ONLINE VACATION CENTER HOLDINGS CORP
Form 10QSB
August 14, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2007

[ ] 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	65-0701352
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

1801 N.W. 66th 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 [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]

APPLICABLE ONLY TO CORPORATE ISSUERS

As of August 14, 2007, there were 18,492,977 shares of Common Stock, par value, $0.0001 per share outstanding.

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

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Part I. Financial Information

Item 1 Financial Statements

ONLINE VACATION CENTER HOLDINGS CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007 (Unaudited)	D
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,573,473	
Accounts receivable, net	737,677	
Prepaid expenses and other current assets	728,029	
Deferred tax asset, net	155,488	
Total Current Assets	3,194,667	
Restricted cash	351,204	
Property and equipment, net	89,827	
Deferred tax asset, net	186,212	
Intangible assets, net	1,868,300	
Goodwill	2,913,870	
Total Assets	$ 8,604,080	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,300,600	
Deferred revenue, net	835,311	
Customer deposits	1,926,119	
Notes payable- current portion	221,862	
Total Current Liabilities	4,283,892	
Notes payable	498,110	
Total Liabilities	4,782,002	
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, 1,000,000 shares authorized at $.0001 par value; 0 shares issued and outstanding	--	
Common stock, 80,000,000 shares authorized at $.0001 par value; 18,492,977 and 18,256,777 shares issued and outstanding	1,849	
Additional paid-in capital	5,531,576	
Accumulated deficit	(1,711,347)	

Total Stockholders' Equity	3,822,078
Total Liabilities & Stockholders' Equity	$ 8,604,080

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

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

	For the quarter ended June 30, 2007	2006	For th
NET REVENUES	$ 2,026,111	$ 1,805,377	$
OPERATING EXPENSES:			
Selling and marketing	1,078,345	527,976	
General and administrative	1,298,910	950,568	
Depreciation and amortization	93,643	20,130	
INCOME (LOSS) FROM OPERATIONS	(444,787)	306,703	
Interest income (expense), net	(8,799)	18,250	
Income (loss) before provision (benefit) for income taxes	(453,586)	324,953	
Provision / (benefit) for income taxes	(166,955)	181,791	
NET (LOSS) INCOME	$ (286,631)	$ 143,162	$
Weighted average shares outstanding - Basic	18,492,977	16,806,777	1
EARNINGS PER SHARE - Basic	$ (0.02)	$ 0.01	$
Weighted average shares outstanding - Diluted	18,492,977	17,187,544	1
EARNINGS PER SHARE - Diluted	$ (0.02)	$ 0.01	$

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

ONLINE VACATION CENTER HOLDINGS CORP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Mont	
	June 30, 2007	J
Cash flows from operating activities:		
Net income (loss)	$ (353,820)	$
Adjustments to reconcile to net cash inflow from operating activities:		
Depreciation and amortization	177,658	
Stock based compensation expense	106,227	
Imputed interest expense	9,027	
Deferred income tax provision	(191,602)	
Decrease in accounts receivable	306,278	
Increase in prepaid and other current assets	(410,901)	
Increase/(Decrease) in accounts payable and accrued liabilities	(38,974)	
Increase/(Decrease) in deferred revenue	30,177	
Increase/(Decrease) in customer deposits	455,941	
Net cash provided from operating activities	90,011	
Cash flows from investing activites:		
Capital expenditures	(41,787)	
Increase in intangible assets	(1,854)	
Increase in restricted cash	(15,069)	
Cash paid for acquisitions in excess of cash received	(1,116,713)	
Cash used in investing activities	(1,175,423)	
Increase (decrease) in cash during the period	(1,085,412)	
Cash at the beginning of the period	2,658,885	2
Cash at the end of the period	$ 1,573,473	$ 2

Supplemental information:		
Cash paid for interest	$ 11,250	$
Cash paid for taxes	$ 6,250	$
Common stock issued in conjunction with acquisitions	$ 337,500	$
Net debt issued in conjunction with acquisitions	$ 210,946	$
Conversion of subordinated debt into common stock	$ --	$ 3
Reduction in fair value of conversion feature of debt	$ 11,187	$

The accompanying Notes to 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 condensed consolidated financial statements of Online Vacation Center Holdings Corp., (the "Company"), and the notes thereto have been prepared in accordance with the instructions for Form 10-QSB and Item 310(b) of Regulation S-B of the Securities and Exchange Commission, or SEC. The year end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These unaudited condensed consolidated financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America. However, such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair statement of results for the interim periods presented.

The results of operations for the three months and six months ended June 30, 2007 (also referred to as "the second quarter of 2007" and "the first half of 2007", respectively) are not necessarily indicative of annual results. The Company manages its business as one reportable segment.

The unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and the notes thereto that are included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006 that was filed with the SEC on March 21, 2007.

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, 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. ACQUISITIONS

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

The cost of this acquisition, net of cash acquired, was $258,580. The consideration has been allocated to acquired working capital and other accounts. A third-party company was hired to prepare a valuation to assist management of the Company in its allocation of the purchase price, primarily through the determination of the fair value and remaining useful lives of Tone and Travel

LLC's intangible assets. The aggregate cost related to these intangible assets is $258,580 and have been capitalized and are being amortized over their expected useful lives, ranging from 4.0 to 4.5 years. The Company's assessment of the value of assets and liabilities acquired is in the process of being finalized. Accordingly, the amount initially allocated to goodwill and certain other identifiable intangible assets may change as the integration and valuation processes are completed. The Acquisition Agreement includes provisions that may result in common stock issuance to the former owner based on certain measures of future revenue that may impact goodwill in future periods. The operating results of this acquisition are included in the accompanying condensed consolidated financial statements since May 18, 2007, the date of acquisition.

