilities at American Airlines, Pan American World Airways, Delta Air Lines, Wyndham Resort Hotels, USAir, American Hawaii Cruises and The Delta Queen Steamboat Company. Most recently, McKinnon developed Vacation.com, which is currently a network of approximately 6,000 travel agencies across North America. With the sale of Vacation.com to Amadeus, a leading global distribution system and technology provider serving the marketing, sales and distribution needs of the world's travel and tourism industries, Mr. McKinnon served as CEO of Amadeus' North American Operations from 2000 through 2003. In 2004, he served as a senior adviser to the Seabury Group, a consulting firm. Mr. McKinnon currently provides consulting services to travel industry companies. He also currently serves as a director for the Baptist Foundation of Texas, Tauck, Inc., Passport Online, Inc., and GSC Acquisition Company. Mr. McKinnon holds a BS from the United States Military Academy and a JD from Emory University School of Law.

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

Brian P. Froelich has served as a director since March 15, 2006, the effective date of the Share Exchange Agreement. After four years in public accounting with Arthur Anderson and Coopers and Lybrand and five years at US Life, he founded BPF Travel in 1979. In 1984 he sold BPF Travel to American Express. With BPF

20

Travel's acquisition by American Express, he became part of the senior executive team of American Express. During his tenure at American Express, he was general manager of the domestic travel management services business. As a result of his performance he was named to the American Express Hall of Fame. From 1999 through 2001 he served as the Senior Vice President of Consumer Travel at American Express. From 2001 through 2002 he served as President and CEO of Allied Tours, a subsidiary of Global Vacation Group, Inc. (NYSE: GVG) where he effected the turnaround of Allied Tours and sold it to a large European travel company. From 2003 through 2007, he served as president and CEO of Fenevations, LLC, a U.S.-based manufacturer of custom windows and doors. Since 2007, he has served as Chief Operating Officer of Club ABC Tours. Mr. Froelich holds a BS in Finance from Boston College, an MBA from Rutgers University, and a JD from Seton Hall Law School.

Frank Bracken has served as a director since March 15, 2006, the effective date of the Share Exchange Agreement. From 1994 until November 2005, Frank Bracken served as President and COO of Hagggar Clothing Company ("Hagggar"). Beginning in 2006, Mr. Bracken retired and continues to serve on numerous public and not-for-profit boards. Bracken served his entire 42-year professional career at Hagggar, joining the company as a management trainee in 1963, and was named Regional Sales Manager in 1971. In 1976, Bracken was named Vice President/National Sales Manager, and then earned the title of Senior Vice President of Sales and Merchandising in 1984. In 1988, all marketing functions were added to that responsibility and he was named Senior Vice President of Marketing. On March 7, 1991, he added the responsibilities of Domestic and International Manufacturing. At that time he was named Executive Vice President. On July 20, 1994, he assumed the position of President and COO. Mr. Bracken serves as a director of two other public companies -Ennis Incorporated (NYSE:EBF) and Philanthropy World Magazine. Mr. Bracken holds a bachelor's degree in Marketing from the University of North Texas in Denton, Texas.

Code of Ethics

We have adopted a Code of Ethical Conduct that includes provisions ranging from conflicts of interest to compliance with all applicable laws and regulations. All officers and directors are bound by this Code of Ethical Conduct, violations of which may be reported to the Chairman of the Board of Directors.

Audit Committee

Our Company has an Audit Committee comprised of Messrs. Froelich, chairman of the Committee and Bracken, both independent directors as determined by the rules of the American Stock Exchange. The responsibilities and duties of the Audit Committee consist of but are not limited to: (1) overseeing the financial reporting process; (2) meeting with our external auditors regarding audit results; (3) engaging and ensuring independence of our outside audit firm and (4) reviewing the effectiveness of the Company's internal controls. The Audit Committee met six times during fiscal 2007.

Our Board has determined that Mr. Froelich qualifies as an "audit committee financial expert" within the meaning of applicable regulations of the SEC, promulgated pursuant to the Sarbanes-Oxley Act of 2002.

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

Compensation Committee

Our Company has a Compensation Committee comprised of Messrs. Froelich, chairman of the Committee and Bracken, both independent directors as determined by the rules of the American Stock Exchange. The responsibilities and duties of the

21

Compensation Committee consist of but are not limited to: (1) approving salaries and incentive compensation of executive officers, as well as the compensation of our Board members; (2) reviewing compensation of certain other executive management employees and (3) administering the employee stock option and benefit plans. The Compensation Committee met twice during fiscal 2007.

Shareholder Nominations to the Board

We have not yet adopted a policy regarding the procedure which shareholders should use when they wish to recommend nominees to our Board of Directors. We intend on adopting a shareholder nomination policy in the near future.

Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than ten percent of our outstanding common stock to file with the SEC initial reports of ownership and reports of changes in ownership of common stock. These persons are required by SEC regulation to furnish the Company with copies of these reports they file.

To our knowledge, based on a review of the copies of reports furnished to us, Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with on a timely basis for the period which this report relates.

Item 10 - Executive Compensation

The table below summarizes the total compensation paid or earned by each of our named executive officers ("Named Executive Officers") for the fiscal years ended December 31, 2007 and 2006, respectively.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards \$ (1) | Option Awards \$ (1) | All Other Compens (\$) |
|--|------|---------------|---------------|---------------------------|----------------------------|---------------------------------|
| Edward B. Rudner, CEO, President And CFO | 2007 | \$318,139 | \$ -- | \$170 | \$27,476 | \$627,99 |
| | 2006 | \$230,768 (3) | \$ -- | \$170 | \$68,292 | \$ 43,84 |
| Simon Todd, Vice President (4) | 2007 | \$204,744 | \$ 45,000 | \$ -- | \$ 8,699 | \$ -- |
| | 2006 | \$ 77,154 | \$ 110,000 | \$ -- | \$ -- | \$ 14 |
| Alan Rubin, Former CEO and CFO (5) | 2007 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| | 2006 | \$ 20,000 | \$ -- | \$ -- | \$ -- | \$ 52,33 |

(1) Amounts shown do not reflect compensation actually received by the Named Executive Officers. Instead, the amounts shown are the compensation costs recognized by the Company in fiscal 2007 and 2006 for option awards and stock

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

awards as determined pursuant to FAS 123R. The assumptions used to calculate the value of option awards and stock awards are set forth under Note 13 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-KSB.

(2) Represents \$579,990 paid to Mr. Rudner under the Company's Deferred Compensation Plan, a country club allowance of \$30,000 and a car allowance of

22

\$18,000, paid in 2007. Represents a car allowance of \$ 13,846 and a country club allowance of \$30,000, paid in 2006. Excludes \$23,830 in benefits which were paid to Mr. Rudner by Online Vacation Center Holdings, Inc. prior to March 16, 2006.

(3) Excludes \$154,410 which was paid to Mr. Rudner by Online Vacation Center Holdings, Inc. pursuant to his prior employment agreement prior to March 16, 2006, the effective date of the Share Exchange Agreement.

(4) Mr. Todd became our Vice President on September 1, 2006 in conjunction with our acquisition of Phoenix International Publishing, LLC.

(5) Mr. Rubin served as our CEO from October 16, 2000 until March 15, 2006, at which time, he resigned both as director and CEO in conjunction with the Share Exchange Agreement. Mr. Rubin's 2006 salary represents his salary from January 1, 2006 until March 15, 2006.

(6) Mr. Rubin's other annual compensation during 2006 represents remuneration in conjunction with a consulting agreement with us, which terminated in September 2006.

Employment Agreements

Edward B. Rudner

Effective as of March 16, 2006, we entered into an employment agreement with Edward B. Rudner to serve as our President and Chief Executive Officer which replaced the employment agreement which Mr. Rudner had with Online Vacation Center Holdings, Inc. The employment agreement has no stated termination date and has a perpetual term of 3 years. We will pay Mr. Rudner an initial annual base salary of \$300,000, payable weekly for a term of 3 years. The base salary is subject to annual automatic incremental increases of the greater of the percentage increase in the consumer price index or 6% of the previous year's base salary. Mr. Rudner is also entitled to a performance-based bonus and to participate in all Company benefit programs. He is entitled to five weeks paid vacation per year, reimbursement of all reasonable out-of-pocket business expenses, a monthly automobile allowance of \$1,500, automobile insurance coverage and reimbursement for memberships in social, charitable or religious organizations or clubs for up to \$30,000 per year.

In addition, we issued Mr. Rudner incentive stock options to purchase 300,000 shares of common stock and nonqualified stock options to purchase 200,000 shares of common stock, which are exercisable at \$1.27 per share. All of the nonqualified stock options and incentive stock options to purchase 100,000 shares vested immediately. Incentive stock options to purchase 100,000 shares of common stock vested on March 15, 2007 and the remaining 100,000 incentive stock options vest on March 15, 2008. All of the options were issued under the 2005 Management and Director Equity Incentive and Compensation Plan. Mr. Rudner also received options in connection with his service as a director of the Company.

