

ONLINE VACATION CENTER HOLDINGS CORP  
Form 10-Q  
November 13, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549  
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

or

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

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

Commission file number: 0-32137

Online Vacation Center Holdings Corp.

(Exact name of registrant as specified in its charter)

Florida  
State or other jurisdiction of incorporation  
or organization

65-0701352  
(I.R.S. Employer Identification No.)

1801 N.W. 66<sup>th</sup> Avenue, Suite 102, Plantation, Florida 33313

(Address of principal executive offices) (Zip Code)

(954) 377-6400

Registrant's telephone number including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

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

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

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

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

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

At November 13, 2009, the number of shares outstanding of the registrant's common stock, \$0.0001 par value was 15,050,478.

	PAGE
<b><u>Part I.</u></b>	
<b><u>Financial Information</u></b>	
Item 1	
Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
Item 2	
Management’s Discussion and Analysis of Financial Condition and Results of Operation	16
Item 4T.	
Controls and Procedures	23
<b><u>Part II</u></b>	
<b><u>Other Information</u></b>	
Item 1	
Legal Proceedings	24
Item 2	
Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 3	
Default upon Senior Notes	25
Item 4	
Submission of Matters to a Vote of Securities Holders	25
Item 5	
Other Information	25
Item 6	
Exhibits	25
Exhibit 31.1 – Certification	
Exhibit 31.2 – Certification	
Exhibit 32.1 – Certification	
Exhibit 32.2 – Certification	

ONLINE VACATION CENTER HOLDINGS CORP.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2009 Unaudited	December 31, 2008 Audited (Restated)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,294,207	\$ 1,693,447
Accounts receivable, net	568,858	1,198,768
Deposits and prepaid items	857,910	701,317
Deferred tax asset, net	27,133	27,672
Current assets available for sale	46,485	69,024
Total Current Assets	3,794,593	3,690,228
Restricted cash	48,000	63,000
Property and equipment, net	154,974	137,897
Intangible assets, net	1,051,389	923,493
Goodwill	395,182	395,181
Other assets	38,197	58,306
Long lived assets available for sale	184,829	1,498,182
Total Assets	\$ 5,667,164	\$ 6,766,287
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 1,104,005	\$ 977,025
Deferred revenue	2,065,455	1,976,564
Notes payable and capital lease obligations, current portion	117,652	120,287
Current liabilities available for sale	107,631	77,948
Total Current Liabilities	3,394,743	3,151,824
Notes payable and capital lease obligations	21,786	131,609
Deferred tax liability	70,128	16,113
Non current liabilities available for sale	51,432	59,348
Total Liabilities	3,538,089	3,358,894
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, 1,000,000 shares authorized at \$.0001 par value; 0 shares issued and outstanding	-	-
Common stock, 80,000,000 shares authorized at \$.0001 par value; 16,284,788 and 17,252,777 shares issued and outstanding	1,628	1,725
Additional paid-in capital	4,587,986	5,017,789
Accumulated deficit	(1,893,384)	(1,586,493)
Treasury stock at cost; 1,134,110 and 44,300 shares	(567,155)	(25,628)
Total Stockholders' Equity	2,129,075	3,407,393

Total Liabilities and Stockholders' Equity	\$ 5,667,164	\$ 6,766,287
--	--------------	--------------

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





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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008 (Restated)
NET REVENUES	\$ 1,571,884	\$ 1,719,008	\$ 6,522,341	\$ 6,229,358
OPERATING EXPENSES:				
Selling and marketing	553,375	405,360	1,746,582	1,935,615
General and administrative	1,031,482	1,183,899	3,294,875	3,896,552
Depreciation and amortization	121,691	95,361	343,941	256,401
OPERATING INCOME (LOSS)	(134,664)	34,388	1,136,943	140,790
Interest income (expense), net	2,859	(2,876)	5,921	(25,382)
Income (Loss) from continuing operations before provision for income taxes	(131,805)	31,512	1,142,864	115,408
Provision for income taxes	411	13,627	517,397	81,755
Income (Loss) from continuing operations	(132,216)	17,885	625,467	33,653
DISCONTINUED OPERATIONS:				
Income (Loss) from discontinued operations, net of tax	(873,343)	23,985	(932,358)	(757,833)
NET INCOME (LOSS)	\$ (1,005,559)	\$ 41,870	\$ (306,891)	\$ (724,180)
EARNINGS PER SHARE - Basic				
Income (Loss) from continuing operations	\$ (0.01)	\$ -	\$ 0.04	\$ -
(Loss) from discontinued operations	\$ (0.05)	\$ -	\$ (0.06)	\$ (0.05)
Net Income (Loss)	\$ (0.06)	\$ -	\$ (0.02)	\$ (0.04)
Weighted average shares outstanding - Basic	15,979,356	17,252,777	16,828,165	17,666,249
EARNINGS PER SHARE - Diluted				
Income (Loss) from continuing operations	\$ (0.01)	\$ -	\$ 0.04	\$ -
(Loss) from discontinued operations	\$ (0.05)	\$ -	\$ (0.06)	\$ (0.05)
Net Income (Loss)	\$ (0.06)	\$ -	\$ (0.02)	\$ (0.04)
Weighted average shares outstanding - Diluted	15,979,356	17,252,777	16,828,165	17,666,249



