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Joystar Inc
Form 10QSB
May 15, 2007

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, 2007
- () 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 []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [] No [X]

The number of shares of the registrant's common stock as of March 30, 2007:
48,973,918 shares.

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

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JOYSTAR, INC.
BALANCE SHEETS

2006	March 31, 2007	December 31,
	-----	-----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,515,208	\$ 2,102,861
Accounts receivable	3,479,592	2,701,253
Prepaid expenses	76,757	76,757
	-----	-----
Total current assets	\$ 6,071,557	\$ 4,880,871
Property and equipment, net	386,651	267,036
Intangible assets, net of amortization	49,605	50,525

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Other assets	18,970	18,970
	-----	-----
Total assets	\$ 6,526,783	\$ 5,217,402
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable	\$ 2,799,678	\$ 1,743,324
Deferred Merchant Bookings	381,143	--
Accrued salaries	81,205	75,770
Accrued expenses	128,865	128,865
Accrued liabilities	653,785	534,491
Accrued rent	35,125	34,825
Loans from shareholders	472	472
Accrued liability related to warrants and stock purchase rights	6,378,587	7,801,193
	-----	-----
Total current liabilities	10,458,860	10,318,940
	-----	-----
Commitments	--	--
Stockholders' equity		
Preferred stock, no par value, 10,000,000 shares authorized; none issued	--	--
Common stock, no par value, 50,000,000 shares authorized; 48,933,404 and 48,772,430 shares issued and outstanding at March 31, 2007 and December 31, 2006 respectively	14,170,780	14,071,359
Stock issued for deferred compensation	(70,000)	(122,500)
Stock subscribed not issued, 356,000 shares at March 31, 2007 and December 31, 2006	313,501	313,501
Accumulated (deficit)	(18,346,358)	(19,363,898)
	-----	-----
Total stockholders' equity (deficit)	(3,932,077)	(5,101,538)
	-----	-----
Total liabilities and stockholders' equity	\$ 6,526,783	\$ 5,217,402
	=====	=====

The accompanying notes are an integral part of these financial statements

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	For the Three Months ended	
	March 31, 2007	March 31, 2006
	-----	-----
Revenue	\$ 2,472,733	\$ 2,182,672
Operating Expenses:		
Selling and marketing	2,203,781	1,480,238
General and administrative	682,485	1,128,422
Technology	24,815	57,091
	-----	-----
Total operating expenses	2,911,081	2,665,751
	-----	-----
Operating loss	(438,348)	(483,079)
	-----	-----
Other income/(expense)		
Interest Income	18,624	--
Gain/(Loss) on fair value of warrants and stock purchase rights	1,437,264	(940,502)
	-----	-----
Other income/(expense)	1,455,888	(940,502)
	-----	-----
Income/(Loss) before income taxes	1,017,540	
Income tax provision	--	--
	-----	-----
Net Income/(loss)	\$ 1,017,540	\$ (1,423,581)
	=====	=====
Net Income/(Loss) per share		
Basic	\$ 0.02	\$ (0.04)
Diluted	\$ 0.02	\$ (0.04)
	=====	=====
Weighted average number of common shares-		
Basic	48,873,505	37,781,741
Diluted	55,107,387	37,781,741
	=====	=====

The accompanying notes are an integral part of these financial statements

JOYSTAR, INC.
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Three Months ended March 31, 2007

COMMON STOCK

Number of Shares	Amount	Stock issued for Deferred Compensation	Stock Subscribed not Issued
-----	-----	-----	-----

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Balance December 31, 2006	48,772,430	\$ 14,071,359	\$ (122,500)	\$ 313,501
Deferred Compensation Earned	--	--	52,500	--
Stock Issued for Cash	--	200	--	--
Stock Issued for Services	160,974	86,969	--	--
Share based compensation	--	12,252	--	--
Net Income	--	--	--	--
 Balance March 31, 2007 (Unaudited)	 48,933,404	 \$ 14,170,780	 \$ (70,000)	 \$ 313,501
	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

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JOYSTAR, INC.
STATEMENTS OF CASH FLOW

