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Joystar Inc
Form 10QSB
May 12, 2006

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

FORM 10-QSB

- (X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2006
- () Transition report pursuant of Section 13 or 15(d) of the Securities Exchange Act of 1939 for the transition period _____ to _____

COMMISSION FILE NUMBER 000-25973

JOYSTAR, INC.

(Exact name of registrant as specified in its charter)

California

68-0406331

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

95 Argonaut St. Aliso Viejo, CA 92656, Telephone (949) 837-8101

(Address of Principal Executive Offices, including Registrant's zip code and telephone number)

Former address

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

The number of shares of the registrant's common stock as of March 31, 2006: 40,301,485 shares.

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

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JOYSTAR, INC. BALANCE SHEETS

| | March 31, 2006 (UNAUDITED) | December 31, 2005 |
|-----------------------------|-------------------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 1,029,120 | \$ 218,948 |
| Other receivables | 1,131,695 | 398,827 |
| Prepaid expenses | 76,072 | 48,572 |
| | ----- | ----- |
| Total current assets | 2,236,887 | 666,347 |
| Property and equipment, net | 182,957 | 138,723 |
| Intangible asset | 53,285 | 54,205 |
| | ----- | ----- |
| Total assets | \$ 2,473,129 | \$ 859,275 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

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| | | |
|--|--------------|-------------|
| Current liabilities: | | |
| Accounts payable | \$ 172,591 | \$ 198,814 |
| Accounts payable-merchants | 174,908 | 321,643 |
| Accrued salaries | 71,896 | 46,786 |
| Accrued expenses | 128,865 | 128,865 |
| Accrued payroll taxes | 591,454 | 412,258 |
| Accrued rent | 34,500 | 35,000 |
| Loans from shareholder | 472 | 472 |
| | ----- | ----- |
| Total current liabilities | 1,174,686 | 1,143,838 |
| Commitments and contingency | -- | -- |
| Stockholders' equity: | | |
| Preferred stock, no par value, 10,000,000 shares authorized; none issued | -- | -- |
| Common stock, no par value, 50,000,000 shares authorized; 41,301,485 and 34,103,309 shares issued and outstanding at March 31, 2006 and December 31, 2005 respectively | 10,093,029 | 7,952,026 |
| Stock issued for deferred compensation | (292,500) | (356,000) |
| Stock subscribed not issued, 1,727,333 shares at March 31, 2006 and 2,584,476 shares at December 31, 2005, respectively | 534,800 | 834,800 |
| Accumulated (deficit) | (9,036,886) | (8,715,389) |
| | ----- | ----- |
| Total stockholders' equity (deficit) | 1,298,443 | (284,563) |
| | ----- | ----- |
| Total liabilities and stockholders' Equity | \$ 2,473,129 | \$ 859,275 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements

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JOYSTAR, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

| | For the three months ended March 31, 2006 | For the three months ended March 31, 2005 |
|----------------------------|---|---|
| | ----- | ----- |
| Revenue | \$ 2,182,672 | \$ 120,575 |
| | ----- | ----- |
| Operating expenses: | | |
| Selling and marketing | 1,480,238 | 282,048 |
| General and administrative | 966,840 | 504,193 |
| Technology and content | 57,091 | -- |

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| | | |
|--|--------------|--------------|
| Total operating expenses | 2,504,169 | 786,241 |
| Operating loss | (321,497) | (665,666) |
| Interest expense | -- | -- |
| Loss before income taxes | (321,497) | (665,666) |
| Income tax provision | -- | -- |
| Net loss | \$ (321,497) | \$ (665,666) |
| Loss per share | \$ (0.01) | \$ (0.03) |
| Weighted average number of common shares outstanding | 37,781,741 | 23,438,466 |

The accompanying notes are an integral part of these financial statements

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

| | COMMON STOCK | | Stock issued for Deferred Compensation | Stock Subscribed not Issued |
|------------------------------------|---------------------|--------------|---|--------------------------------------|
| | Number of Shares | Amount | | |
| Balance at December 31, 2005 | 34,103,309 | \$ 7,952,026 | \$ (356,000) | \$ 834,800 |
| Stock issued for services | 246,455 | 91,901 | -- | -- |
| Stock issued for cash | 5,951,721 | 2,049,102 | -- | (300,000) |
| Deferred compensation earned | -- | -- | 63,500 | -- |
| Net loss | -- | -- | -- | -- |
| Balance March 31, 2006 (Unaudited) | 40,301,485 | \$10,093,029 | \$ (292,500) | \$ 534,800 |

The accompanying notes are an integral part of these financial statements

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JOYSTAR, INC.
STATEMENTS OF CASH FLOWS