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

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

	For the Nine Months Ended	
	September 30, 2009	September 30, 2008
Cash flows from continuing operating activities:		(Restated)
Net (loss)	\$ (306,891)	\$ (724,180)
Loss from discontinued operations, net of tax	932,358	757,833
Income from continuing operations	625,467	33,653
Adjustments to reconcile to net cash inflow from operating activities:		
Depreciation and amortization	343,941	256,401
Stock based compensation expense	64,896	126,712
Imputed interest expense- net	2,420	18,669
Deferred income tax expense	54,554	90,867
Decrease in accounts receivable	629,910	134,864
(Increase) in deposits and prepaid items	(155,312)	(145,453)
Increase in accounts payable and accrued liabilities	126,980	21,465
Increase in deferred revenue	88,891	354,825
Net cash provided by operating activities	1,781,747	892,003
Cash flows from continuing investing activities:		
Capital expenditures	(107,737)	(62,180)
(Increase) in intangible assets	(381,177)	(367,807)
Decrease in restricted cash	15,000	280,108
(Increase)/Decrease in receivable upon disposition of discontinued operation	22,500	(100,000)
Cash paid upon disposition of discontinued operation	-	(4,932)
Cash used in investing activities	(451,414)	(254,811)
Cash flows from continuing financing activities:		
Purchase of treasury stock under approved purchase plan	(91,473)	(3,155)
Purchase of treasury stock	(944,850)	-
Payments under capital lease obligations	(18,550)	-
Repayment of notes payable	(100,000)	(100,000)

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

Cash used in financing activities	(1,154,873)	(103,155)
Discontinued Operations		
Cash provided by operating activities	425,300	91,005
Cash provided by discontinued operations	425,300	91,005
Increase in cash during the period	600,760	625,042
Cash at the beginning of the period	1,693,447	1,189,042
Cash at the end of the period	\$ 2,294,207	\$ 1,814,084
Supplemental information:		
Cash paid for interest	\$ 13,834	\$ 16,273
	\$ 266,700	\$ 15,684
Cash paid for taxes		
	\$ -	\$ 725,000
Common stock received in conjunction with disposition of		
discontinued operation	\$ 494,796	\$ -
Retirement of treasury stock		

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



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

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements of Online Vacation Center Holdings Corp., (the "Company"), and the notes thereto have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K, as amended for the year ended December 31, 2008, and filed with the Securities and Exchange Commission on March 27, March 31, and August 14, 2009 (the "2008 Annual Report"). The interim financial information contained herein is not certified or audited; it reflects all adjustments (consisting of only normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the operating results for the periods presented, stated on a basis consistent with that of the audited financial statements.

The results of operations for the three months ended September 30, 2009 are not necessarily indicative of annual results. The Company manages its business as one reportable segment.

Use of Estimates

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

2. RESTATEMENTS AND REVISIONS

In July 2008, management and the Audit Committee of its Board of Directors concluded that the Company's 2008 financial statements should be restated due to an error relating to the accounting for its disposition of Phoenix International Publishing LLC ("Phoenix") in March 2008, in connection with its response to a comment letter received from the SEC regarding the Company's Annual Report on Form 10-K for fiscal 2008. Management and the Audit Committee of its Board of Directors decided to change the accounting treatment for the disposition of Phoenix in the consolidated financial statements for fiscal 2008 so that the methodology utilized in determining the fair value of the Company's common stock at disposition was consistent with the methodology utilized in determining the fair value of the Company's common stock at the time of Phoenix's acquisition by the Company.

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

(Unaudited)

The Phoenix error was the result of a lack of consistency of methodology in determining the fair value of the shares of common stock of the Company received in consideration for the disposition of Phoenix with the methodology utilized in determining the fair value of the shares of common stock of the Company issued when Phoenix was acquired. The Company had determined the fair value of the Phoenix net assets acquired in August 2006 based on the market (fair) value of a share of the Company's common stock, \$1.125, for each of the 1,450,000 shares of common stock issued in connection with the acquisition. This was calculated by using the then trading price of the Company's common shares of \$1.50, discounted by 25% due to restrictions on their transfer and limited marketability. Upon the disposition of Phoenix in March 2008, the Company computed its loss on disposition of \$58,382 based on the difference of the value of the 1,250,000 shares of the Company's common stock received based on the value per share at time of acquisition, \$1.125, and the fair value of the net assets of Phoenix at the time of disposition. As discussed in our original 10-K, at that time, the Company believed that it could not determine fair value of either the asset transferred (Phoenix) or the asset received (shares of the Company's common stock), and therefore recorded cost was used to record the sale. The Company's management and the Audit Committee of the Board of Directors with consideration to a comment letter received from the SEC has now determined that the use of the market value of the Company's shares of common stock at the time of acquisition to compute the loss upon disposition of Phoenix was inappropriate. The computation should have been based on the market (fair) value per share at the time of disposition in March 2008, \$0.58, a Level 1 input within the fair value hierarchy in accordance with Statement of Financial Accounting Standards No. 157- Fair Value Measurements, of the 1,250,000 shares of the Company's common stock received resulting in a loss of \$739,632. For tax purposes, the transaction was treated as split-off with no resulting tax consequences.

In addition, the Company is revising the accounting treatment for the conversion feature associated with the convertible debt issued in conjunction with the acquisitions of Thoroughbred Travel LLC and La Fern Inc. ("Notes") in 2006. As of December 31, 2008, value in the amount of \$56,424 was assigned in error to the conversion feature of the Notes which resulted in an increase in goodwill and additional paid-in capital whereas no conversion feature value should have been assigned to the Notes.

As a result of these adjustments, both the Company's loss from discontinued operations and its net loss for the nine months ended September 30, 2008 were understated by \$681,250. In addition, the Company's accumulated deficit as of December 31, 2008 was understated by \$681,250, additional paid in capital as of December 31, 2008 was understated by \$624,826 and goodwill as of December 31, 2008 was overstated by \$56,424. Finally, the Company's loss per share from discontinued operations; both basic and diluted were overstated by \$0.04 and net income per share; both basic and diluted were overstated by \$0.04 for the nine months ended September 30, 2008. There was no impact on net cash used in operating activities, the net decrease in cash and equivalents for the nine months ended September 30, 2008 or the balance of cash and equivalents as of September 30, 2008.