	For the three months end March 31, 2007	March 31, 2006
	-----	-----
Cash flows from operating activities		
Net Income/ (loss)	\$ 1,017,540	\$(1,423,500)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	19,885	11,000
Share based compensation	12,252	161,500
Stock issued for services	86,969	155,400
Stock issued for interest		
Non-cash expense	--	1,000
Changes in assets and liabilities		
Increase in prepaid expenses	--	(27,500)
Increase in receivables	(778,339)	(732,800)
Increase in accounts payable	1,056,354	(173,400)
Increase in deferred merchant bookings	381,143	
Increase in accrued salaries/rent and payroll taxes	125,029	204,300
Increase/(Decrease) in accrued liability relating to warrants and other stock purchase rights	(1,422,606)	940,500
Net cash used by operations	----- 498,227	----- (884,400)
Cash flows from investing activities		
Acquisition of property and equipment	(138,580)	(54,300)
Net cash used by investing activities	(138,580)	(54,300)
Cash flows from financing activities		
Loans from shareholders	--	
Issuance of common stock for cash	200	1,749,100
Stock subscribed but not issued	--	
Net cash provided by financing activities	----- 200	----- 1,749,100
Non-cash add-in		
Stock issued for deferred compensation	52,500	

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Increase(Decrease) in cash	412,347	
Cash at the beginning of the period	2,102,861	810,2
		218,9
Cash at the end of the period	\$ 2,515,208	\$ 1,029,1
	=====	=====

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Issuance of stock for services	\$ 86,969	\$ 155,4
Shares issued for deferred compensation	\$ 52,500	\$
Subscribed shares issued	\$ --	\$ 300,0
Share based compensation	\$ 12,252	\$ 161,5

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, 2007 AND MARCH 31, 2006

NOTE 1 -- ORGANIZATION

DESCRIPTION OF BUSINESS

Joystar, Inc., (a California corporation) specializes in selling complex travel products including cruises, vacation packages and group travel through its national sales force of independent travel agents and independent travel agencies in the United States. These travel products and services are offered both online and offline through a diversified portfolio of brands including: Joystar-branded travel websites, private label websites, and VacationCompare.com. We refer to Joystar, Inc. and its brands collectively as "Joystar," the "Company," "us," "we" and "our" in these financial statements.

All adjustments (consisting only of normal recurring adjustments) have been made which, in the opinion of management, are necessary for a fair presentation.

Results of operations for the three months ended March 31, 2007 and 2006 are not necessarily indicative of the results that may be expected for any future period. The balance sheet at December 31, 2006 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, 2006.

NOTE 2 -- SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING ESTIMATES

We use estimates and assumptions in the preparation of our financial statements in accordance with accounting principles generally accepted in the United States ("GAAP"). Our estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the

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date of our financial statements. These estimates and assumptions also affect the reported amount of net income during any period. Our actual financial results could differ significantly from these estimates. Our significant estimates underlying our financial statements include revenue recognition, accounting for merchant payables, recoverability of long-lived and intangible assets and goodwill, income taxes, and stock-based compensation.

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REVENUE RECOGNITION

We offer travel products and services through two business models: the travel agency model and the host agency model.

Under the travel agency model, we act as the agent in the transaction, passing reservations booked by the traveler to the relevant travel provider. We receive commissions or ticketing fees from the travel supplier and/or traveler. We record revenue based principally on Staff Accounting Bulletin ("SAB") No. 104 "Revenue Recognition." We recognize revenue when it is earned and realizable based on the following criteria: persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable and collectibility is reasonably assured.

The prevailing accounting guidance with respect to the presentation of revenue on a gross versus a net basis is contained in Emerging Issues Task Force No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent ("EITF 99-19")." The consensus of this literature is that the presentation of revenue as "the gross amount billed to a customer because it has earned revenue from the sale of goods or services or the net amount retained (that is, the amount billed to a customer less the amount paid to a supplier) because it has earned a commission or fee" is a matter of judgment that depends on the relevant facts and circumstances. If the conclusion drawn is that we perform as an agent or a broker without assuming the risks and rewards of ownership of goods, revenue should be reported on a net basis.

In making an evaluation of this issue, some of the factors that should be considered are: whether we are the primary obligor in the arrangement (strong indicator); whether we have general inventory risk (before customer order is placed or upon customer return) (strong indicator); and whether we have latitude in establishing price. EITF 99-19 clearly indicates that the evaluations of these factors, which at times can be contradictory, are subject to significant judgment and subjectivity.