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(UNAUDITED)

| | For the three months ended March 31, 2006 | For the three months ended March 31, 2005 |
|--|---|---|
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net loss | \$ (321,497) | \$ (665,666) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 11,049 | 2,889 |
| Stock issued for services | 155,401 | 274,750 |
| Non-cash expense | 102 | -- |
| Changes in assets and liabilities: | | |
| Increase in prepaid expenses | (27,500) | (23,936) |
| Increase in other receivables | (732,867) | (2,354) |
| (Decrease) increase in accounts payable | (173,459) | 13,472 |
| Increase in accrued salaries and payroll Taxes | 204,306 | 100,643 |
| | ----- | ----- |
| Net cash used by operations | (884,465) | (300,202) |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (54,363) | (14,000) |
| | ----- | ----- |
| Net cash used by investing activities | (54,363) | (14,000) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Loans from shareholders | -- | 105,997 |
| Issuance of common stock | 1,749,102 | -- |
| | ----- | ----- |
| Net cash provided by financing activities | 1,749,102 | 105,997 |
| | ----- | ----- |
| Increase in cash | 810,273 | (208,205) |
| Cash at the beginning of the year | 218,948 | 283,869 |
| | ----- | ----- |
| Cash at the end of the period | \$ 1,029,120 | \$ 75,664 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Issuance of stock for services | \$ 155,401 | \$ 274,750 |
| | ===== | ===== |
| Income taxes paid | \$ -- | \$ -- |
| | ===== | ===== |
| Interest paid | \$ -- | \$ -- |
| | ===== | ===== |
| Subscribed shares issued | \$ 300,000 | \$ 200,000 |
| | ===== | ===== |

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The accompanying notes are an integral part of these financial statements

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JOYSTAR, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(UNAUDITED)

1. BASIS OF PRESENTATION

Joystar, Inc., a California corporation (the "Company") was incorporated on February 5, 1998. The Company specializes in selling complex travel products including cruises, vacation packages and group travel through its national sales force of independent travel agents.

All adjustments (consisting only of normal recurring adjustments) have been made which, in the opinion of management, are necessary for a fair presentation. The Company has re-classified certain accounts of March 31, 2005 to be consistent with March 31, 2006 classifications.

Results of operations for the three months ended March 31, 2006 and 2005 are not necessarily indicative of the results that may be expected for any future period. The balance sheet at December 31, 2005 was derived from audited financial statements.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been omitted. These financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

The Company passes reservations booked by customers to the relevant travel supplier and receives a commission or ticketing fee from the travel supplier for its services. The supplier sets the price to be paid by the consumer and the travel supplier appears as merchant of record for the transactions. The revenues are typically recognized at the time the reservation is booked.

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PROPERTY AND EQUIPMENT

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful life of the assets, which is seven years for furniture and equipment and three years for computer equipment.

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INTANGIBLE ASSET

Management reviews, on an annual basis, the carrying value of its intangible asset in order to determine whether impairment has occurred. Impairment is based on several factors including the Company's projection of future discounted operating cash flows. If an impairment of the carrying value were to be indicated by this review, the Company would perform the second step of the impairment test in order to determine the amount of impairment, if any. There was no impairment charge during the three months ended March 31, 2006.

USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INCOME TAXES

Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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NET LOSS PER SHARE

In February 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128 "Earnings Per Share" which requires the Company to present basic and diluted earnings per share, for all periods presented. The computation of loss per common share (basic and diluted) is based on the weighted average number of shares actually outstanding during the period. The Company has no common stock equivalents, which would dilute earnings per share.

RECLASSIFICATIONS

The Company has reclassified certain amounts relating to prior period March 31, 2005 results to conform to our March 31, 2006 results. The reclassifications did not affect our financial position, cash flows, revenue, operating loss or net loss of the prior period.

3. GOING CONCERN

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The accompanying financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America, contemplates the continuation of the Company as a going concern. Continuation of the Company as a going concern is contingent upon establishing and achieving profitable operations. Such operations will require management to secure additional financing for the Company in the form of debt or equity.

4. COMMON STOCK

During the three months ended the Company issued 246,455 shares of common stock for services for \$91,901 and 5,951,455 shares of common stock for cash for \$2,049,102 of which \$300,000 shares had been subscribed.

At March 31, 2006 the Company has 9,714,288 warrants outstanding to purchase shares of common stock at \$0.50 per share and 2,763,873 warrants outstanding to purchase shares of common stock at \$0.35 per share.

During the three months ended March 31, 2006, two officers earned \$63,500 in deferred stock Compensation.