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

(Unaudited)

The following table reconciles the Company's December 31, 2008 consolidated balance sheet as previously reported to the restated amounts.

**CONSOLIDATED BALANCE SHEET**

**December 31, 2008**

	As Originally Reported	Adjustments	As Restated
<b>ASSETS</b>			
Total Current Assets	\$ 3,690,228	\$ --	\$ 3,690,228
Restricted cash	63,000	--	63,000
Property and equipment, net	140,285	--	140,285
Intangible assets, net	1,116,613	--	1,116,613
Goodwill	1,754,279	( 56,424)	1,697,854
Other assets	58,306	--	58,306
Total Assets	\$ 6,822,711	\$ ( 56,424)	\$ 6,766,287
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>			
TOTAL LIABILITIES	3,358,894		3,358,894
<b>STOCKHOLDERS' EQUITY</b>			
Preferred stock	--	--	--
Common stock	1,725	--	1,725
Additional paid-in capital	4,392,963	624,826	5,017,789
Accumulated deficit	(905,243)	(681,250)	(1,586,493)
Treasury stock	25,628	--	25,628
<b>TOTAL STOCKHOLDERS' EQUITY</b>	3,463,817	(56,424)	3,407,393
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ 6,822,711	\$ (56,424)	\$ 6,766,287

The following table reconciles the Company's consolidated statement of operations for the nine months ended September 30, 2008 as previously reported to the restated amounts.

**CONSOLIDATED STATEMENT OF OPERATIONS**

**Nine Months Ended September 30, 2008**

	As Originally Reported	Adjustment	As Restated
Income from continuing operations	\$ 76,344	\$ --	\$ 76,344
Discontinued operations:			
Loss from discontinued operations of Phoenix			
International Publishing LLC, net of tax	(119,274)	(681,250)	(800,524)
Net (loss)	\$ (84,800)	\$ (681,250)	\$ (724,180)

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

Earnings/(Loss) per share – basic and diluted

Income from continuing operations	\$ . --	\$ . --	\$ . --
Loss from discontinued operations	(0.01)	(0.04)	(0.05)
Net (loss)	\$ 0.00	\$ (0.04)	\$ (0.04)
	8		



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

(Unaudited)

In conjunction with the Acquisition Agreement dated as of March 31, 2008 between the Company and Simon Todd, Phoenix is obligated to pay its pre-disposition intercompany debt balance to the Company of \$100,000 in forty consecutive monthly payments of \$2,500 commencing on October 1, 2008. The series of forty monthly payments of \$2,500 has been discounted, using the Company's estimated incremental borrowing rate of 6.5% and the aggregate related unamortized imputed interest of \$13,498 as of March 31, 2008 has been offset against the face value of the receivable and a corresponding interest expense recorded. The current portion of this receivable from Phoenix, \$26,571, has been classified as deposits and prepaid items and the remaining balance of \$38,197 as other assets as of September 30, 2009.

### 3. DISPOSITION

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

On October 19, 2009, the Company entered into a definitive agreement (the "Sales Agreement") to sell the assets and liabilities arising from customer travel after November 2, 2009 of La Tours and Thoroughbred to West University Travel LLC, a Texas limited liability company ("West University"). The principal members of West University are Ray Schutter, President of La Tours and Thoroughbred, and Cecilia Schutter. The Company acquired West University from Ray and Cecilia Schutter in January 2007 in exchange for \$550,000 in cash, which was payable in installments, and 50,000 restricted shares of the Company's common stock. Pursuant to the Sales Agreement, Mr. and Mrs. Schutter will return 50,000 restricted shares of the Company's common stock and forgive the Company's \$100,000 note issued to the Schutters in conjunction with the Company's acquisition of La Tours. Upon consummation of the Sales Agreement, Mr. Schutter will resign as President of La Tours and Thoroughbred and the Company will retire the 50,000 shares of our common stock.

As a result of the above events, the Company reviewed the carrying value of all intangibles and goodwill attributable to La Fern, Thoroughbred and La Tours for impairment. An intangible impairment loss of \$103,923 and a goodwill impairment loss of \$1,170,191 were recorded as of September 30, 2009. The fair value of the tested intangibles and the related subsidiaries was based on the estimated Level 2 proceeds to be derived from the sale of assets and liabilities of La Tours and Thoroughbred and the estimated Level 3 residual value upon dissolution of La Fern.

The results of operations and cash flows of Phoenix, La Tours, Thoroughbred and La Fern have been removed from the results of continuing operations for the three months and nine months ended September 30, 2008 and 2009 sans Phoenix, respectively. The results of operations of Phoenix, La Tour, Thoroughbred and La Fern for the three months ended September 30, 2009 and 2008, respectively, are as follows:

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

(Unaudited)

For the three months ended September 30,

			Increase/ (Decrease)
	2009	2008	(Decrease)
Revenues	\$ 159,385	\$ 256,969	\$ (97,584)
Impairment charges- intangibles	103,923	--	103,923
Impairment charges- goodwill	1,170,191	--	1,170,191
Income (Loss) before income taxes	(1,421,136)	44,661	(1,465,797 )
Income taxes (benefit)	(547,793)	20,676	(568,469)
Loss from discontinued operations	\$ (873,343)	\$ 23,985	\$ (897, 328)

The results of operations of Phoenix, La Tour, Thoroughbred and La Fern ("discontinued businesses") for the nine months ended September 30, 2009 and 2008, respectively, are as follows:

For the nine months ended September 30,

			Increase/ (Decrease)
	2009	2008	(Decrease)
Revenues	\$ 382,480	\$ 801,762	\$ (419,282)
Impairment charges- intangibles	103,923	--	103,923
Impairment charges- goodwill	1,170,191	--	1,170,191
Income (Loss) before income taxes	(1,525,507)	3,321	(1,528,828)
Loss on disposal of Phoenix	--	(739,632)	739,632
Income taxes (benefit)	(590,149)	21,522	(611,671)
Loss from discontinued operations	\$ (932,358 )	\$ (757,833)	\$ (174,525)

The assets and liabilities of discontinued businesses have been reclassified and are segregated in the consolidated balance sheet of September 30, 2009 and December 31, 2008, respectively, as summarized as follows:

	September 30, 2009	December 31, 2008
Accounts receivable, net	\$ 40,582	\$ 37,341
Deposits and prepaid items	5,903	31,683
Total current assets available for sale	\$ 46,485	\$ 69,024
Property and equipment, net	\$ 1,027	\$ 2,388
Intangible assets, net	52,117	193,120
Goodwill	131,685	1,302,674
Total long lived assets available for sale	\$ 184,829	\$ 1,498,182
Accounts payable and accrued liabilities	\$ 80,304	\$ 64,583
Deferred revenue	27,327	13,365
Total current liabilities available for sale	\$ 107,631	\$ 77,948
Non current portion of deferred tax liability	\$ 51,432	\$ 59,348

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

(Unaudited)

4. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2009-01 (“ASU 2009-01”), which establishes the FASB Accounting Standards Codification™ as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Company adopted ASU 2009-01 during the three months ended September 30, 2009 and its adoption did not have any impact on the Company’s consolidated financial statements.

In August 2009, the FASB issued Accounting Standards Update No.2009-05 (“ASU 2009-05”), which clarified how to measure the fair value of liabilities in circumstances when a quoted price in an active market for the identical liability is not available. ASU 2009-05 is effective for the first reporting period beginning after the issuance of this standard. The Company expects to adopt ASU 2009-05 during the three months ended December31, 2009 and is evaluating the impact that this adoption will have on its consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update No. 2009-13 (“ASU 2009-13”), which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified beginning in fiscal years on or after June15, 2010. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements, if any.

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

5. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if stock options and other commitments to issue common stock were exercised or equity awards vest resulting in the issuance of common stock or conversion of notes into shares of the Company’s common stock that could increase the number of shares outstanding and lower the earnings per share of the

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

(Unaudited)

Company's common stock. This calculation is not done for periods in a loss position as this would be antidilutive. As of September 30, 2009, there were no stock options or stock awards that would have been included in the computation of diluted earnings per share that could potentially dilute basic earnings per share in the future. The information related to basic and diluted earnings per share is as follows:

	Nine Months Ended September 30,			
Quarter Ended September 30,	2009	2008	2009	2008 (Restated)
Numerator:				
Continuing operations:				
Income (Loss) from continuing operations	\$ (132,216)	\$ 17,885	\$ 625,467	\$ 33,653
Discontinued operations				
Income (Loss) from discontinued operations	(873,343)	23,985	(932,358)	(757,833)
Net income (loss)	\$ (1,005,559)	\$ 41,870	\$ (306,891)	\$ (724,180)
Denominator:				
Weighted average number of shares outstanding – basic and diluted				
	15,979,356	17,252,777	16,828,165	17,666,249
EPS:				
Basic:				
Continuing operations	\$ (0.01)	\$ 0.00	\$ 0.04	\$ 0.00
Discontinued operations	(0.05)	0.00	(0.06)	(0.05)
Net income/(loss)	\$ (0.06)	\$ 0.00	\$ (0.02)	\$ (0.04)
Diluted				
Continuing operations	\$ (0.01)	\$ 0.00	\$ 0.04	\$ 0.00
Discontinued operations	(0.05)	0.00	(0.06)	(0.05)
Net income/(loss)	\$ (0.06)	\$ 0.00	\$ (0.02)	\$ (0.04)

#### 6. TREASURY STOCK

On August 1, 2008, the Company announced that its Board of Directors had approved a program to repurchase up to \$200,000 of the Company's common stock to be funded from available working capital and subject to the applicable rules and regulations of the SEC and other applicable legal requirements. The program will not extend beyond June

30, 2009, does not require the Company to acquire a specific number of shares and may be suspended from time to time or discontinued. On March 2, 2009, the Company announced that its Board of Directors had

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

(Unaudited)

approved a program to repurchase up to an additional \$150,000 of the Company's common stock to be funded from available working capital and subject to the applicable rules and regulations of the SEC and other applicable legal requirements. The program will not extend beyond December 31, 2009, in accordance with the Board of Directors authorization in May 2009, does not require the Company to acquire a specific number of shares and may be suspended from time to time or discontinued. As of September 30, 2009 the Company had purchased 223,609 shares of its common stock in the open market at a cost of \$117,101 in conjunction with the program.

During the quarter ended September 30, 2009, the Company entered into agreements with Pacific Tour Services ("PTS"), the Cataldo Family Trust, Richard A. McKinnon and Robert Dunhill to purchase 884,310 shares, 100,000 shares, 150,000 shares and 18,900 shares, respectively, of the Company's common stock at a purchase price of \$0.50 per share from the Company's working capital. William Cataldo, a shareholder who beneficially owns more than 5% of the Company, is a beneficiary of the Cataldo Family Trust, but does not exercise voting or dispositive power over any shares held by the Cataldo Family Trust; Mr. Cataldo also has voting and dispositive power over investments held by PTS. Richard A. McKinnon is a member of the Company's Board of Directors. Robert Dunhill is a former owner of Dunhill Vacations, Inc., to whom these shares were initially issued in conjunction with the Company's acquisition of Dunhill Vacations, Inc. in January 2007. These repurchase transactions are not part of the Company's previously announced repurchase programs.