Our travel agency revenue comes from cruise transactions, vacation package transactions, airline ticket transactions, hotel transactions as well as car rental reservations. We record travel agency revenue on a net basis when the traveler books the transaction, as we have no significant post-delivery obligations. We record an allowance for cancellations and on this revenue based on historical experience. Under our host agency model, we offer technology, marketing, and support services to a growing network of independent travel agencies.

We recognize agency revenues on hotel, cruise and car rental reservations at the earlier of notification of the amount of the commission from a commission clearinghouse or a supplier or on receipt of the commissions from an individual supplier. Override commissions are recognized each period based upon our projected and actual attainment of predetermined target sales levels. Where historical financial data is not available to project the target sales levels,

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we record the override commission upon receipt of the commission from the supplier.

SEASONALITY

We generally experience seasonal fluctuations in the demand for our travel products and services. For example, leisure travel bookings are generally the highest in the first quarter and gradually decline over the subsequent three quarters. The first quarter is highest due to "Wave Season", when an estimated 70% of the yearly cruise line inventory is booked. There is a gradual drop off in the second and third quarters as travelers plan and book their spring, summer and winter vacations. In the fourth quarter, the number of leisure bookings decreases significantly. We have been able to offset the quarterly decline in bookings and revenue typical to the industry through the aggressive growth of our travel agent network

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Our merchant revenues are derived from transactions where we are the merchant of record and determine the price. We have agreements with suppliers for blocks of inventory that we sell and these sales generate the majority of our total merchant revenues. We do not have purchase obligations for unsold inventory. Recognition of merchant revenue occurs on the date the traveler uses the inventory, such as the date of airline departure or hotel stay.

The Company generates membership service revenues derived from the operation of the host-agency model in which the Company provides support services to travel agents. These revenues include fee-based month-to-month non-obligatory payments, set-up fees and ongoing membership dues for members in renewal periods paid annually.

The Company receives overrides from certain travel suppliers in the form of commissions as well as co-op marketing earnings base on the Company's gross travel bookings with the supplier, recognized each period based upon the Company's actual attainment of predetermined target sales levels.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Commission revenue for reservations is paid to the company by the travel suppliers, typically upon completion of the travel associated with the reservation. Because the average time lag between booking date and commission payment date is approximately six months, the company recognizes a reserve against revenues for bookings that may not produce a collectible commission due to possible cancellations or other factors. For the three months ended March 31, 2007 the company recognized a reserve equal to 15% of the gross commissions generated. The company will be monitoring receivables and adjusting the reserve levels on a regular basis, as required.

Our host agency revenue includes the set-up, monthly and annual renewal fees we receive from our travel agency partners and are recorded in the period we receive them.

OTHER

We record revenue from all other sources either upon delivery or when we provide the service.

CASH AND CASH EQUIVALENTS

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Our cash and cash equivalents include cash and liquid financial instruments with original maturities of 90 days or less when purchased.

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PROPERTY AND EQUIPMENT

We record property and equipment at cost, net of accumulated depreciation and amortization. We also capitalize certain costs incurred related to the development of internal use software in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and EITF No. 00-02, "Accounting for Website Development Costs." We capitalize costs incurred during the application development stage related to the development of internal-use software. We expense costs incurred related to the planning and post-implementation phases of development as incurred.

We compute depreciation using the straight-line method over the estimated useful lives of the assets, which range from three to five years for computer equipment and capitalized software development, and three to seven years for furniture and other equipment. We amortize leasehold improvement using the straight-line method, over the shorter of the estimated useful life of the improvement or the remaining term of the lease.

INTANGIBLE ASSET

The Company acquired a client list for \$55,125 in order to promote sales. The Company believes that the client list has a minimal useful life of five years and is amortizing it over that time. If it should lose value prior to the five years the Company will write it off earlier. The amortization for the three months ended March 31, 2007 and March 31, 2006 was \$920 and \$920 respectively.

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, 2007 and 2006.

INCOME TAXES

In accordance with SFAS No. 109, "Accounting for Income Taxes," we record income taxes under the liability method. Deferred tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for book and tax purposes. We determine deferred income taxes based on the differences in accounting methods and timing between financial statement and income tax reporting. Accordingly, we determine the deferred tax asset or liability for each temporary difference based on the tax rates that we expect will be in effect when we realize the underlying items of income and expense. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes, as well as other relevant factors. We may establish a valuation allowance to reduce deferred tax assets to the amount we expect to realize. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, tax sharing agreements or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual

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income taxes could vary from these estimates.