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

PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

ALL FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE DEEMED BY THE COMPANY TO BE COVERED BY AND TO QUALIFY FOR THE SAFE HARBOR PROTECTION PROVIDED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. PROSPECTIVE SHAREHOLDERS SHOULD UNDERSTAND THAT SEVERAL FACTORS GOVERN WHETHER ANY FORWARD - LOOKING STATEMENT CONTAINED HEREIN WILL BE OR CAN BE ACHIEVED. ANY ONE OF THOSE FACTORS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED HEREIN. THESE FORWARD - LOOKING STATEMENTS INCLUDE PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS, INCLUDING PLANS AND OBJECTIVES RELATING TO THE PRODUCTS AND THE FUTURE ECONOMIC PERFORMANCE OF THE COMPANY. ASSUMPTIONS RELATING TO THE FOREGOING INVOLVE JUDGMENTS WITH RESPECT TO, AMONG OTHER THINGS, FUTURE ECONOMIC, COMPETITIVE AND MARKET CONDITIONS, FUTURE BUSINESS DECISIONS, AND THE TIME AND MONEY REQUIRED TO SUCCESSFULLY COMPLETE DEVELOPMENT PROJECTS, ALL OF WHICH ARE DIFFICULT OR IMPOSSIBLE TO PREDICT ACCURATELY AND MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMPANY. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THOSE ASSUMPTIONS COULD PROVE INACCURATE AND, THEREFORE, THERE CAN BE NO ASSURANCE THAT THE RESULTS CONTEMPLATED IN ANY OF THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN WILL BE REALIZED. BASED ON ACTUAL EXPERIENCE AND BUSINESS DEVELOPMENT, THE COMPANY MAY ALTER ITS MARKETING, CAPITAL EXPENDITURE PLANS OR OTHER BUDGETS, WHICH MAY IN TURN AFFECT THE COMPANY'S RESULTS OF OPERATIONS. IN LIGHT OF THE SIGNIFICANT UNCERTAINTIES INHERENT IN THE FORWARD - LOOKING STATEMENTS INCLUDED THEREIN, THE INCLUSION OF ANY SUCH STATEMENT SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES OR PLANS OF THE COMPANY WILL BE ACHIEVED.

General

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Joystar specializes in selling complex travel products including cruises, vacation packages and group travel through its national sales force of independent travel agents. The effect of having such a large and growing network of independent and home-based travel retailers all booking under the Joystar agency umbrella is significantly increasing our sales and revenue, and building strong brand recognition.

Tens of thousands of travel agents who are closing their storefront agencies and moving to a home-based operation are creating a value migration in the rapidly emerging host travel agency model.

We have been very successful in attracting professional travel agents and at the same time, eroding our competitors' market share. Since going to market with our hosting programs in August 2004, Joystar has signed up over 3,000 travel agents making us one of the fastest growing and largest leisure travel network in the industry.

Throughout 2005, Joystar's commission levels with our preferred suppliers increased substantially. This trend has continued in the first quarter of 2006. The Company is constantly negotiating with its preferred suppliers for higher commissions and overrides. As commissions and overrides increase with higher bookings with our preferred suppliers, we believe this will have a positive impact on the profitability of the Company.

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According to a report issued by Credit Suisse/First Boston, there are currently 20,000 professional travel agents working from their homes. This number is expected to grow to approximately 50,000 agents by 2010. In the management's opinion, Joystar is on track to have an approximate twenty percent market share by the end of 2006 and aims to increase that to thirty percent market share by the end of 2007.

In 2005, we engaged an NASD member firm to provide investment banking services. The Company raised approximately 3.5 million dollars in the last two quarters of 2005 and the first quarter of 2006. We intend to raise an additional 5 million dollars in 2006 and apply for a listing on either the American Stock Exchange or NASDAQ in the fourth quarter. There are no assurances that this will occur.

Our business is dependent on the health and growth of the travel industry. Travel is highly sensitive to traveler safety concerns, and thus declines after acts of terrorism that affect the safety of travelers. The terrorist attacks of September 11, 2001, resulted in a decrease in new travel bookings worldwide and may reduce our revenues in future quarters. The long-term effects of these events could include, among other things, a protracted decrease in demand for air travel due to fears regarding additional acts of terrorism, military responses to acts of terrorism and increased costs and reduced operations by airlines due, in part, to new security directives adopted by the Federal Aviation Administration. These effects, depending on their scope and directives, which we cannot predict at this time, together with any future terrorist attacks, could significantly impact our long-term results of operations or financial condition.

RESULTS OF OPERATIONS

Gross travel bookings for the first quarter 2006 increased 1306% to \$18,036,630 from \$1,282,440 for the first quarter of 2005.

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Revenues during the quarter increased 1710% to \$2,183,000 compared to \$121,000 for the first quarter 2005. The increase of \$2,062,000 is due to the substantial increase in professional agent membership and increase in commission levels from our preferred suppliers.