#### 7. STOCK BASED COMPENSATION

In conjunction with the Share Exchange Agreement dated as of August 25, 2005 effective as of March 15, 2006 between the Company, formerly known as Alec Bradley Cigar Corporation, Online Vacation Center Holdings, Inc. and its shareholders, 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. All stock option grants currently outstanding vested either on the date of grant or will vest two years from the date of grant, provided that the individual is continuously employed with the Company. All outstanding restricted stock grants vest 20% upon grant and ratably over the successive four years, subject to continued employment with the Company.

No stock options were granted during the three months ended September 30, 2009.

A summary of the activity in our Plan for the nine months ended September 30, 2009 is presented below:

	Weighted Average	
	Shares	Exercise Price
Options outstanding at December 31, 2008	2,447,400	\$ 1.39
Granted	-	0.00
Canceled	45,000	1.46
Exercised	-	0.00
Options outstanding at September 30, 2009	2,402,400	\$ 1.39



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

(Unaudited)

Compensation cost recognized for the quarters ended September 30, 2009 and 2008 and the nine month periods then ended was \$15,568 and \$28,805, \$49,326 and \$110,462, respectively.

As of September 30, 2009, there was approximately \$8,218 of total stock-based compensation expense not yet recognized relating to non-vested awards granted under our 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 seven months. The number of non-exercisable shares was 432,400 shares of common stock at September 30, 2009. At September 30, 2009, 1,970,000 shares of common stock at weighted average strike price of \$1.39 per share were exercisable.

For the quarter ended September 30, 2009, no restricted shares were granted to employees and directors under the Plan. Compensation cost recognized for the nine months ended September 30, 2009 and 2008 was \$15,570 and \$16,250, respectively.

#### 8. INCOME TAXES

The provision (benefit) for income taxes from continued operations for the quarter and nine months ended September 30, 2009 and 2008 consist of the following:

	The Quarter Ended		The Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Current:				
Federal	\$ (2,470)	\$ --	\$ (2,470)	\$ --
State	(1,192)	(283)	(792)	1,278
	(3,662)	(283)	(3,262)	1,278
Deferred				
Federal	3,696	12,621	472,406	69,003
State	581	1,289	74,235	11,474
	4,073	13,910	520,659	80,477
Provision for income taxes, net	\$ 411	\$ 13,627	\$ 517,397	\$ 81,755

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

	The Quarter Ended September 30,		The Nine Months Ended	
	2009	2008	2009	2008
Statutory federal income tax rate	(35.0)%	35.0%	35.0%	35.0%
State income taxes	(3.6)	3.6	3.6	3.6
Tax effect of non deductible items	4.3	17.1	2.2	34.3



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

True ups	37.4	(11.6)	4.8	(3.2)
Other	(2.8)	(0.9)	(0.3)	1.1
Effective tax rate	0.3%	43.2%	45.3%	70.8%

14

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

(Unaudited)

The effective tax rate exceeded the statutory rate for both the quarter and the nine month ended September 30, 2009 is primarily a result of computer equipment purchases and list costs in 2008 and 2009 which were expensed for tax purposes but depreciated for book purposes.

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

	September 30, 2009	December 31, 2008
Net operating loss carry forwards and AMT tax credit	\$ 126,670	\$ 36,905
Depreciation and amortization	(296,188)	(152,175)
Accruals and other	126,523	126,829
Deferred income tax asset (liability)	\$ (42,995)	\$ 11,559

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

	September 30, 2009	December 31, 2008
Current	\$ 27,133	\$ 27,672
Non-current	(70,128)	(16,113)
Net deferred income tax asset (liability)	\$ (42,995)	\$ 11,559

9. COMMITMENTS AND CONTINGENCIES

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

10. SUBSEQUENT EVENT

On October 27, 2009, the Company entered into an agreement with the E B Rudner Trust to purchase 100,000 shares of the Company's common stock at a purchase price of \$0.50 per share. The purchase price was paid from the Company's working capital. Edward B. Rudner, the Company's Chairman, Chief Executive Officer and Chief Financial Officer, is trustee of the E B Rudner Trust. This repurchase transaction is not part of the Company's previously announced repurchase program.

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

### Forward Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance, industry prospects or future results of operations or financial position, made in this Quarterly Report on Form 10-Q are forward-looking. We use words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons, including, those risks described in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the Securities and Exchange Commission ("SEC") on March 27, 2008, March 31, 2008 and August 14, 2009, and the risks discussed in other SEC filings. These risks and uncertainties, as well as other risks and uncertainties, could cause our actual results to differ significantly from management's expectations. The forward-looking statements included in this report reflect the beliefs of our management on the date of this report. We undertake no obligation to update publicly any forward-looking statements for any reason.

### Overview

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

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

- Online Vacation Center, Inc., 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. This business is now integrated with our other travel companies, Curves Travel, the licensed travel management company of Curves International, Inc., and Cruises for Less, our home-based selling group
- Dunhill Vacations, Inc., the publisher of three travel newsletters, "Top Travel Values", "Spotlight", and "TRAVELFLASH"

We generate revenues from:

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

We currently market our services by:

- producing travel-related publications for consumers
- telemarketing to our existing customer base
- direct mailing to our existing customer base as well as targeted prospects
- sending emails 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, general and administrative expenses, rent and computer maintenance fees.

#### Effects of Restatement

In this Quarterly Report, we restated our condensed consolidated statements of operations and condensed consolidated statement of cash flows for the nine months period ended September 30, 2008 for the effects of a restatement of our financial statements for the years ended December 31, 2008 and 2007. The restatement corrected errors relating to: (i) accounting for the disposition of Phoenix International Publishing, LLC ("Phoenix") in March 2008 and (ii) the accounting treatment for the conversion feature associated with convertible debt issued in conjunction with the acquisitions of Thoroughbred Travel, LLC and La Fern, Inc in 2006.