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ADVERTISING EXPENSE

We incur advertising expense consisting of offline costs, including print advertising, and online advertising expense to promote our brands. We expense the production costs associated with advertisements in the period in which the advertisement first takes place. We expense the costs of communicating the advertisement as incurred each time that the advertisement is shown. We incurred advertising expenses of \$122,785 and \$57,201 during the three month periods ended March 31, 2007 and 2006, respectively.

STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payment. Prior to January 1, 2006, the Company accounted for share-based payments under the recognition and measurement provisions of APB Opinion NO. 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by FASB Statement No. 123, Accounting for Stock Based Compensation. In accordance with APB 25, no compensation cost was required to be recognized for options granted that had an exercise price equal to the market value of the underlying common stock on the date of grant.

The Company adopted FAS 123R using the modified prospective transition method. Under this method, compensation cost recognized in the year ended December 31, 2006 includes: a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS 123, and b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of FAS 123R.

EARNINGS 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. Diluted earnings per share give effect to all potential dilutive common shares outstanding during the period of computation. The computation of diluted earnings per share does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect on earnings.

The following table reconciles basic earnings per share and diluted earnings per share and the related weighted average number of shares outstanding for the three months ended March 31, 2007:

DISCLOSURE FOR RECONCILIATION OF BASIC AND DILUTED EARNINGS PER SHARE

For the Quarter Ended March, 31, 2007

Income Shares Per-share

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	(Numerator)	(Denominator)	Amount
	-----	-----	-----
Net income	\$1,017,540		
 BASIC EPS			
Income available to common stockholders	\$1,017,540	48,873,505	\$ 0.02
			=====
Options		737,934	
Warrants		5,495,948	
	-----	-----	
 DILUTED EPS			
Income available to common stockholders + assumed conversions	\$1,017,540	55,107,387	\$ 0.02
	=====	=====	=====

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Stock warrants to purchase 1,256,572 shares of common stock at \$1.00 per share were outstanding during the quarter ended March 31, 2007 but were not included in the computation of diluted EPS because the warrants' exercise price was greater than the market price of the common shares as of March 31, 2007. The warrants were still outstanding on March 31, 2007 and expire in 2008 and 2011. No vested stock options were outstanding during the quarter for which the exercise price was greater than the market price of the common shares as of March 31, 2007.

ACCRUED LIABILITY RELATED TO WARRANTS AND STOCK PURCHASE RIGHTS

The Company accounts for freestanding derivative financial instruments potentially settled in its own common stock under Emerging Issues Task Force ("EITF") Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." As the Company potentially does not have sufficient authorized shares available to settle its open stock-based contracts, the initial fair value of the applicable contracts (consisting primarily of non-employee stock warrants and rights to purchase common stock- (see Note 5) has been classified as "accrued liability related to warrants and stock purchase rights" on the accompanying balance sheet and measured subsequently at fair value (based on a Black-Scholes computation), with gains and losses included in the statement of operations. The accrued liability has a balance of \$6,378,587 at March 31, 2007.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments consist principally of cash and various current liabilities. The estimated fair value of these instruments approximates their carrying value.

RECENT ACCOUNTING PRONOUNCEMENTS

The Company has reviewed recent accounting pronouncements that have been adopted and have concluded that they will not have any material impact on its financial statements.

CERTAIN RISKS AND CONCENTRATIONS

Our business is subject to certain risks and concentrations including dependence on relationships with our travel agent partners and travel suppliers, dependence

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on third party technology providers, exposure to risks associated with online commerce security and credit card fraud. We are highly dependent on our relationships with major cruise lines and packaged vacation companies. We also depend on global distribution system partners and third party service providers for certain fulfillment services.

Financial instruments, which potentially subject us to concentration of credit risk, consist primarily of cash and cash equivalents. We maintain some cash and cash equivalents balances with financial institutions that are in excess of Federal Deposit Insurance Corporation insurance limits.

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3. GOING CONCERN

The accompanying financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America, contemplates the continuation of the Company as a going concern. The Company has sustained significant losses and has used capital raised through the issuance of stock and debt to fund activities. 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.