In the event of Mr. Rudner's death or disability during the term of the agreement, Mr. Rudner or his beneficiaries are entitled to all compensation and benefits under his employment agreement for a period of one year following the

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

date of his death or disability. In the event that Mr. Rudner is terminated "for cause", he will be entitled to receive his salary and earned but unpaid bonuses due up to the date of termination. "Cause" is defined as committing or participating in an injurious act of fraud or embezzlement against the Company; engaging in a criminal enterprise involving moral turpitude; conviction of an act constituting a felony of a crime of violence, fraud or dishonesty; or any attempt by Mr. Rudner to assign the employment agreement. In the event there is a "Change in Control" or "Attempted Change in Control," as such terms are defined in his employment agreement, Mr. Rudner shall have the right to

23

terminate his employment upon thirty (30) days written notice given at any time within one year after the occurrence of such event. A Change in Control is defined as any event set forth in Section 280G of the Internal Revenue Code or any event that would be required to be reported as a change in control in response to Item 1 of the SEC form for a current report on Form 8-K, in effect as of March 16, 2006 and an "Attempted Change of Control" shall be deemed to have occurred if any substantial attempt accompanied by significant work efforts and expenditures of money is made to accomplish a Change of Control. In the event that Mr. Rudner is terminated for any other reason other than for cause, death or disability or if he terminates his employment because of a Change in Control or Attempted Change of Control, he will receive all compensation and benefits under his employment agreement for a period of three years following the date of termination or if he elects, a lump sum or partial payment of these amounts. He shall also be entitled to receive a bonus equal to the amount received for the prior year or if no prior bonus was received, an amount equal to \$150,000, as well as all earned but unpaid bonuses from previous years. The employment agreement also includes a one-year covenant not to compete and a non-disclosure provision.

Deferred Compensation Plan

In August 2006, we established the Online Vacation Center Holdings Corp. Deferred Compensation Plan to satisfy our obligation to Mr. Rudner under the terms of his previous employment agreement for compensation and benefits in the amount of \$579,990. The plan provided for twenty-six payments in fiscal 2007 and was paid in full as of January 2008.

Simon Todd

In connection with our acquisition of Phoenix, we entered into an employment agreement with Simon Todd to serve as Vice President of the Company and as the President of Phoenix effective as of August 31, 2006. Mr. Todd is entitled to a base salary of \$210,080 per annum which increases by 4% per annum until August 31, 2009, the termination date of his employment agreement. In addition, Mr. Todd is entitled to a retention bonus in conjunction with the closing of certain acquisition prospects and a bonus in conjunction with Phoenix achieving certain profitability thresholds.

On January 11, 2007, we granted Mr. Todd incentive stock options to purchase up to 20,000 shares of our common stock, which are exercisable at \$2.91 per share. All of the stock options vest on January 11, 2009 and expire on January 11, 2012. All of the options were issued under the 2005 Management and Director Equity Incentive and Compensation Plan. Mr. Todd received these options in connection with his service as an officer of the Company.

2005 Management and Director Equity Incentive and Compensation Plan

Effective as of March 15, 2006, our Board of Directors and shareholders approved our 2005 Management and Director Equity Incentive and Compensation Plan (the "Plan" or "2005 Plan"). We have reserved an aggregate of 2,500,000 shares of common stock for issuance under the this Plan which provides for the grants of

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

stock options, restricted stock, performance-based and other equity-based incentive awards to directors, officers and key employees. Our Board of Directors (or at their discretion, a committee of our board members) administers the Plan including, without limitation, the selection of recipients of awards under the Plan, the granting of stock options, restricted share or performance shares, the determination of the terms and conditions of any such awards, the interpretation of the Plan and any other action they deem appropriate in connection with the administration of the Plan. As of December 31, 2007, we had granted 2,220,000 options and 60,000 stock awards under the Plan.

24

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table provides information concerning unexercised options and stock that has not vested for each of our Named Executive Officers for the fiscal year ended December 31, 2007. All options and stock awards were granted under our 2005 Plan.

Option Awards

| Name | Number of Securities Underlying Unexercised Options Exercisable (#) | Number of Securities Underlying Unexercised Options Unexercisable (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock that Have Not Vested (#) | M Va Sh Un Sto Ha V (|
|------------------|---|---|----------------------------|------------------------|---|-----------------------|
| Edward B. Rudner | 400,000 (2) | 100,000 (2) | \$1.27 | 3-16-2011 | 600 (3) | |
| | -- | 200,000 (4) | \$1.27 | 3-16-2011 | | |
| Simon Todd | -- | 20,000 (5) | \$2.91 | 1-11-2012 | --- | |

(1) Value is based on the closing price of our common stock on December 29, 2007, which was \$1.05 per share.

(2) These options were granted to Mr. Rudner in connection with his execution of an employment agreement with us on March 16, 2006.

(3) Mr. Rudner received a grant of 1,000 stock awards on March 16, 2006, which vest at the rate of 20% per year with vesting dates of 3/16/2006, 3/16/2007, 3/16/2008, 3/16/2009 and 3/16/2010. As of December 31, 2007, 600 stock awards granted to Mr. Rudner had not vested.

(4) These options were granted to Mr. Rudner in his capacity as a director of the Company. These options vest on March 16, 2008.

(5) These options were granted to Mr. Todd on January 11, 2007 in his capacity as an officer of the Company. These options vest on March 11, 2009.

Change of Control

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

Management is not aware of an arrangement which may, at a subsequent date, result in a change of control of the Company. As noted above, only Mr. Rudner's employment agreement with the Company has provisions which address a change of control, as defined in his employment agreement.

25

Compensation of Directors

We use a combination of cash and equity based compensation to attract and retain qualified candidates to serve on the Board. In setting director compensation, we consider the significant amount of time that directors expend in fulfilling their duties, as well as the skill-level required by members of the Board.

We pay each director an annual retainer of \$25,000. We pay the Chairman of the Board of Directors an additional annual fee of \$50,000 for his additional duties as the Chairman. To ensure that directors have an ownership interest aligned with the Company's other shareholders, we may also grant options or stock awards to purchase shares of the Company's common stock to our directors from time to time.

The table below summarizes the total compensation paid by us to our directors for the fiscal year ended December 31, 2007. All directors began serving their current terms as directors, upon election by shareholders at the Annual Shareholders' meeting of May 15, 2007.

| Name | Fees Earned Paid in Cash | Option Awards (1) | All Other Compensation | Total |
|-------------------|-----------------------------|----------------------|---------------------------|------------|
| ----- | ----- | ----- | ----- | ----- |
| Richard McKinnon | \$75,000 | \$50,816 | \$90,000 (2) | \$ 215,816 |
| Edward B. Rudner | \$25,000 | \$16,939 | \$ -- | \$ 41,939 |
| Brian P. Froelich | \$25,000 | \$25,408 | \$ -- | \$ 50,408 |
| Frank Bracken | \$25,000 | \$16,939 | \$ -- | \$ 41,939 |

(1) Amounts shown do not reflect compensation actually received by the directors. Instead, the amounts shown are the compensation costs recognized by us in fiscal 2007 for option grants that were made to directors in 2006 as determined pursuant to FAS 123R. The assumptions used to calculate the value of option awards are set forth under Note 13 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-KSB. No options were awarded to members of the Board of Directors during 2007.

(2) Fees earned pursuant to a consulting agreement between Mr. McKinnon and the Company which was mutually terminated as of September 30, 2007.

Item 11 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table set forth certain information regarding the beneficial ownership of our common stock as of February 29, 2008 by (i) each of our directors, (ii) each Named Executive Officer, (iii) all our current directors

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

and executive officers as a group, and (iv) each person known by us to be the beneficial owner of more than five percent (5%) of the shares outstanding of our common stock. Unless otherwise indicated, each shareholder has sole voting and investment power with respect to the indicated shares. Unless otherwise noted, the address of the owner is 1801 NW 66th Avenue, Plantation, FL 33313.

26

| Name and Address | Beneficial Ownership Shares | % of |
|--|-----------------------------|------|
| Simon Todd (1) | 1,413,085 | 7 |
| Edward B. Rudner (2) | 10,800,600 | 56 |
| Richard A. McKinnon (3) | 750,000 | 3 |
| Brian P. Froelich (4) | 335,000 | 1 |
| Reginald Flosse (5) | 3,000,000 | 16 |
| William A. Cataldo (6) | 1,009,310 | 5 |
| Frank Bracken (7) | 250,000 | 1 |
| All directors and executive officers as a group (five persons) (8) | 13,548,685 | 66 |

 (1) Mr. Todd's address is 217 Ridge View Lane, Trophy Club, Texas 76262.

(2) Includes an aggregate of 1,680,000 shares held in trust for the benefit of Mr. Rudner's children and 1,680,000 shares held by Mr. Rudner's wife. Also includes 400,000 shares of common stock underlying options which are exercisable and 300,000 shares of common stock underlying options which are exercisable within 60 days of February 29, 2008.

(3) Includes 600,000 shares of common stock underlying options which are exercisable within 60 days of February 29, 2008.