As a result of these adjustments, both the Company's loss from discontinued operations and its net loss for the nine months ended September 30, 2008 were understated by \$681,250. In addition, the Company's accumulated deficit as of December 31, 2008 was understated by \$681,250, additional paid in capital as of December 31, 2008 was understated by \$624,826 and goodwill as of December 31, 2008 was overstated by \$56,424. Finally, the Company's loss per share from discontinued operations; both basic and diluted were overstated by \$0.04 and net income per share; both basic and diluted were overstated by \$0.04 for the nine months ended September 30, 2008. There was no impact on net cash used in operating activities, the net decrease in cash and equivalents for the nine months ended September 30, 2008 or the balance of cash and cash equivalents as of September 30, 2008. See Part I, Item I – Financial Statements, Note 2 – Restatements and Revisions.

#### Results of Operations

Three Months Ended September 30, 2009 Compared to the Three Months Ended September 30, 2008

Continuing operations:

Revenues decreased by \$147,124, 8.6%, to \$1,571,884 for the three months ended September 30, 2009 ("the third quarter of 2009") compared with \$1,719,008 for the three months ended September 30, 2008 ("the third quarter of 2008"). The decrease is attributable to a decrease in commission revenues offset by an increase in publishing revenues.

Selling and marketing expenses increased by \$148,015, 36.5%, to \$553,375 for the third quarter of 2009 compared with \$405,360 for the third quarter of 2008. The increase is primarily attributable to an increase in marketing costs. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.



General and administrative expenses decreased by \$152,417, 12.9%, to \$1,031,482 for the third quarter of 2009 compared with \$1,183,899 for the third quarter of 2008. The decrease is primarily attributable to cost cutting efforts in all general and administrative expenses. General and administrative expenses primarily include management and non sales staff compensation, professional services, and occupancy costs.

Depreciation and amortization expense for the third quarter of 2009 was \$121,691 compared with \$95,361 for the third quarter of 2008. Amortization expense increased by \$26,330 during the third quarter of 2009, primarily as a result of an increase in the amortization expense of the Dunhill subscriber list.

Net interest income increased to \$2,859 for the third quarter of 2009 compared with net interest expense of \$2,876 for the third quarter of 2008. The reduction in net interest expense for third quarter of 2009 was primarily attributable to a reduction in our debt levels as a result of our payments made on the debt issued by us in conjunction with our acquisition of La Fern, Inc. and La Tours and Cruises, Inc. and an increase in our cash balances during 2009.

Our loss before income taxes was \$131,805 in the third quarter of 2009 compared with income before income taxes of \$31,512 in the third quarter of 2008. These results are primarily attributable to the decrease in revenues, an increase in selling and marketing costs and depreciation and amortization expenses offset by a decrease in general and administrative expenses during the third quarter of 2009.

The provision for income taxes decreased to \$411 for the third quarter of 2009 compared with a provision for income taxes of \$13,627 for the third quarter of 2008. The decrease is directly related to a decrease in income before income taxes of \$163,317 during the third quarter of 2009. The tax rate in the third quarter of 2009, .3%, was due to an adjustment of prior year federal taxes and the tax effects of items deductible on the current year's tax return but are amortized on our books. The tax rate in the third quarter of 2008 was 43.2% due to the tax effect of non deductible items.

As a result of the foregoing, our loss from continuing operations was \$132,216 for the third quarter of 2009 compared with income from continuing operations of \$17,885 for the third quarter of 2008.

Nine Months Ended September 30, 2009 compared to Nine Months Ended September 30, 2009

#### Continuing Operations

Revenues increased by \$292,983, 4.7%, to \$6,522,341 for the nine months ended September 30, 2009 compared with \$6,229,358 for the nine months ended September 30, 2008. The increase is attributable to an increase in publishing and marketing revenues offset by a decrease in commission revenues.

Selling and marketing expenses decreased by \$189,033, 9.8% to \$1,746,582 for the nine months ended September 30, 2009 compared with \$1,935,615 for the nine months ended September 30, 2008. The decrease is attributable to a decrease in marketing costs. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

General and administrative expenses decreased by \$601,677 or 15.4% to \$3,294,875 for the nine months ended September 30, 2009 compared with \$3,896,552 for the nine months ended September 30, 2008. The decrease is primarily attributable to cost cutting efforts in all general and administrative expenses. General and administrative expenses primarily include management and non sales staff compensation, professional services, and occupancy costs.

Depreciation and amortization expense for the nine months ended September 30, 2009 was \$343,941 compared with \$256,401 for the nine months ended September 30, 2008. Amortization expense increased by \$88,481 during the nine months ended September 30, 2009 as a result of the increase in the amortization expense of the Dunhill subscriber list.

Net interest income increased to \$5,921 for the nine months ended September 30, 2009 compared with net interest expense of \$25,382 for the nine months ended September 30, 2008. The decrease in interest expense for the nine months ended September 30, 2009 is primarily attributable to the first quarter of 2008 expense imputed on the receivable from Phoenix payable over 40 months and higher debt balances as a result of our acquisition of La Fern, Inc. and La Tours and Cruises, Inc.

Our income before provision for income taxes was \$1,142,864 for the nine months ended September 30, 2009 compared with our income before provision for income taxes of \$115,408 for the nine months ended September 30, 2008. The income is due to an increase in revenues and a decrease in selling and marketing expenses, general and administrative expenses and net interest expense offset by an increase in depreciation and amortization expense.