Management believes that actions currently being taken to revise the Company's funding requirements will allow the Company to continue. However, there is no assurance that the necessary funds will be realized by securing debt or through stock offerings.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	MARCH 31, 2007	DECEMBER 31, 2006
Office furniture/computers	\$ 301,920	\$ 211,270
Booking engine software	67,265	57,940
Web sites	119,344	80,739
	-----	-----
	488,529	349,949
Less: accumulated depreciation	(101,878)	(82,913)
	-----	-----
	\$ 386,651	\$ 267,036
	=====	=====

5. CAPITAL STOCK

COMMON STOCK

During the three months ended March 31, 2007, the Company issued 160,974 common shares for services for a total of \$86,969.

At March 31, 2007 the Company has 13,257,302 warrants outstanding to purchase shares of common stock at exercise prices ranging from \$0.35 to \$1.00. The

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warrants have lives of one to five years remaining.

6. STOCK OPTIONS

The Board of Directors has approved in April, 2003 a Company stock option plan, which was amended by the Company in July, 2003. All the shares (480,000 shares) under 2002 Equity and Stock Option Plan were issued in June, 2003. In July, 2003, the Company approved 2003 Equity Compensation Plan which provides for the grant to directors, officers, employees and consultants of the Company of stock based awards and options to purchase up to an aggregate of 2,500,000 shares of Common Stock. On August 16, 2006 the plan was amended to provide for grants of options stock based awards up to an aggregate of 3,500,000 shares of Common Stock.

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On December 13, 2005, the Company authorized for two of its officers to receive 1,500,000 shares of common stock. The shares were valued at \$330,000 or \$0.22 per share. The shares are considered subscribed and not issued at December 31, 2005. The Company has charged \$330,000 to compensation expense during the year ended December 31, 2005.

The following table summarizes activity for all stock options for the period ended March 31, 2007:

	2007	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding, beginning of period	4,137,600	\$ 0.53
Granted	310,000	1.39
Exercised	--	--
Forfeited and expired	--	--
	-----	-----
Outstanding, end of period	4,447,600	\$ 0.53
	=====	=====
Options exercisable, end of period	843,000	\$ 0.53
Weighted average fair value of options granted during the year	\$ 0.09	
	=====	

The fair value of the stock options granted during the three months ended March 31, 2007 was approximately \$27,000 or \$0.09 per stock option, and was determined using the Black Scholes option pricing model. The factors used for the three months ended March 31, 2007, were the option exercise price of \$0.98 to \$1.50 per share, a 5 year life of the options, volatility measure of 47.5%, a dividend rate of 0% and a risk free interest rate of 4.54% for 2007.

The following table summarizes information about stock options outstanding at March 31, 2007, with exercise prices equal to the fair market value on the date of grant with no restrictions on exercisability after vesting:

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

As of March 31, 2007, there was approximately \$548,000 in unrecognized compensation cost related to unvested stock options. The amount unrecognized compensation cost will be recognized over its weighted average life of approximately four years.

7. INCOME TAXES

The components of the deferred tax asset are as follows:

	MARCH 31, 2007	DECEMBER 31, 2006
Deferred tax assets:		
Net operating loss carry-forward	\$4,815,000	\$ 4,629,000
Less: valuation allowance	(4,815,000)	(4,629,000)
Net deferred tax assets	\$ --	\$ --

The Company's operations are headquartered in the State of California and are subject to California state income taxes. The Company had available approximately \$9,712,157 and \$8,715,000 and of unused Federal and State net operating loss carry-forwards at December 31, 2006 and December 31, 2005, respectively that may be applied against future taxable income. These net operating loss carry-forwards expire through 2024 for Federal purposes. There is no assurance that the Company will realize the benefit of the net operating loss carry-forwards.

SFAS No. 109 requires a valuation allowance to be recorded when it is more likely that some or all of the deferred tax assets will not be realized. At December 31, 2005 and 2004, valuations for the full amount of the net deferred tax asset were established due to the uncertainties as to the amount of the taxable income that would be generated in future years.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

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	DECEMBER 31, 2006	DECEMBER 31, 2005
Statutory federal tax (benefit) rate	(34.00)%	(34.00)%
Statutory state tax (benefit) rate	(5.83)%	(5.83)%
	-----	-----
Effective tax rate	(39.83)%	(39.83)%
Valuation allowance	39.83%	39.83%
	-----	-----
Effective income tax rate	0.00%	0.00%
	=====	=====

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8. COMMITMENTS

LEASE COMMITMENTS

The Company acquired office space in California in February 2005. The lease was for 36 months with an option to renew for 36 months. The Company entered into a lease for its office in Florida in October, 2005. The lease is for 36 months and there is no renewal option on the lease.