(4) Includes 300,000 shares of common stock underlying options which are exercisable within 60 days of February 29, 2008.

(5) The mailing address for Mr. Flosse is B.P. 21426, Papeete, Tahiti. Information was obtained from a Form 4 filed by Mr. Flosse with the SEC on June 4, 2007.

(6) Includes 125,000 shares held by Cataldo Family Partners, Ltd., an entity in which Cataldo serves as general partner and 884,310 shares held by Pacific Tour Services, Inc., a company beneficially controlled by Mr. Cataldo. Cataldo's ownership interest excludes 615,980 shares held by the Cataldo Family Trust, a trust in which Cataldo is a beneficiary, but does not hold voting control.

(7) Includes 200,000 shares of common stock underlying options which are exercisable within 60 days of February 29, 2008.

(8) Includes 1,400,000 shares of common stock underlying options exercisable within 60 days of February 29, 2008.

Equity Compensation Plan Information

The following table set forth information regarding securities authorized for issuance under our 2005 Plan as of December 31, 2007.

| Plan Category ----- | Number of securities to be issued upon exercise of outstanding options, warrants and rights ----- | Weighted-average exercise price of outstanding options, warrants and rights ----- | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in other plans) ----- |
|--|---|---|---|
| Equity compensation plans approved by security holders | 2,215,000 | \$1.41 | 233,000 |
| Equity compensation plans not approved by security holders | -- | -- | -- |
| Total | 2,215,000 ===== | \$1.41 ===== | 233,000 ===== |

Item 12 - Certain Relationships and Related Transactions

Effective as of October 2005, we engaged Mr. McKinnon to provide consulting services to us. In consideration for such services, Mr. McKinnon received a monthly fee of \$10,000. The term of the arrangement is on a month-to-month basis. We and Mr. McKinnon mutually terminated the consulting services as of September 30, 2007. During 2007 and 2006 Mr. McKinnon received \$90,000 and \$120,000, respectively in consulting fees. Mr. McKinnon became a director of our Company on March 15, 2006 and continues to serve in such capacity.

Item 13 - Exhibits

| Exhibit No. ----- | Exhibit Description ----- |
|----------------------|--|
| 2.1 | Acquisition Agreement, dated January 3, 2007, by and among Online Vacation Center Holdings Corp., La Tours and Cruises, Inc. and Ray and Cecilia Schutter (incorporated by reference to Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on January 4, 2007 and as amended on March 21, 2007). |
| 2.2 | Acquisition Agreement, dated January 5, 2007, by and among Online Vacation Center Holdings Corp., Dunhill Vacations Inc., Pat Daly, James DiStefano and |

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

Robert Dunhill (incorporated by reference to Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on January 5, 2007 and as amended on March 21, 2007).

2.3 Acquisition Agreement, dated January 19, 2007, by and among Online Vacation Center Holdings Corp., SmartTraveler.com, Inc. and Peter Coloyan (incorporated by reference to Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on January 22, 2007).

3.1 Amended and Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 in the Company's Current Report on Form 8-K/A filed with the SEC on March 21, 2006).

28

3.2 Bylaws (incorporated by reference to Exhibit 3.2 in the Company's Form 10-SB filed with the SEC on December 19, 2000).

10.1 Termination of Consulting Agreement effective as of September 30, 2007 between the Company and Richard A. McKinnon (incorporated by reference to Exhibit 10.1 in the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2007).

10.2 Employment Agreement dated March 16, 2006 between the Company and Edward B. Rudner (incorporated by reference to Exhibit 10.1 in the Company's Current Report on Form 8-K/A filed with the SEC on March 21, 2006).

10.3 2005 Management and Director Equity Incentive and Compensation Plan (incorporated by reference to Exhibit 4.1 in the Company's Current Report on Form 8-K/A filed with the SEC on March 21, 2006). *

10.4 Form of Restricted Share Agreement for the Plan (incorporated by reference to Exhibit 4.2 in the Company's Current Report on Form 8-K/A filed with the SEC on March 21, 2006). *

10.5 Form of Non-Qualified Stock Option Agreement for the Plan (incorporated by reference to Exhibit 4.3 in the Company's Current Report on Form 8-K/A filed with the SEC on March 21, 2006). *

10.6 Online Vacation Center Holdings Corp. Deferred Compensation Plan (incorporated by reference) to Exhibit 10.2 in the Company's Quarterly on Form 10-QSB for the quarter ended June 30, 2006.) *

14.1 Code of Ethics (incorporated by reference to Exhibit 14 in the Company's Annual Report on Form 10-KSB for fiscal 2004 filed with the SEC on March 12, 2004)

21.1 Subsidiaries +

31.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. +

31.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. +

32.1 Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. +

32.2 Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. +

* Management Compensatory Plan

+ Filed herewith

Item 14 - Principal Accountant Fees and Services

The following is a summary of the fees billed to us by Jewett, Schwartz, Wolfe & Associates ("JSWA") for professional services rendered for the fiscal years ended December 31, 2007 and 2006:

| Fee Category | Fiscal 2006 | Fiscal 2007 |
|--------------------|-------------|-------------|
| ----- | ----- | ----- |
| Audit Fees | \$ 59,800 | \$ 69,000 |
| Audit Related Fees | \$ 75,000 | \$ 45,000 |
| Tax Fees | \$ 0 | \$ 0 |
| All Other Fees | 0 | 0 |
| | ----- | ----- |
| Total Fees | \$ 134,800 | \$ 114,000 |
| | ===== | ===== |

Audit fees consisted of fees billed for professional services rendered on the audit of the Company's consolidated financial statements included in our annual report on Form 10-KSB for the years ended December 31, 2007 and 2006 and or reviews of the consolidated financial statements included in the Company's quarterly reports on Form 10-QSB during fiscal 2007 and 2006.

Audit related fees consist of general assistance on SEC matters and due diligence regarding acquisitions completed in 2006 and 2007.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent public accountants. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. JSWA and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent public accountants in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case by case basis. The Audit Committee approved one hundred percent (100%) of all such professional services provided by JSWA during fiscal 2007.

The Audit Committee has considered the nature and amount of the fees billed by JSWA, and believes that the provision of the services for activities unrelated to the audit is compatible with maintaining JSWA independence.

30

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.

By: /s/ Edward B. Rudner

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

Date: March 27, 2008

In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE ----- | TITLE ----- | DATE --- |
|---|---|-------------|
| /s/ Edward B. Rudner ----- Edward B. Rudner | Chief Executive Officer, President, Chief Financial Officer and Director (principal executive officer and principal financial and accounting officer) | March 27 |
| /s/ Richard A. McKinnon ----- Richard A. McKinnon | Director | March 27 |
| /s/ Brian P. Froelich ----- Brian P. Froelich | Director | March 27 |
| /s/ Frank Bracken ----- Frank Bracken | Director | March 27 |

ONLINE VACATION CENTER HOLDINGS CORP.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 and 2006

TABLE OF CONTENTS

| | Page |
|--|------------|
| | ---- |
| Report of Independent Registered Public Accounting Firm | F - 2 |
| Consolidated Balance Sheets | F - 3 |
| Consolidated Statements of Operations | F - 4 |
| Consolidated Statements of Changes in Stockholders' Equity (Deficiency) | F - 5 |
| Consolidated Statements of Cash Flows | F - 6 |
| Notes to Consolidated Financial Statements | F - 7 - 25 |

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Online Vacation Center Holdings Corp.

We have audited the accompanying consolidated balance sheet of Online Vacation Center Holdings Corp and Subsidiaries as of December 31, 2007 and 2006 and the related consolidated statements of operations, changes in stockholders' equity (deficiency) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Online Vacation Center Holdings Corp and Subsidiaries as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Jewett, Schwartz, Wolfe & Associates

Hollywood, Florida
March 19, 2008

F-2

ONLINE VACATION CENTER HOLDINGS CORP.
CONSOLIDATED BALANCE SHEETS

| | December 31, 2007 | December 31, 2006 |
|--|----------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,189,042 | \$ 2,658,885 |
| Accounts receivable, net | 1,053,556 | 711,201 |
| Deposits and prepaid items | 738,958 | 405,712 |
| Deferred tax asset, net | 1,665 | 248,455 |
| Current assets held for sale | 504,088 | 297,113 |
| | ----- | ----- |
| Total Current Assets | 3,487,309 | 4,321,366 |
| Restricted cash | 351,243 | 336,135 |
| Property and equipment, net | 127,548 | 92,215 |
| Deferred tax asset, net | 431,317 | 451,214 |
| Intangible assets, net | 988,466 | 152,788 |
| Goodwill | 1,754,279 | 816,465 |
| Long lived assets held for sale | 1,909,274 | 2,041,091 |
| | ----- | ----- |
| Total Assets | \$ 9,049,436 | \$ 8,211,274 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 980,078 | \$ 1,417,779 |
| Deferred revenue | 2,384,720 | 1,964,266 |
| Notes payable, current portion | 427,686 | 125,000 |
| Current liabilities held for sale | 542,682 | 232,840 |
| | ----- | ----- |
| Total Current Liabilities | 4,335,166 | 3,739,885 |
| Notes payable | 182,074 | 375,000 |
| Non current liabilities available for sale | 302,176 | 353,031 |