The provision for income taxes increased from \$81,755 for the nine months ended September 30, 2008 to \$517,397 for the nine months ended September 30, 2009. The increase is directly related to the increase in results from operations where income before income taxes was \$1,142,864 for the nine months ended September 30, 2009 compared with income before income taxes of \$115,408 for the nine months ended September 30, 2008. The tax rate for the nine months ended September 30, 2009, 45.3%, was higher than the statutory rate because of an adjustment of prior year federal taxes and the tax effects of items deductible on the current year's tax return but are amortized on our books. The tax rate for the nine months ended September 30, 2008, 70.8%, was higher than the statutory rate because of the tax effect of non deductible items and a true up of prior year state taxes.

As a result of the foregoing, our income from continuing operations for the nine months ended September 30, 2009 was \$625,467 compared with income from continuing operations of \$33, 653 for the nine months ended September 30, 2008.

#### Discontinued Operations

We acquired Phoenix, a United Kingdom publisher of consumer magazines and guides about travel to the U.S. and Canada, on August 31, 2006 for 1,450,000 shares of our common stock. In November 2007, the Company's Board of Directors granted the Company the authority to sell Phoenix. On March 31, 2008, we sold Phoenix to Mr. Todd, the former owner of Phoenix, in exchange for 1,250,000 shares of our common stock which were owned by Mr. Todd. The Company valued the 1,250,000 shares of the Company's common stock based on the market (fair) value, \$0.58, at the time of the transaction, in accordance with Statement of Financial Accounting Standards No. 157- Fair Value Measurements and recorded a loss upon disposition of Phoenix of \$739,632. For tax purposes, the transaction was treated as split-off with no resulting tax consequences. We retired the 1,250,000 shares of our common stock received from Mr. Todd in the sale transaction as of March 31, 2008.

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

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

On October 19, 2009, we entered into a definitive agreement (the “Sales Agreement”) to sell the assets and liabilities arising from customer travel after November 2, 2009 of La Tours and Thoroughbred to West University Travel LLC, a Texas limited liability company (“West University”). The principal members of West University are Ray Schutter, President of La Tours and Thoroughbred, and Cecilia Schutter. We acquired West University from Ray and Cecilia Schutter in January 2007 in exchange for \$550,000 in cash, which was paid in installments, and 50,000 restricted shares of our common stock. Pursuant to the Sales Agreement, Mr. and Mrs. Schutter will return 50,000 restricted shares of our common stock and forgive our \$100,000 note issued to the Schutters in conjunction with our acquisition of La Tours. Upon consummation of the Sales Agreement, Mr. Schutter will resign as President of La Tours and Thoroughbred and we will retire the 50,000 shares of our common stock.

As a result of the above events, we reviewed the carrying value of all intangibles and goodwill attributable to La Fern, Thoroughbred and La Tours for impairment. An intangible impairment loss of \$103,923 and a goodwill impairment loss of \$1,170,191 were recorded as of September 30, 2009. The fair value of the tested intangibles and the related subsidiaries was based on the estimated proceeds to be derived from the sale of assets and liabilities of La Tours and Thoroughbred and the estimated residual value upon dissolution of La Fern.

The results of operations and cash flows of Phoenix, La Tours, Thoroughbred and La Fern have been removed from the results of continuing operations for the three months and nine months ended September 30, 2008 and 2009 sans Phoenix, respectively. The results of operations of Phoenix, La Tour, Thoroughbred and La Fern for the three months ended September 30, 2009 and 2008, respectively, are as follows:

For the three months ended September 30,

	2009	2008	Increase/ (Decrease)
Revenues	\$ 159,385	\$ 256,969	\$ (97,584)
Impairment charges- intangibles	103,923	--	103,923
Impairment charges- goodwill	1,170,191	--	1,170,191
Income (Loss) before income taxes	(1,421,137)	44,661	(1,421,137)
Income taxes (benefit)	(590,149)	20,676	(610,825)
Income (Loss) from discontinued operations	\$ (873,343)	\$ 23,985	\$ (897,328 )



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

The results of operations of Phoenix, La Tour, Thoroughbred and La Fern for the nine months ended September 30, 2009 and 2008, respectively, are as follows:

For the nine months ended September 30,

	2009	2008	Increase/ (Decrease)
Revenues	\$ 382,480	\$ 801,762	\$ (419,282)
Impairment charges- intangibles	103,923	--	103,923
Impairment charges- goodwill	1,170,191	--	1,170,191
Income (Loss) before income taxes	(1,525,507)	3,322	(1,528,829)
Loss on disposal of Phoenix	--	(739,632)	739,632
Income taxes (benefit)	(590,149)	21,522	(611,671)
Loss from discontinued operations	\$ (932,358 )	\$ (757,833)	\$ (174,525)

As a result of the foregoing, our net loss was \$1,005,559 for the third quarter of 2009 compared with net income of \$41,870 in the third quarter of 2008. Our net loss for the nine months ended September 30, 2009 was \$306,891 compared with a net loss of \$724,180 for the nine months ended September 30, 2008.

#### Liquidity and Capital Resources

Cash at September 30, 2009 was \$2,294,207 compared with \$1,693,447 at December 31, 2008. The primary source of our liquidity and capital resources has come from our operations.

Cash flows provided by continuing operating activities for the nine months ended September 30, 2009 and 2008 were \$1,781,747 and \$892,003, respectively. The increase of \$889,744 in 2009 was primarily attributable to an increase of income from continuing operations of \$591,814, an increase in cash provided by working capital items of \$324,768 and a decrease in non-cash operating items of \$26,838.