Future payments on the operating lease are as follows:

2007	\$ 222,901
2008	86,040

	\$ 308,941
	=====

Rental expense was \$21,586 and \$60,792 for the quarters ended March 31, 2007 and 2006, respectively.

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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

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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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF PLAN OF OPERATION

The information contained in this section has been derived from our financial statements and should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those expressed or implied in these forward-looking statements as a result of various factors, including those set forth at the end of this section under "Factors That May Impact Our Results of Operations".

OVERVIEW

Joystar, Inc. sells complex leisure travel products through our virtual network of travel agents, company branded and private label websites. We empower travel entrepreneurs and leisure travelers with the tools and information they need to efficiently research, plan, and book travel. The effect of having such a massive 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.

We refer to Joystar, Inc. and its brands collectively as "Joystar," the "Company," "us," "we" and "our" in this management's discussion and analysis of financial condition and results of operations.

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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. Because of our strong value proposition, we have been very successful in attracting profession 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 4,000 travel agents making it one of the fastest growing and largest leisure travel network in the industry.

Throughout 2006, Joystar's commission levels with our preferred suppliers increased substantially. With the acquisition of the Miami Cruise Center, the enhanced commission levels that Joystar offers travel agents are some of the highest in the industry.

TRENDS

The travel industry and particularly the travel agency business model, has experienced significant change in this decade. The advent of the Internet and

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online travel agencies has forever changed the way travel products are distributed. Travel agents were forced to retool their business models which included the elimination of high costs associated with operating a store fronts and identifying markets where their knowledge and service would ensure they remained relevant in the eyes of travelers.

Today, similar to the way real estate agents, mortgage bankers, stock brokers and insurance agents have been able to effectively telecommute, tens of thousands of experienced travel sellers operate their businesses virtually. According to a recent report issued by Credit Suisse/First Boston, there are currently 25,000 professional, home-based agents. This number is expected to grow to approximately 50,000 agents by 2010.

In the United States, telecommuting has been growing at 15% a year since 1990. It is believed that approximately 80% of Fortune 1000 companies are likely to employ telecommuters within this decade.

Factors that will continue to affect the future of telecommuting worldwide include the availability of bandwidth and fast Internet connections in a given country; social methodologies for balancing work control and work freedom; the perceived values and economies in telecommuting; and the opportunities and need for working collaboratively across large distances, including globally.

According to the Direct Sales Association, the number of Americans operating a home-based business has grown from 8.5 million in 1996 to 14.1 million in 2005.

The baby-boomer population is estimated at over 70 million domestically and 450 million worldwide. This group is expected to spend both their discretionary time and income on travel related products and services.

STRATEGY

We intend to aggressively innovate on behalf of travel agents including building a scalable, service-oriented technology platform which will extend across our consumer brands. We expect this to increase the income opportunity+ for our travel network as we will be providing them consumer leads and also drive profitability for the company as we will create travel bookings at a lower commission payout than our existing host travel agent programs.

We also intend to continue innovating on behalf of our preferred supplier partners. As an example, we launched Starbase, a customer relationship management system for our agents to better manage their businesses. Starbase streamlines the interaction and booking process between our agents, customers and suppliers. Through this "direct connect" technology, our agents can complete the booking process with some of our cruise lines and vacation suppliers easier and in a more cost effective for our suppliers. It also automatically notifies Joystar's internal accounting of bookings and cancellations and provides agents with real time commission tracking. In the absence of this direct connect technology, these processes are completed manually via a proprietary extranet.

Currently, cruise vacations represent over two-thirds of our travel products sold. Although we expect continued significant increase in our cruise business, our goal is to grow our land-based vacation packages and tours to represent 75% of total gross bookings.

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Our preferred supplier development team is negotiating with major vacation suppliers to increase our commissions to the levels we have attained with our major cruise suppliers. We believe this will attract high producing vacation agents to our network and drive sales and product mix.