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

| | | |
|--|--------------|--------------|
| Total Liabilities | 4,819,416 | 4,467,916 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY | | |
| 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; 18,492,977 and 18,256,777 shares issued and outstanding | 1,849 | 1,826 |
| Additional paid-in capital | 5,628,318 | 5,099,059 |
| Accumulated deficit | (1,400,147) | (1,357,527) |
| Total Stockholders' Equity | 4,230,020 | 3,743,358 |
| Total Liabilities and Stockholders' Equity | \$ 9,049,436 | \$ 8,211,274 |

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

F-3

ONLINE VACATION CENTER HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Year 2007 | Ended |
|--|----------------------|-------|
| NET REVENUES | \$ 9,324,386 | \$ |
| OPERATING EXPENSES: | | |
| Selling and marketing | 3,680,837 | |
| General and administrative | 5,126,479 | |
| Depreciation and amortization | 262,966 | |
| OPERATING INCOME | 254,104 | |
| Interest income (expense), net | (15,454) | |
| Income from continuing operations before provision for income taxes | 238,650 | |
| Provision for income taxes | 133,411 | |
| Income from continuing operations | 105,239 | |
| DISCONTINUED OPERATIONS: | | |
| Income (loss) from discontinued operations of Phoenix International Publishing, LLC, net of tax | (147,859) | |

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

| | | | |
|---|----|------------|----|
| NET (LOSS) INCOME | \$ | (42,620) | \$ |
| ===== | | | |
| EARNINGS PER SHARE - Basic | | | |
| Income from continuing operations | \$ | 0.01 | \$ |
| Income /(Loss) from discontinued operations | \$ | (0.01) | |
| ----- | | | |
| Net Income | \$ | -- | \$ |
| ===== | | | |
| Weighted average shares outstanding - Basic | | 18,483,950 | |
| ===== | | | |
| EARNINGS PER SHARE - Diluted | | | |
| Income from continuing operations | \$ | 0.01 | \$ |
| Income /(Loss) from discontinued operations | \$ | (0.01) | |
| ----- | | | |
| Net Income | \$ | 0.00 | \$ |
| ===== | | | |
| Weighted average shares outstanding - Diluted | | 18,968,552 | |
| ===== | | | |

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

F-4

ONLINE VACATION CENTER HOLDINGS CORP.
 STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY (DEFICIENCY)
 FOR THE YEARS ENDED DECEMBER 31, 2006 and 2007

| | Common Stock | | Additional paid-in capital | Accu De |
|---|--------------|----------|----------------------------------|------------|
| | Shares | Amount | | |
| | ----- | ----- | ----- | ----- |
| Balance at December 31, 2005 | 15,299,467 | \$ 1,530 | \$ 247,114 | \$ (|
| Issuance of common stock in in exchange for subordinated debt | 1,500,310 | 150 | 2,999,850 | |
| Issuance of restricted shares under compensation plan | 7,000 | 1 | 5,949 | |
| Stock based compensation expense | - | - | 147,430 | |
| Issuance of common stock in conjunction with acquisitions | 1,450,000 | 145 | 1,631,105 | |
| Issuance of convertible notes in conjunction with acquisitions | - | - | 67,611 | |
| Net income for the year ended December 31, 2006 | - | - | - | |
| | ----- | ----- | ----- | ----- |
| Balance at December 31, 2006 | 18,256,777 | \$ 1,826 | \$ 5,099,059 | \$ (|

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

| | | | |
|---|-------------------|-----------------|---------------------|
| Issuance of common stock in conjunction with acquisitions | 225,000 | 22 | 337,478 |
| Issuance of restricted shares under compensation plan | 11,200 | 1 | 18,519 |
| Stock based compensation expense | | | 184,449 |
| Adjustment to fair value of conversion feature of debt issued in conjunction with acquisition | | | (11,187) |
| Net loss for the year ended December 31, 2007 | | | |
| Balance at December 31, 2007 | <u>18,492,977</u> | <u>\$ 1,849</u> | <u>\$ 5,628,318</u> |

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

F-5

ONLINE VACATION CENTER HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | For the Year End | |
|--|----------------------|------|
| | December 31, 2007 | Deco |
| Cash flows from continuing operating activities: | | |
| Net income (loss) | \$ (42,620) | \$ |
| Loss (income) from discontinued operations, net of tax | 147,859 | |
| Income from continuing operations | 105,239 | |
| Adjustments to reconcile to net cash inflow from operating activities: | | |
| Depreciation and amortization | 262,966 | |
| Stock based compensation expense | 202,969 | |
| Imputed interest expense | 18,150 | |
| Deferred income tax provision | 103,708 | |
| Increase in accounts receivable | (342,354) | (|
| Increase in deposits and prepaid items | (386,190) | (|
| Increase (decrease) in accounts payable and accrued liabilities | (432,036) | |
| Increase in deferred revenue | 420,454 | |

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

| | | |
|---|--------------|-------|
| Net cash provided from (used by) operating activities | (47,094) | |
| Cash flows from continuing investing activities: | | |
| Capital expenditures | (140,345) | |
| Increase in intangible assets | (61,553) | |
| Increase in restricted cash | (15,109) | |
| Cash paid for acquisition in excess of cash received | (1,116,713) | |
| Cash used in investing activities | (1,333,720) | |
| Cash flows from continuing financing activities: | | |
| Repayment of note payable | (125,000) | |
| Cash used in financing activities | (125,000) | |
| Discontinued Operations | | |
| Cash provided by (used by) operating activities | 35,971 | |
| Cash used in investing activities | -- | |
| Cash provided from (used by) discontinued operations | 35,971 | |
| Increase (decrease) in cash during the period | (1,469,843) | |
| Cash at the beginning of the period | 2,658,885 | 2, |
| Cash at the end of the period | \$ 1,189,042 | \$ 2, |
| Supplemental information: | | |
| Cash paid for interest | \$ 22,467 | \$ |
| Cash paid (refunded) for taxes | \$ 8,386 | \$ |
| Common stock issued in conjunction with acquisitions | \$ 337,500 | \$ 1, |
| Net debt issued in conjunction with acquisitions | \$ 216,610 | \$ |
| Conversion of subordinated debt into common stock | \$ -- | \$ 3, |
| Reduction in fair value of conversion feature of debt | \$ 11,187 | \$ |
| Conversion feature of subordinated debt | \$ -- | \$ |

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

F-6

ONLINE VACATION CENTER HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BACKGROUND

Overview

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

Online Vacation Center Holdings Corp. (the "Company") is a Florida holding company, focused on internally growing and developing its group of diversified vacation marketers with a range of products that can be cross-sold to an extensive customer base and provide a high degree of personalized service to help consumers research, plan and purchase a vacation.

The Company provides vacation travel and marketing services through its wholly owned subsidiaries: Online Vacation Center, Inc., an internet-based vacation seller focused on serving the affluent retiree market, Phoenix International Publishing, LLC ("Phoenix"), the United Kingdom's leading publisher of consumer magazines and guides about travel to the U.S. and Canada, Thoroughbred Travel, LLC ("Thoroughbred"), a Houston, Texas based upscale travel agency, operating as Journeys Unlimited, La Fern, Inc. ("La Fern"), operating as eLeisureLink.com, a Florida travel agency that sells land-based vacations, La Tours and Cruises, Inc. ("La Tours"), a Houston, Texas based travel agency, operating as West University Travel, focused on providing luxury personal travel products such as cruises, European tours and all-inclusive vacations, Dunhill Vacations, Inc. ("Dunhill Vacations"), a travel newsletter and media provider, Cruises for Less, LLC, a home-based travel selling group, and Tone and Travel, LLC dba Curves Travel, ("Tone and Travel") the licensed travel management company of Curves International, Inc.

History

Under a Share Exchange Agreement dated August 25, 2005, effective March 15, 2006, the Company issued to the Online Vacation Center Holdings, Inc. interest holders an aggregate of 15,000,000 shares of the Company's common stock in exchange for a 100% interest in Online Vacation Center Holdings, Inc. In connection with the share exchange, pursuant to an asset purchase agreement, the Company sold all of its assets (and transferred all of its liabilities) to a former director and majority shareholder for a total purchase price of 2,700,000 shares of the Company's common stock. The 2,700,000 shares were returned to the Company and have been cancelled. For accounting purposes the consummation of these actions resulted in a reverse merger and Online Vacation Center Holdings, Inc. is the accounting survivor and surviving business entity; however, the Company is the surviving legal entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Online Vacation Center Holdings Corp. and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated. The Company makes operating decisions, assesses performance and manages the business as one reportable segment.

F-7

ONLINE VACATION CENTER HOLDINGS CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates

The preparation of consolidated 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

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenues, costs and expenses during the reporting period. Management evaluates these estimates and assumptions on a regular basis. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin ("SAB") No. 104 "Revenue Recognition in Financial Statements", which states that revenue 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.

Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent", discusses the weighing of the relevant qualitative factors regarding the Company's status as a primary obligor and the extent of their pricing latitude. Based upon the Company's evaluation of vacation travel sales transactions and in accordance with the various indicators identified in EITF Issue No. 99-19, the Company's 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.

Concentration of Credit Risk

The Company's business is subject to certain risks and concentrations including dependence on relationships with travel suppliers, primarily cruise lines, and to a lesser extent, exposure to risks associated with online commerce security and credit card fraud. The Company is highly dependent on its relationships with four major cruise lines: Celebrity Cruises, Norwegian Cruise Line, Royal Caribbean Cruise Line and Princess Cruises. The Company also depends on third party service providers for processing certain fulfillment services.

Concentrations of credit risk with respect to client accounts receivable are limited because of the Company's policy to require deposits from customers, the number of customers comprising the client base and their dispersion across geographical locations.

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash and bank certificates of deposit. These accounts are maintained with financial institutions insured by the Federal

F-8

ONLINE VACATION CENTER HOLDINGS CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deposit Insurance Corporation ("FDIC") up to \$100,000. At December 31, 2007 and December 31, 2006, the balances at various financial institutions over the FDIC insured limit relating to cash and cash equivalents and restricted cash were approximately \$1.1 million and \$2.8 million, respectively. The Company believes

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

these balances are not at risk as they are held by sound financial institutions.

Marketing Costs

Substantially all marketing costs are charged to expense as incurred and principally represent production, printing, direct mail costs, and online advertising. Marketing expense, inclusive of discontinued operations, for the years ended December 31, 2007 and 2006 was \$2,642,799 and \$1,529,168 respectively.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2007 and 2006, respectively, cash and cash equivalents included cash in the bank and cash on hand.

Accounts Receivable

Travel suppliers generally pay commissions between 60 days before to 90 days after travel has commenced, overrides in the first quarter following the period earned, and marketing and advertising invoices between 30 days to 90 days after invoice date. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the specific supplier's current ability to pay its obligation to the Company and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are recognized as revenue in the period received. At December 31, 2007 and 2006, the allowance for doubtful accounts was \$38,077 and \$4,317, respectively.

Restricted Cash

In accordance with Accounting Review Board ("ARB") No. 43, Chapter 3A, "Current Assets and Current Liabilities", cash which is restricted as to withdrawal is considered a noncurrent asset. Restricted cash consists of collateral for three letters of credit and a reserve for credit card processing. The Company's credit card processor, Global Payments, holds a \$280,000 reserve for credit cards processed. Global Payments will hold this reserve for as long as the Company uses them as its credit card processor and will release all funds no later than six months after the final transaction deposit. Certificates of deposit of \$71,243 are collateral for four outstanding letters of credit due to expire in 2008. The letters of credit are required by industry and state regulations and will be renewed.

Property and Equipment

Property and equipment, including significant improvements, are recorded at

F-9

ONLINE VACATION CENTER HOLDINGS CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

cost. Repairs and maintenance and any gains or losses on dispositions are recognized as incurred. Depreciation and amortization are provided for on a

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

straight-line basis to allocate the cost of depreciable assets to operations over their estimated service lives.

| Asset Category | Depreciation/ Amortization Period |
|------------------------|--------------------------------------|
| Office equipment | 2 to 3 Years |
| Furniture & fixtures | 5 to 7 Years |
| Leasehold improvements | 6.5 Years |

Goodwill and Indefinite-Lived Intangible Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," goodwill represents the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets of businesses acquired and accounted for under the purchase method, acquired in business combinations and is assigned to reporting units that are expected to benefit from the synergies of the combination as of the acquisition date. Under this standard, goodwill and intangibles with indefinite useful lives are no longer amortized. The Company assesses goodwill and indefinite-lived intangible assets for impairment annually during the fourth quarter, or more frequently if events and circumstances indicate impairment may have occurred in accordance with SFAS No. 142. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Company records an impairment loss equal to the difference. SFAS No. 142 also requires that the fair value of indefinite-lived purchased intangible assets be estimated and compared to the carrying value. The Company recognizes an impairment loss when the estimated fair value of the indefinite-lived purchased intangible assets is less than the carrying value.

Long-Lived Assets

The Company's accounting policy regarding the assessment of the recoverability of the carrying value of long-lived assets, including property and equipment and purchased intangible assets with finite lives, is to review the carrying value of the assets, annually, during the fourth quarter, or whenever events or changes in circumstances indicate that they may be impaired. If this review indicates that the carrying value will not be recoverable, as determined based on the projected undiscounted future cash flows, the carrying value is reduced to its estimated fair value.

Foreign Currency Translation

The Company conducts publishing operations in both the United States and the United Kingdom, and its functional currency is the US dollar. Assets, liabilities, revenues and expenses denominated in British pounds are recorded in US dollars by the use of the exchange rate in effect at that date. At the period end, monetary assets and liabilities denominated in British pounds are translated into US dollars by using the exchange rate in effect at that date. The resulting foreign currency transaction gains and losses are included in operating revenues and expenses for the year. These gains or losses were not material for the year ended December 31, 2007 and 2006, respectively.

F-10

ONLINE VACATION CENTER HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes certain changes in equity that are excluded from net income. At December 31, 2007 and 2006, respectively, there were no material items to be included in accumulated other comprehensive income.

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 common stock that could share in the earnings of the Company. This calculation is not done for periods in a loss position as this would be antidilutive.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued a revision of SFAS 123 ("SFAS 123(R)") that requires compensation costs related to share-based payment transactions to be recognized in the statement of operations. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. SFAS 123(R) replaces SFAS 123 and is effective as of January 1, 2006.

In March 2005, the U.S. Securities and Exchange Commission ("SEC") released SAB 107, "Share-Based Payments," ("SAB 107"). The interpretations in SAB 107 express views of the SEC staff regarding the interaction between SFAS 123R and certain SEC rules and regulations, and provide the staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

arrangements upon adoption of SFAS 123R, the modification of employee share options prior to adoption of SFAS 123R and disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS 123R. SAB 107 requires stock-based compensation be classified in the same expense lines as cash compensation is reported for the same employees.

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources and would be considered material to shareholders. An officer of the Company has provided personal guarantees to various lenders as required for the extension of credit to the Company.

Recent Accounting Pronouncements

Accounting for Uncertainty in Income Taxes

The Company adopted the provisions of FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109," effective January 1, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. Adoption of FIN 48 as of January 1, 2007 did not have a significant impact on the Company's financial statements. At the date of adoption and as of December 31, 2007, the Company does not have a liability for any unrecognized tax benefits. The Company's policy is to record interest and penalties on uncertain tax positions as income tax expense. As of December 31, 2007, the Company had not accrued nor recognized interest or penalties related to uncertain tax positions. The Company had not recorded any significant increase or decrease to unrecognized tax benefits during 2007 related to U.S. federal or state tax positions.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company has not been subject to U.S. federal income tax examinations by tax authorities nor state authorities since its inception in 2000. The Company believes that it has not taken any uncertain tax positions that would impact its consolidated financial statements as of December 31, 2007.

F-12

ONLINE VACATION CENTER HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, ("FAS 157"). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of FAS 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statement No. 87, 88, 106 and 132(R), ("FAS 158"). This Standard requires recognition of the funded status of a benefit plan in the statement of financial position. The Standard also requires recognition in other comprehensive income certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. FAS 158 provides recognition and disclosure elements to be effective as of the end of the fiscal year after December 15, 2006 and measurement elements to be effective for fiscal years ending after December 15, 2008. The Company does not expect the remaining elements of this Statement to have a material impact on the Company's financial condition, results of operations, cash flows when adopted.

Fair Value Option of Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No.159, The Fair Value Option of Financial Assets and Financial Liabilities ("FAS 159"). FAS 159 provides an option to report selected financial assets and financial liabilities using fair value. The standard establishes required presentation and disclosures to facilitate comparisons with companies that use different measurements for similar assets and liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007, with early adoption allowed if FAS 157 is also adopted. The Company is currently evaluating the impact of adopting FAS 159 on its financial statements.

Business Combinations

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("FAS 141(R)"). FAS 141(R) establishes principles and requirements for how an acquirer in a business combination:

- o Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree,
- o Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and
- o Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

F-13

ONLINE VACATION CENTER HOLDINGS CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FAS 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company has not yet assessed the impact of adoption, if any, on its consolidated financial statements.

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

Noncontrolling Interest in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51" ("FAS 160"). FAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of FAS 141(R). FAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company has not yet assessed the impact of adoption, if any, on its consolidated financial statements.

Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements

In September 2006, the SEC staff issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 requires the combined use of a balance sheet approach and an income statement approach in evaluating whether either approach results in an error that is material in light of relevant quantitative and qualitative factors. The Company must begin to apply the provisions of SAB 108 no later than its fiscal 2007 annual financial statements. The Company completed its evaluation of the impact of SAB 108 and deemed that it had no material effect on the Company's consolidated results of operations, financial position, or cash flows.