Cash flows used in continuing investing activities for the nine months ended September 30, 2009 increased to \$451,414 from \$254,811 for the nine months ended September 30, 2008. The primary increase in cash out flows related to an a increase in intangible assets and capital expenditures of \$58,927, a decrease in restricted cash of \$265,108 offset by a decrease of the pre-disposition intercompany balance receivable from Phoenix totaling \$122,500

Cash flows used in financing activities increased to \$1,154,873 for the nine months ended September 30, 2009 compared with \$103,155 for the nine months ended September 30, 2008. The primary increase in cash outflows was due our purchase of our common stock under a repurchase program authorized by our Board of Directors in August 2008, which was amended in March 2009 and private stock repurchase transactions with existing shareholders aggregating \$1,033,168 and the payment under a capital lease obligation for new telephone equipment

Cash flows provided by discontinued operations, solely from operating activities increased to \$425,300 for the nine months ended September 30, 2009 compared with \$91,005 for the nine months ended September 30, 2008.

At September 30, 2009, we had a working capital of \$399,850, as compared to working capital of \$538,404 at December 31, 2008, a decrease of working capital of \$138,554. We had an accumulated deficit of \$1,893,384 at September 30, 2009, a decrease of \$306,891 from December 31, 2008.

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

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

#### Seasonality and Inflation

The domestic and international leisure travel industry is seasonal. Our results have been subject to quarterly fluctuations caused primarily by the seasonal variations in the travel industry. 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.

#### Critical Accounting Policies

We prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. As such, management is required to make certain estimates, judgments and assumptions that it believes are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. A more extensive list of significant accounting policies and a description of accounting policies that are considered critical may be found in our 2008 Annual Report, in the Notes to the Consolidated Financial Statements, Note 2, and the Critical Accounting Policies section. The significant accounting policies which management believes are the most critical to aid in fully understanding and evaluating our reported financial results include revenue recognition, intangible asset testing and income taxes.

#### 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 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.

Accountings Standards Codification 605-45-paragraphs 15-21 ("ASC 605-45-15 to 21") discusses the weighing of the relevant qualitative factors regarding our status as a primary obligor and the extent of our pricing latitude. Based upon our evaluation of vacation travel sales transactions and in accordance with the various indicators identified in ASC 605-45-15 to 21, 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 value of our reporting unit by discounting its projected future cash flow. Developing 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 unit, and the related goodwill would need to be written down to an amount considered recoverable. Any such write down would be included in the operating expenses except as previously discussed. While we make reasoned estimates of future performance, actual results below these expectations, or changes in business direction can result in additional impairment charges in future periods.

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

As of September 30, 2009 under the supervision of and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report (the “Evaluation Date”). Based upon the evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the Evaluation Date. Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls include controls and procedures designed to reasonably ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

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

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

The following table provides information with respect to Company purchases made of its common stock during the third quarter of the 2009 fiscal year:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid  per Share	(c) Total Number of Shares (or Units) Purchased as Part of a Publicly Announced Plan or Program (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Programs
July 1, 2009 –				
July 31, 2009 (2) August 1, 2009 –	250,000	\$ 0.500	--	\$ 232,899
August 31, 2009 (3) (4) September 1, 2009 –	118,900	\$ 0.500	--	\$ 232,899
September 30, 2009 (5) Total	784,310 1,153,210	\$ 0.500 \$ 0.500	-- --	\$ 232,899 \$ 232,899

- (1) On August 1, 2008, we announced that our Board of Directors had approved a program to repurchase of up to \$200,000 of the our common stock to be funded from available working capital and subject to the applicable rules and regulations of the SEC and other applicable legal requirements. The plan does not require us to acquire a specific number of shares and may be suspended from time to time or discontinued. As initially adopted, the program did not extend beyond June 30, 2009.

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

- (2) On July 13, 2009, we entered into an agreement with Richard A. McKinnon and Pacific Tour Services (“PTS”) to purchase 150,000 shares and 100,000 shares, respectfully, of the Company’s common stock from such persons at a purchase price of \$0.50 per share. The purchase price was paid from s working capital. Richard A. McKinnon is a member of the Company’s Board of Directors. William Cataldo, a shareholder who beneficially owns more than 5% of our common stock, has voting and dispositive power over investments held by PTS. These repurchase transactions are not part of our previously announced repurchase program.

- (3) On August 5, 2009, we entered into an agreement with the Cataldo Family Trust to purchase 100,000 shares of our common stock at a purchase price of \$0.50 per share. The purchase price was paid from our working capital. William Cataldo, a shareholder who beneficially owns more than 5% of our common stock, is a beneficiary of the Cataldo Family Trust, but does not exercise voting or dispositive power over any shares held by the Cataldo Family Trust. This repurchase transaction is not part of our previously announced repurchase program.
- (4) On August 31, 2009, we entered into an agreement with Mr. Robert Dunhill to purchase 18,900 shares of our common stock at a purchase price of \$0.50 per share. The shares were issued to Mr. Dunhill in conjunction with our acquisition of Dunhill Vacations, Inc. in January 2007. This repurchase transaction is not part of our previously announced repurchase program.
- (5) On September 25, 2009, we entered into an agreement with PTS to purchase 784,310 shares of our common stock at a purchase price of \$0.50 per share. The purchase price was paid from our working capital. William Cataldo, a shareholder who beneficially owns more than 5% of our common stock, has voting and dispositive power over investments held by PTS. This repurchase transaction is not part of our previously announced repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Exhibit Description</u>
--------------------	----------------------------

31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO. +
------	--

31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO. +
------	--

32.1	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. +
------	---

\_\_\_\_\_

+ Filed herewith

SIGNATURES

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

ONLINE VACATION CENTER HOLDINGS CORP.

/s/ Edward B. Rudner

Chief Executive Officer, President, Chief Financial

Officer and Director

Date: November 13, 2009