SEASONALITY

We generally experience seasonal fluctuations in the demand for our travel products and services. For example, leisure travel bookings are generally the highest in the first quarter and gradually decline over the subsequent three quarters. The first quarter is highest due to wave season, when an estimated 70% of the yearly cruise line inventory is booked. There is a gradual drop off in the second and third quarters as travelers plan and book their spring, summer and winter vacations. In the fourth quarter, the number of leisure bookings decreases significantly. We have been able to offset the quarterly decline in bookings and revenue typical to the industry through the aggressive growth of our travel agent network.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

To understand our financial position and results of operations, it is important to understand our critical accounting policies and estimates and the extent to which we use judgment and estimates in applying those policies. We prepared our financial statements and accompanying notes in accordance with generally accepted accounting principles in the United States. Preparation of the financial statements and accompanying notes requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and revenue and expenses during the periods reported. We base our estimates on historical experience, where applicable and other assumption that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

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There are certain critical estimates that we believe require significant judgment in the preparation of our financial statements. We consider an accounting estimate to be critical if:

- o It requires us to make assumption because information was not available at the time or it included matters that were highly uncertain at the time we were making the estimate, and
- o Changes in the estimate or different estimates that we could have selected may have had a material impact on our financial condition or results of operations.

For more information on each of these policies, see Note 2 -- Significant Accounting Policies, in the notes to financial statements. We discuss information about the nature and rationale for our critical accounting estimates below.

STOCK-BASED COMPENSATION

We record stock-based compensation expense net of estimated forfeitures. In determining the estimated forfeiture rates for stock-based awards, we periodically conduct an assessment of the actual number of equity awards that have been forfeited to date as well as those expected to be forfeited in the future. We consider many factors when estimating expected forfeitures, including

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the type of award, the employee class and historical experience. The estimate of stock awards that will ultimately be forfeited requires significant judgment and to the extent that actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period such estimates are revised.

NEW ACCOUNTING PRONOUNCEMENTS

For a discussion of new accounting pronouncements, see Note 2 -- Significant Accounting Policies, in the notes to financial statements.

OPERATING METRICS

Gross bookings represent the total retail value of transactions booked for both agency and merchant transactions, recorded at the time of booking reflecting the total price due for travel, including taxes, fees and other charges, and are generally not reduced for cancellations and refunds.

RESULTS OF OPERATIONS

Please refer to the financial statements, which are a part of this report, for further information regarding the results of operations of the Company.

THREE MONTHS ENDED MARCH 31, 2007 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2006

GROSS TRAVEL BOOKINGS

Gross travel bookings for the three months ended March 31, 2007 increased to \$24,216,139 compared to \$18,036,630 for the three months ended March 31, 2006. Gross travel bookings refers to the total dollar value, inclusive of all taxes and fees, of all travel services purchased by consumers. The term "gross travel bookings" is a "non-GAAP financial measure, as such term is defined by the Securities and Exchange Commission, and may differ from non-GAAP financial measures used by other companies. The measure of "gross travel bookings" is in no way derived from the financial statements. Revenue recorded in the Company's financial statements represents a percentage of commissions or ticketing fees paid by travel suppliers on travel bookings, membership services revenue and override commissions from travel suppliers. The Company believes that the measure "gross travel bookings" is useful for investors to evaluate the Company's future ongoing performance because they enable a more meaningful comparison of the activity levels of the Company's travel agent network with its historical results from prior periods.

REVENUE

Revenues for the three months ended March 31, 2007 increased to \$2,472,733 compared to \$2,182,672 for the three months ended March 31, 2006.

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The increase in both gross travel bookings and revenues are due to continued substantial growth of our travel agent network and higher preferred supplier commission levels. Offsetting these increases was the fact that the company took a reserve against revenues of 15% in the three months ended March 31, 2007 while no reserve was taken in the three months ended March 31, 2006. See the discussion of reserves in Note 2 to the Financial Statements.

SELLING AND MARKETING

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Selling and marketing expenses relate to 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 three months ended March 31, 2007 were \$2,203,781 compared to \$1,480,238 for the three months ended March 31, 2006. The increase of \$723,543 was primarily due to the increased payments to our travel agents as a result of their increased sales levels. Selling and marketing expenses relate to travel agent commissions, direct advertising and distribution expense, including traffic generation from Internet, search engines, private label and affiliate programs.

GENERAL AND ADMINISTRATIVE

General and Administrative expenses for the three months ended March 31, 2007 decreased to \$682,485 from \$1,128,422 for three months ended March 31, 2006. The decrease was primarily due to reductions in compensation, professional fees, telephone and travel expenses. We expect absolute amounts spent on corporate personnel and professional service to increase over time as we develop new business units requiring additional headcount and continue incurring incremental costs associated with being a public company.