Sarbanes Oxley Compliance

In July 2002, "The Public Company Accounting Reform and Investor Protection Act of 2002" (the "Sarbanes-Oxley Act") was enacted. Section 404 of the Sarbanes-Oxley Act stipulates that public companies must take responsibility for maintaining an effective system of internal control. The Sarbanes-Oxley Act requires public companies to report on the effectiveness of their control over financial reporting and obtain an attestation report from their independent registered public accounting firm about management's report. The Sarbanes-Oxley Act requires most public companies (large accelerated and accelerated filers) to report on their internal controls over financial reporting for years ending on or after November 15, 2004. Other public companies (non-accelerated filers) must begin to comply with the new requirements which include a report on the effectiveness related to internal control over financial reporting for their first year ending on or after December 15, 2007 and must file an auditor's attestation report on internal controls over financial reporting in their annual reports in the first annual report for a fiscal year ending on or after December 15, 2009. The Company is a non-accelerated filer and expects to be able to comply with these filing requirements.

F-14

ONLINE VACATION CENTER HOLDINGS CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

| | December 31, ----- 2007 ----- | December 31, ----- 2006 ----- |
|---|--|--|
| Prepaid expenses | \$ 236,723 | \$ 318,445 |
| Refundable deposits with suppliers | 502,235 | 87,267 |
| | ----- | ----- |
| Prepaid expenses and other current assets | \$ 738,958 | \$ 405,712 |
| | ===== | ===== |

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

| | December 31, ----- 2007 ----- | December 31, ----- 2006 ----- |
|--------------------------------|--|--|
| Office equipment | \$ 526,941 | \$ 393,461 |
| Furniture & fixtures | 61,864 | 61,864 |
| Leasehold improvements | 67,368 | 67,368 |
| | ----- | ----- |
| | 656,173 | 522,693 |
| Less: Accumulated depreciation | (528,625) | (430,478) |
| | ----- | ----- |
| Property and equipment, net | \$ 127,548 | \$ 92,215 |
| | ===== | ===== |

Depreciation expense for the years ended December 31, 2007 and 2006 was \$105,011 and \$81,671, respectively.

NOTE 5 - ACQUISITIONS

On January 3, 2007, pursuant to the terms of an Acquisition Agreement, Online Vacation Center Holdings Corp. purchased and acquired all of the issued and outstanding ownership interests of La Tours, a Houston, Texas travel agency, operating as West University Travel, for \$550,000, subject to adjustment as defined by the Acquisition Agreement, \$250,000 in cash payable upon closing and \$300,000, payable in \$100,000 annual installments, subject to adjustment as defined by the Acquisition Agreement, commencing on January 2, 2008. Additionally, the owners of La Tours received 50,000 restricted shares of the Company's common stock which are subject to a lock-up agreement.

On January 5, 2007, pursuant to the terms of an Acquisition Agreement, Online Vacation Center Holdings Corp. purchased and acquired all of the issued and outstanding ownership interests of Dunhill Vacations, a Fort Lauderdale, Florida, publisher of a leading vacation values newsletter, Dunhill Vacation News, for \$250,000, in cash payable upon closing and 50,000 restricted shares of the Company's common stock.

F-15

ONLINE VACATION CENTER HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On January 19, 2007, pursuant to the terms of an Acquisition Agreement, Online

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

Vacation Center Holdings Corp. purchased certain assets of SmartTraveler.com, Inc., a Royal Palm Beach, Florida, home-based travel seller, for \$125,000, in cash payable upon closing and 125,000 restricted shares of the Company's common stock which are subject to a lock-up agreement.

On May 18, 2007, pursuant to the terms of an Acquisition Agreement, Online Vacation Center Holdings Corp. acquired all of the issued and outstanding ownership interests of Tone and Travel, , the licensed, travel management company of Curves International, Inc. operating as Curves Travel, for \$225,000 in cash, subject to future adjustment as defined by the Acquisition Agreement, payable upon closing.

In conjunction with these acquisitions (collectively the "2007 Acquisitions"), the cash paid in excess of the net of cash acquired, was \$1,116,713. Additionally the Company issued 225,000 shares of its common stock and issued notes aggregating \$300,000. The consideration had been allocated to assets and liabilities, including separate identifiable intangible assets based on independent third party valuations and internal assessments with approximately \$982,563 allocated to goodwill.

During the latter half of 2006, Online Vacation Center Holdings Corp. acquired Phoenix, Thoroughbred, and La Fern (collectively the "2006 Acquisitions"). In conjunction with the 2006 Acquisitions, the cash paid in excess of the net of cash acquired, was \$405,795. Additionally the Company issued 1,450,000 shares of its common stock and issued convertible notes, at the election of the holders, aggregating \$452,720, as adjusted. The consideration had been allocated to assets and liabilities, including separate identifiable intangible assets based on independent third party valuations and internal assessments with approximately \$1,942,495 initially allocated to goodwill.

The operations of the 2007 Acquisitions and 2006 Acquisitions have been included in the Company's consolidated results since their respective dates of acquisition.

NOTE 6 - INTANGIBLE ASSETS, NET

During 2002, Online Vacation Center, Inc. purchased the rights to the Renaissance Cruises name and customer database. Online Vacation Center, Inc. also registered two trade names and marks for Online Vacation Center, Inc. Costs of \$56,643 were capitalized and are being amortized over the expected 15-year useful lives of the trademarks.

A third-party company was hired to prepare a valuation to assist management of the Company in its allocation of the purchase price, primarily through the determination of the fair value and remaining useful lives of the 2006 Acquisitions' and 2007 Acquisitions' respective intangible assets. The fair value related to the intangible assets acquired pertaining to the 2006 Acquisitions, exclusive of discontinued operations, and 2007 Acquisitions were \$119,000 and \$932,080, respectively and were capitalized and amortized over their expected useful lives, ranging from 1 to 15 years.

The Company conducted its annual test for impairment during the fourth quarter of 2007. The results of the impairment tests indicated that the intangibles were not impaired.

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

Intangible assets consist of the following:

| | December 31, 2007 |
|----------------------------------|----------------------|
| | ----- |
| Trade names | \$ 289,753 |
| Customer contracts and backlog | 9,000 |
| Customer lists and relationships | 870,693 |
| | ----- |
| | 1,169,276 |
| Less: Accumulated amortization | (180,810) |
| | ----- |
| Intangible assets, net | \$ 988,466 |
| | ===== |

Amortization expense, exclusive of discontinued operations, for the years ended December 31, 2007 and 2006 was \$157,955 and \$10,526, respectively. The estimated aggregate amortization expense for the next five years and thereafter is as follows:

| Year | Estimated Annual Amortization Expense |
|---------------------|--|
| ---- | ----- |
| 2008 | \$ 188,615 |
| 2009 | 178,723 |
| 2010 | 177,362 |
| 2011 | 148,753 |
| 2012 and thereafter | 295,013 |

NOTE 7 - DISCONTINUED OPERATIONS

In November 2007, the Company's Board of Directors granted the Company the authority to sell Phoenix, a publishing company acquired in 2006. The sale is anticipated to be completed within one year of the Board of Director's authorization date and Phoenix has been accounted for as discontinued operations. The results of operations and cash flows of Phoenix has been removed from the results of continuing operations and the assets and liabilities of Phoenix have been classified as available for sale, for all periods presented. The operating results of Phoenix since its date of acquisition, August 31, 2006, are classified as discontinued operations and summarized below. The Company is actively marketing the sale of Phoenix, however, no formal offers have been received from any prospective purchasers.

| | 2007 | 2006 |
|--|--------------|------------|
| | ----- | ----- |
| Revenues | \$ 1,681,083 | \$ 897,506 |
| Income (loss) before income taxes | \$ (227,242) | \$ 16,599 |
| Income tax provision(benefit) | (79,383) | 6,404 |
| | ----- | ----- |
| Income (loss) from discontinued operations | \$ (147,859) | \$ 10,195 |
| | ===== | ===== |

F-17

ONLINE VACATION CENTER HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

The assets and liabilities of discontinued operations have been reclassified and are segregated in the consolidated balance sheets. Assets and liabilities of the discontinued business as of December 31 2007 and 2006 are summarized as follows:

| | December 31, | |
|---|--------------|-------------|
| | 2007 | 2006 |
| Accounts receivable | \$ 501,992 | \$ 295,154 |
| Deposits and prepaid items | 2,096 | 1,959 |
| | ----- | ----- |
| Total current assets held for sale | \$ 504,088 | \$ 297,113 |
| | ===== | ===== |
| Intangible assets, net | \$ 783,244 | \$ 915,061 |
| Goodwill | 1,126,030 | 1,126,030 |
| | ----- | ----- |
| Total long lived assets held for sale | \$1,909,274 | \$2,041,091 |
| | ===== | ===== |
| Accounts payable and accrued liabilities | \$ 359,182 | \$ 112,840 |
| Deferred revenue | 183,500 | 120,000 |
| | ----- | ----- |
| Total current liabilities available for sale | \$ 542,682 | \$ 232,840 |
| | ===== | ===== |
| Non current deferred income taxes payable | \$ 302,176 | \$ 353,031 |
| | ----- | ----- |
| Non current liabilities available for sale | \$ 302,176 | \$ 353,031 |
| | ===== | ===== |

NOTE 8 - GOODWILL

The Company initially recorded \$816,465 in conjunction with its 2006 Acquisitions, exclusive of its discontinued operations, and \$982,563 in conjunction with its 2007 Acquisitions. The goodwill associated with 2006 Acquisitions was subsequently reduced in 2007 by \$44,749 due to the completion of an audit in 2007 of La Fern resulting in reductions of purchase price and related beneficial conversion feature of the debt issued and a reduction of deferred tax liabilities associated with the Thoroughbred Travel LLC acquisition. During the fourth quarter of 2007, the Company tested the carrying value of goodwill for impairment. The results of the tests indicated that the carrying value of the goodwill was not impaired.