Selling and Marketing

Selling and marketing expenses relate to primarily to agent commissions and direct advertising and distribution expense, including traffic generation from Internet, search engines, private label and affiliate programs. The remainder of the expense relates to personnel costs, including staffing in our Agent Support Services and Preferred Supplier relations to enhance supplier commission levels.

Marketing and sales expenses for the quarter ended March 31, 2006 were \$1,480,000 compared to \$282,000 for the quarter ended March 31, 2005. The increase was due entirely to commissions on the increased revenues.

General and Administrative

General and Administrative expenses for the quarter ended March 31, 2006 were \$967,000 compared to \$504,000 for the quarter ended March 31, 2005. The increase of \$463,000 was due to increased headcount and payrolls (\$351,000) in our new Miami office, increased accounting and legal (63,000), increase rent (\$39,000) due to new office in Miami, and an increase in travel expenses (\$26,000).

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Technology and Content

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

Technology and content expenses for the three months ended March 31, 2006 were \$57,000 as we increased our software development and engineering teams, and increased our level of site innovation. Given the increasing complexity of our business, geographic expansion, increased supplier integration, service-oriented architecture improvements and other initiatives, we expect absolute amounts spent in technology and content to increase over time.

LIQUIDITY AND SOURCES OF CAPITAL

During the three months ended March 31, 2006 the Company issued 5,951,721 shares of common stock for cash \$2,049,102 of which \$300,000 had been received in the prior year as subscribed stock. The Company intends to raise an additional 5 million dollars in 2006. The Company expects to finance the capital needed with additional issuances of its securities. In order to fund the Company's growth, the Company has engaged an NASD member firm to provide investment banking services. There is no assurance that the Company will be able to secure such financing.

At March 31, 2006 the Company had a cash balance of \$1,029,120 as compared to a cash balance of \$218,948 at December 31, 2005.

Item 3. Controls and Procedures

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Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of March 31, 2006, that the design and operation of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated, recorded, processed, summarized and reported to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding whether or not disclosure is required.

During the quarter ended March 31, 2006, there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal proceedings

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

As of January 27, 2006, the Company sold a total of \$1,650,000 purchase price of the units consisting of shares of common stock and warrants offered in its private placement. The units consisted of the shares of the Company's common stock, no par value per share, at a purchase price of \$0.35 per share and warrants to purchase two shares of common stock at \$0.50 exercise price. The warrants expire in two years from the date of issuance. The Company issued a total of 4,714,286 shares of its common stock in its private placement. The subscribers do not have any registration rights to register the shares and the warrants purchased in the private placement. The Company received total net proceeds of approximately \$1,650,000, since no commissions were paid in cash. The net proceeds were applied by the Company for working capital purposes. The units were sold to accredited investors only, including an officer of the Company.

The shares and warrants were being offered and sold by the Company to investors whom the Company had reasonable grounds to believe are "accredited investors" within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). The investors were provided access to business and financial about the Company and had such knowledge and experience in business and financial matters that they were able to evaluate the risks and merits of an investment in the Company. Each certificate evidencing securities to be issued to the investors will include a legend to the effect that the securities have not been registered under the Securities Act and could not be resold absent registration or the availability of an applicable exemption from registration. No general solicitation or advertising has been used in connection with the transaction.

The issuance of the shares and warrants is believed to be exempt from the registration requirements of the Securities Act by reason of Section 4(2) of the Securities Act and the rules and regulations, including Regulation D thereunder, as transactions by an issuer not involving a public offering.

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Item 3. Defaults on Senior Securities NONE
Item 4. Submission of Items to a Vote NONE
Item 5. Other Information NONE

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Item 6.

(a) Exhibits

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

| Exhibit No. ----- | Description ----- |
|----------------------|--|
| * Exhibit 10.1 | Subscription Agreement |
| * Exhibit 10.2 | Warrant Agreement |
| * Exhibit 10.3 | Escrow Agreement |
| * Exhibit 10.4 | Standstill Agreement |
| * Exhibit 10.5 | Agreement for the purchase and sale of assets between Vacation and Cruise Resources, Inc. and Joystar, Inc. dated August 11, 2005. |
| Exhibit 10.6 | Employment Agreement with William M. Alverson. |
| Exhibit 31 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act |
| Exhibit 32 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act |

b) Reports on 8K during the quarter:

Forms 8-K filed on January 25, 2006 and January 30, 2006.

* Previously filed with the Securities and Exchange Commission.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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Date: May 12, 2006

JOYSTAR, INC.

By: /s/ William Alverson

Chief Executive Officer and Chief
Financial Officer