TECHNOLOGY AND CONTENT

Technology and content expense includes product development expenses such as payroll and related expenses and depreciation of technology infrastructure, travel agent intranets, travel agent website, and consumer and social networking site development costs. In 2006, moved our software development to an India-based operation with our own employees. We employ web developers and designers in Kuala Lumpur, Pakistan, India and Spain. We also began outsourcing the development of certain large scale projects to China including the development of our consumer travel comparison marketplace, VacationCompare.com and our group travel social networking site, Travelstar.com.

Technology and content expenses for the three months ended March 31, 2007 were \$24,815. 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. The Company recently hired a Chief Technology Officer.

ACCRUED LIABILITY RELATED TO WARRANTS AND STOCK PURCHASE RIGHTS

The Company accounts for freestanding derivative financial instruments potentially settled in its own common stock under Emerging Issues Task Force ("EITF") Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." As the Company potentially does not have sufficient authorized shares available to settle its open stock-based contracts, the initial fair value of the applicable contracts (consisting primarily of non-employee stock warrants and rights to purchase common stock) (see Note 5) has been classified as "accrued liability related to warrants and stock purchase rights" on the accompanying balance sheet and measured subsequently at fair value (based on a Black-Scholes computation), with gains and losses included in the statement of operations. The accrued liability has a balance of \$6,387,587 as of March 31, 2007.

Net other income for the three months ended March 31, 2007 was \$1,422,606 compared to an expense of \$(940,502) in the three months ended March 31, 2006. This change was primarily due a reduction in the Accrued Liability Related to

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Warrants and Stock Purchase Rights.

The Company left development stage as of January 1, 2005 when it started to make substantially more sales.

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LIQUIDITY AND CAPITAL RESOURCES

The Company's cash balance increased to \$2,515,208 at March 31, 2007 as compared to \$2,102,861 at December 31, 2006. The Company has recovered cash from trade accounts receivable. During the three months ended March 31, 2007 the Company issued \$86,969 in shares for services

PROFITABILITY/LOSS

Net income for the three months ended March 31, 2007 was \$1,017,540 compared to a net loss of \$1,423,575 for the three months ended March 31, 2006.

The increase in net income was due to a reduction in the provision of the accrued liability of related to warrants and stock purchase rights. The Company's operating loss for the three months ended March 31, 2007 was \$438,348 compared to an operating loss of \$480,379 for the three months ended March 31, 2006.

Our business continues to be dominated by complex leisure travel. Commission revenue for these types of bookings is paid to the company by travel suppliers, typically upon completion of the travel. Because the average time lag between booking travel and receiving the commission is approximately six months, we determined it prudent to recognize a reserve against revenues for the possibility of cancellations or other factors. Therefore, we recognized a reserve equal to 15% of the gross commissions generated for the three months ended March 31, 2007. The company will be monitoring receivables and adjusting the reserve levels on a regular basis, as required.

Item 3. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of March 31, 2007, 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, 2007, 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

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Item 1. Legal proceedings

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

During the quarter ended March 31, 2007, the Company issued 20,000 shares of common stock valued at an average purchase price of \$0.95 per share and 6,250 shares of common stock valued at \$0.98 per share to employees for services rendered.

The shares of the Company's common stock were issued and sold in reliance upon the exemption provided by Section 4(2) and/or Regulation D of the Securities Act of 1933.

Item 3. Defaults on Senior Securities NONE

Item 4. Submission of Items to a Vote

On January 23, 2007, a majority of the shareholders of the Company representing not less than 27,197,842 shares of the 48,928,974 shares outstanding of the common stock or 55.58% have consented in writing to change the Company's name to Travelstar, Inc. and to increase the authorized capital of the Company to 210 million shares consisting of 200 million shares of common stock and 10 million shares of preferred stock. Such approval and consent constitute the approval and consent of a majority of the total number of shares of outstanding of common stock and are sufficient under the California General Corporation Law and the Company's Bylaws to approve the above actions.

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.

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Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act

Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act

Exhibit 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

Exhibit 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

b) Reports on 8K during the quarter:

Form 8-K filed on March 21, 2007.

* Previously filed with the Securities and Exchange Commission.

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SIGNATURES

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

Date: May 15, 2007

JOYSTAR, INC.

By: /s/ William Alverson

Chief Executive Officer

By: /s/ Jerry Galant

Chief Financial Officer

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