Changes to the carrying amounts of consolidated goodwill are as follows:

| | |
|------------------------------|--------------|
| Balance at December 31, 2006 | \$ 816,465 |
| Adjustments | (44,749) |
| Acquisitions | 982,563 |
| | ----- |
| Balance at December 31, 2007 | \$ 1,754,279 |
| | ===== |

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

NOTE 9 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

| | December 31, 2007 | December 31, 2006 |
|---------------------------|----------------------|----------------------|
| | ----- | ----- |
| Accounts payable | \$ 445,985 | \$ 408,796 |
| Accrued compensation | 356,750 | 878,870 |
| Accrued professional fees | 154,932 | 110,922 |
| Other accrued expenses | 22,411 | 19,191 |
| | ----- | ----- |
| Total | \$ 980,078 | \$ 1,417,779 |
| | ===== | ===== |

NOTE 10 - DEFERRED REVENUES

Deferred revenue consists of sales commission received from vacation travel suppliers net of cancellations, administrative fees received from passengers in advance of passenger travel dates and amounts invoiced for publishing advertising to be contained in future publications. The advance sales commission, administrative fees and publishing advertising revenue is considered unearned revenue and recorded as deferred revenue in the accompanying consolidated balance sheets. Deferred revenue is recognized on the accompanying consolidated financial statements when the passenger travel occurs or the publication is distributed. At December 31, 2007 and December 31, 2006, deferred revenues were \$2,384,720 and \$1,964,266, respectively. Balances at December 31, 2006 have been reclassified to conform to this presentation.

NOTE 11 - DEBT

The debt components consist of the following:

| | December 31, 2007 | December 31, 2006 |
|---|----------------------|----------------------|
| | ----- | ----- |
| Convertible Note - Thoroughbred Travel, LLC | \$ 0 | \$ 125,000 |
| Convertible Note - La Fern, Inc. | 327,720 | 375,000 |
| Convertible Note - La Tours and Cruses, Inc. | 300,000 | - |
| | ----- | ----- |
| | 627,720 | 500,000 |
| Less: Unamortized discount | 17,960 | 0 |
| Less: Current portion-net of unamortized discount of \$34 at December 31, 2007 | 427,686 | 125,000 |
| | ----- | ----- |
| | \$ 182,074 | \$ 375,000 |
| | ===== | ===== |

As discussed in Note 5, in conjunction with its acquisition of Thoroughbred, the Company issued a Convertible Note to the former owner of Thoroughbred in the amount of \$125,000 bearing interest at 5% per annum with accrued interest and principal payable on September 25, 2007; the Note could be paid in advance by the Company upon 30 days notice. The Note was convertible, at the election of Thoroughbred prior to the earlier of prepayment or maturity, into 62,500 shares of the Company's common stock at a conversion price equal to \$2.00 per share. The Note was paid in full on September 25, 2007.

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As discussed in Note 5, in conjunction with its acquisition of La Fern, the Company issued a Convertible Note to the former owner of La Fern, in the amount of \$375,000, subject to adjustment based upon the results of an audit of the financial statements of La Fern as of the acquisition, date due October 1, 2008 bearing interest at 6% per annum with interest payable semi-annually commencing on April 1, 2007 and may not be prepaid by the Company. As a result of the audit, concluded in 2007, the Note amount was adjusted to \$327,720. The Note is convertible, at the election of La Fern prior to maturity, into 163,860 shares of the Company's common stock at a conversion price equal to \$2.00 per share. La Fern had not converted the Note as of December 31, 2007.

As discussed in Note 5, in conjunction with its acquisition of La Tours, the Company agreed to pay \$300,000 to the former owners of La Tours in three \$100,000 annual installments, subject to adjustment as defined by the Acquisition Agreement, commencing on January 2, 2008. The series of three annual installments of \$100,000 has been discounted, using the Company's estimated incremental borrowing rate of 6.5% and the aggregate related unamortized imputed interest of \$17,960 as of December 31, 2007 has been offset against the face value of the debt and a corresponding reduction of purchase price consideration.

Interest expense for the years ended December 31, 2007 and 2006 respectively was \$43,757 and \$55,734 respectively.

NOTE 12 - INCOME TAXES

The provision for income taxes from continuing operations for the years ended December 31, 2007 and 2006 consist of the following:

| | December 31, | |
|---------------------------------|--------------|-------------|
| | 2007 | 2006 |
| Current: | | |
| Federal | \$ (7,211) | \$ (46,950) |
| State | 1,864 | -- |
| | (5,347) | (46,950) |
| Deferred: | | |
| Federal | \$ 118,974 | \$ 297,755 |
| State | 19,784 | 49,512 |
| | 138,758 | 347,267 |
| Provision for income taxes, net | \$ 133,411 | \$ 300,317 |

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | December 31, | |
|------------------------------------|--------------|-------|
| | 2007 | 2006 |
| | ----- | ----- |
| Statutory federal income tax rate | 35.0 % | 35.0% |
| State income taxes | 3.6 | 6.0 |
| Gain on sale of cigar assets | 0.0 | 4.5 |
| Tax effect of non-deductible items | 18.1 | 3.4 |
| Other | 0.8 | 8.0 |
| | ----- | ----- |
| Effective tax rate | 55.9 % | 56.9% |
| | ===== | ===== |

The tax effect of non-deductible items in 2007 include \$71,811 of stock compensation expense related to incentive stock options and \$18,148 of imputed interest expense related to the La Tours acquisition debt. Other includes tax rate differentials and the true-up of permanent tax differences from prior periods. The gain on sale of cigar assets is the result of the transaction wherein the Company distributed the assets relating to the cigar business to a former director and majority shareholder in exchange for 2.7 million shares of stock. The Company recognized a gain on each asset distributed based upon the difference between the fair market value and the Company's adjusted basis in each asset at the time of closing.

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

| | December 31, 2007 | December 31, 2006 |
|-------------------------------|----------------------|----------------------|
| | ----- | ----- |
| Net operating loss carry- | | |
| forwards and AMT tax credit | \$ 430,328 | \$ 467,969 |
| Depreciation and amortization | (49,635) | (24,495) |
| Accruals and other | 52,289 | 256,195 |
| | ----- | ----- |
| Deferred income tax asset | \$ 432,982 | \$ 699,669 |
| | ===== | ===== |

The net deferred tax assets are comprised of the following:

| | December 31, 2007 | December 31, 2006 |
|-------------------------------|----------------------|----------------------|
| | ----- | ----- |
| Current | \$ 1,665 | \$ 248,455 |
| Non-current | 431,317 | 451,214 |
| | ----- | ----- |
| Net deferred income tax asset | \$ 432,982 | \$ 699,669 |
| | ===== | ===== |

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

ONLINE VACATION CENTER HOLDINGS CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has federal net operating loss carry forwards totaling \$1,101,509 which will expire in 2017.

NOTE 13 - STOCK BASED COMPENSATION

In conjunction with the Share Exchange Agreement, the Company's Board of Directors amended its 2005 Management and Director Equity Incentive and Compensation Plan (the "Plan"). This 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.

On March 16, 2006, 1,860,000 stock options were granted to management and directors under the Plan. All options have a five-year life and an exercise price of \$1.27. On October 3, 2006, in conjunction with acquisition of La Fern, 10,000 stock options were granted to a principal of La Fern as part of his employment agreement with the Company under the Plan. The options have a five year life and an exercise price of \$1.95. During 2007, 350,000 stock options were granted to an officer and key employees under the Plan. All options have a five year life and exercise prices ranging from \$1.76 to \$3.02.

A summary of the activity in the Company's Plan for the period of January 1, 2006 through December 31, 2007 is presented below; no options were granted under the Plan prior to March 16, 2006:

| | Shares | Weighted Average Exercise Price |
|---|-----------|------------------------------------|
| | ----- | ----- |
| Options outstanding as of January 1, 2006 | - | \$ 0.00 |
| Granted | 1,870,000 | 1.28 |
| Canceled/Forfeited | - | 0.00 |
| Exercised | - | 0.00 |
| | ----- | ----- |
| Options outstanding at December 31, 2006 | 1,870,000 | \$ 1.28 |
| Granted | 350,000 | 2.13 |
| Canceled/Forfeited | (5,000) | 2.91 |
| Exercised | - | 0.00 |
| | ----- | ----- |
| Options outstanding at December 31, 2007 | 2,215,000 | \$ 1.41 |
| | ===== | ===== |

The weighted fair value of options granted during 2006 was \$0.17 with the following assumptions: average expected life between 2.5 and 3.5 years, depending on the option vesting; 4.44% interest rate; 40% volatility; 5% forfeiture rate. The weighted fair value of options granted during 2007 was \$0.64 with the following assumptions: average expected life of 3.5 years; 4.01% average interest rate; 42.87% volatility; 5% forfeiture rate. Compensation cost recognized for the years ended December 31, 2007 and 2006 was \$184,450 and \$147,430, respectively.

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

ONLINE VACATION CENTER HOLDINGS CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2007 there was approximately \$186,640 of total stock-based compensation expense not yet recognized relating to non-vested awards granted under the Company's option plan as calculated under SFAS 123R. This expense is net of estimated forfeitures and is expected to be recognized over a weighted-average period of approximately six months. The number of non-exercisable shares was 1,815,000 shares of common stock at December 31, 2007. At December 31, 2007, 400,000 shares of common stock at \$1.27 per share were exercisable.

For the years ended December 31, 2007 and 2006, 11,200 and 7,000 restricted shares, respectively, were granted to employees and directors under the Plan. Compensation expense related to the grant of restricted shares for the years ended December 31, 2007 and 2006 was \$18,520 and \$5,950, respectively.

NOTE 14 - RELATED PARTY TRANSACTIONS

Effective October 2005, Online Vacation Center Holdings, Inc. engaged a consultant who now serves as the Company's Chairman. In consideration for such services, the consultant received a monthly fee of \$10,000. The consultant and Company, by mutual accord, terminated the consulting services as of September 30, 2007. During 2007 and 2006, this consultant received \$90,000 and \$120,000, respectively, in consulting fees.

NOTE 15 - COMMITMENTS AND CONTIGENCIES

Lease Commitments

Online Vacation Center Holdings Corp. has entered into a lease for approximately 10,000 square feet of corporate office space in Plantation, Florida. Total monthly lease payments, which include a proportionate share of building operating expenses, are \$17,767 through June 2008; the termination date of the lease. The Company and landlord are currently in the process of negotiating a lease extension. Additionally, the rent expense for the years ended December 31, 2007 and 2006 was \$241,651 and \$197,322, respectively.

Executive Employment Agreements

On March 16, 2006, the Company entered into an executive employment agreement with its President and Chief Executive Officer. The Company will pay an initial annual base salary of \$300,000, payable bi-weekly. The base salary is subject to annual automatic incremental increases of the greater of the percentage increase in the consumer price index or 6% of the previous year's base salary. In addition, the Company issued incentive stock options to purchase 300,000 shares of common stock and nonqualified stock options to purchase 200,000 shares of common stock which are exercisable at 150% of the fair market value of the Company's common stock as of the effective date of the share exchange (\$1.27). All of the nonqualified stock options and incentive stock options to purchase 100,000 shares vested immediately. Incentive stock options to purchase 100,000 shares of common stock vested on March 15, 2007 and the remaining 100,000 incentive stock options vest on March 15, 2008. All of the options were issued under the 2005 Management and Director Equity Incentive and Compensation Plan.

On August 31, 2006, in conjunction with the acquisition of Phoenix, the Company entered into an employment agreement with the president of Phoenix to continue serving in such capacity. The Company will pay a base salary of \$202,000 per annum commencing on September 1, 2006 and increasing by 4% per annum until

ONLINE VACATION CENTER HOLDINGS CORP.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2009, the termination date of the Agreement. In addition, the president may also be entitled to a retention bonus, as defined, a bonus in conjunction with the closing of certain acquisition prospects, as defined, and a bonus in conjunction with Phoenix achieving certain profitability thresholds as defined.

Other Contract Obligations

During the course of business, the Company has entered into contracts for internet, telephone and other related expenses.

At December 31, 2007, the Company had the following future minimum obligations, inclusive of discontinued operations, for rental lease commitments, employment agreements and other contractual obligations as follows:

| Year | Amount |
|---------------------|--------------|
| ---- | ----- |
| 2008 | \$ 1,239,164 |
| 2009 | 696,405 |
| 2010 | 430,784 |
| 2011 and thereafter | - |
| | ----- |
| | \$ 2,366,353 |
| | ===== |

Benefit Plan

The Company participates in a multi-employer 401 (k) Plan managed by a professional employer organization the Company retains for administering payroll and employee benefits programs. Contributions to the Plan are at the discretion of the Company's board of directors. No contributions were approved as of December 31, 2007.

Asserted Claims

On November 15, 2007, the Company was notified that it was being sued in a putative class action lawsuit in the United States District Court for the Southern District of Florida (Joseph Kay v Online Vacation Center Holdings Corp., et al., Case No. 07-61619). The plaintiff claims that the Company violated the Fair and Accurate Credit Transactions Act. The plaintiff seeks class action status to represent all consumers of the Registrant since December 4, 2006. The Company intends to defend the lawsuit vigorously.

Additionally, 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.

Regulatory Matters

The Company believes it is in compliance with all federal regulatory

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

requirements, including the CAN-SPAM Act of 2003 which regulates commercial

F-24

ONLINE VACATION CENTER HOLDINGS CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

electronic mail on a nationwide basis. The Company adheres to the law by properly representing the nature of its commercial email messages, not tampering with source and transmission information and obtaining email addresses through lawful means.

NOTE 16 - QUARTERLY FINANCIAL DATA (UNAUDITED)

This table summarizes the unaudited results of operations for each quarter of 2007 and 2006:

| | 1st Quarter | 2nd Quarter | 3rd Quarter |
|--|--------------|--------------|-------------|
| For the year ended December 31, 2007: | | | |
| Continuing operations: | | | |
| Net revenues | \$ 2,260,568 | \$ 1,966,578 | \$ 1,812,47 |
| Operating income/(loss) | 44,383 | (304,693) | (429,35 |
| Income/(loss) from continuing operations | 19,411 | (200,708) | (270,53 |
| Discontinued operations: | | | |
| Net revenues | \$ 417,185 | \$ 59,533 | \$ 198,75 |
| Operating income/(loss) | (141,699) | (140,094) | (112,00 |
| Income/(loss) from discontinued operations | (86,600) | (85,923) | (68,75 |
| Net income/(loss) | \$ (67,189) | \$ (286,631) | \$ (339,28 |
| Net earnings/(loss) per share - basic: | | | |
| Continuing operations | \$ 0.00 | \$ (0.02) | \$ (0.0 |
| Discontinued operations | \$ (0.01) | \$ (0.01) | \$ 0.0 |
| Net income/(loss) | \$ (0.01) | \$ (0.03) | \$ (0.0 |
| Net earnings/(loss) per share - diluted: | | | |
| Continuing operations | \$ 0.00 | \$ (0.02) | \$ (0.0 |
| Discontinued operations | \$ (0.01) | \$ (0.01) | \$ 0.0 |
| Net income/(loss) | \$ (0.01) | \$ (0.03) | \$ (0.0 |
| For the year ended December 31, 2006: | | | |
| Continuing operations: | | | |
| Net revenues | \$ 2,022,901 | \$ 1,805,377 | \$ 1,079,21 |
| Operating income/(loss) | 438,370 | 306,703 | (334,34 |
| Income/(loss) from continuing operations | 220,408 | 143,162 | (156,17 |
| Discontinued operations: | | | |
| Net revenues | \$ 0 | \$ 0 | \$ 180,93 |
| Operating income/(loss) | 0 | 0 | (12,35 |
| Income/(loss) from discontinued operations | 0 | 0 | (7,55 |
| Net income/(loss) | \$ 220,408 | \$ 143,162 | \$ (163,72 |
| Net earnings/(loss) per share - basic: | | | |
| Continuing operations | \$ 0.01 | \$ 0.01 | \$ (0.0 |

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10KSB

| | | | | | | |
|--|----|------|----|------|----|------|
| Discontinued operations | \$ | 0.00 | \$ | 0.00 | \$ | 0.0 |
| Net income/(loss) | \$ | 0.01 | \$ | 0.01 | \$ | (0.0 |
| Net earnings/(loss) per share - diluted: | | | | | | |
| Continuing operations | \$ | 0.01 | \$ | 0.01 | \$ | (0.0 |
| Discontinued operations | \$ | 0.00 | \$ | 0.00 | \$ | 0.0 |
| Net income/(loss) | \$ | 0.01 | \$ | 0.01 | \$ | (0.0 |

NOTE 17- SUBSEQUENT EVENT

On March 20, 2008, the United States District Court for the Southern District of Florida dismissed with prejudice the lawsuit Joseph Kay v Online Vacation Center Holdings Corp., et al., Case No. 07-61619.

F-25