Amortization expense for the second quarter and first of half of 2007 was $71,577 and $133,483, respectively. Amortization expense for the second quarter and six months ended June 30, 2006 (also referred to as "the second quarter of 2006" and "the first half of 2006", respectively) was $945 and $1,890 respectively

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" which defines fair value, establishes a measurement framework and expands disclosure requirements ("SFAS 157"). SFAS 157 applies to assets and liabilities that are required to be recorded at fair value pursuant to other accounting standards. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and is not expected to have a material effect on the Company's consolidated results of operations, financial position, or cash flows.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans -- an Amendment of FASB Statements No. 87, 88, 106 and 132(R)." This standard requires the recognition of the funded status of defined benefit pension and other postretirement benefit plans as an asset or liability in the year in which they occur. Furthermore, it requires changes in the funded status of these plans to be recognized through "accumulated other comprehensive income," as a separate component of stockholders' equity, and provides for additional annual disclosure. SFAS No. 158 is effective for fiscal years ending after December 15, 2008 and is not expected to have a material effect on the Company's consolidated results of operations, financial position, or cash flows.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). This statement, which is expected to expand fair value measurement, permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is not expected to have a material effect on the Company's consolidated results of operations, financial position, or cash flows.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 requires the combined use of a balance sheet approach and an income statement approach in evaluating whether either approach results in an error that is material in light of relevant quantitative and qualitative factors. The Company must begin to apply the provisions of SAB 108 no later than its fiscal 2007

annual financial statements. The Company is currently evaluating the impact of SAB 108.

4. EARNINGS PER SHARE

The information related to basic and diluted earnings per share is as follows:

	Second Qua	
	2007	
Numerator:		
Net earnings (loss)	$ (286,631)	$
Effect of dilutive convertible debt	--	
Diluted	$ (286,631)	$
Denominator:		
Weighted average number of shares outstanding - basic	18,492,977	
Effect of dilutive stock options and convertible debt	--	
Diluted	18,492,977	
EPS:		
Basic	$ (0.02)	$
Diluted	$ (0.02)	$

	First Hal
	2007
Numerator:	
Net earnings (loss)	$ (353,820)
Effect of dilutive convertible debt	--
Diluted	$ (353,820)
Denominator:	
Weighted average number of shares outstanding - basic	18,492,977
Effect of dilutive stock options and convertible debt	--
Diluted	18,492,977
EPS:	
Basic	$ (0.02)
Diluted	$ (0.02)

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

Diluted earnings per share are computed similar to basic earnings per share, except the denominator is increased by including the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. This calculation is not done for periods in a loss position as this would be antidilutive.

5. STOCK BASED COMPENSATION

In conjunction with the Share Exchange Agreement, the Company's Board of Directors amended its 2005 Management and Director Equity Incentive and Compensation Plan (the "Plan"). This Plan provides for the grants of stock options, restricted stock, performance-based and other equity-based incentive awards to directors, officers and key employees. Under this Plan, stock options must be granted at an option price that is greater than or equal to the market price of the stock on the date of the grant. If an employee owns 10% or more of the Company's outstanding common stock, the option price must be at least 110% of the market price on the date of the grant. Options granted under this Plan become exercisable in accordance with the terms of the grant as determined by a committee of the Company's Board of Directors. All options granted expire no more than 10 years following the date of grant. No options or restricted stock were granted during the second quarters of 2007 or 2006 under the Plan.

A summary of the activity in the Company's Plan for the first half of 2007 is presented below:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2006	1,870,000	$ 1.28
Granted	110,000	2.93
Canceled	-	0.00
Exercised	-	0.00
Options outstanding at June 30, 2007	1,980,000	$ 1.37

The weighted fair value of options granted during the first half of 2007 was $0.95 with the following assumptions: average expected life of 3.5 years; 4.72% average interest rate; 46.03% volatility; 5% forfeiture rate. Compensation cost recognized for the second quarter and first half of 2007 was $44,147 and $87,707, respectively. Compensation cost recognized for the second quarter and first half of 2006 was $34,468 and $76,923, respectively.

As of June 30, 2007, there was approximately $169,079 of total stock-based compensation expense not yet recognized relating to non-vested awards granted under the Company's option plan as calculated under SFAS 123R. This expense is net of estimated forfeitures and is expected to be recognized over a weighted-average period of approximately 9 months. The number of non-exercisable shares was 1,580,000 shares of common stock at June 30, 2007. At June 30, 2007, 400,000 shares of common stock at $1.27 per share were exercisable.

During the first half of 2007, 11,200 restricted shares were granted to employees under the Plan. Compensation expense for the first half of 2007 and 2006 related to the restricted share grants was $18,520 and $5,950, respectively.

6. RELATED PARTY TRANSACTIONS

Effective October 2005, Online Vacation Center Holdings, Inc. engaged a consultant who now serves as the Company's Chairman. In consideration for such services, the consultant received a monthly fee of $10,000. The consultant continues to serve the Company at the same fee rate on a month to month basis. During the second quarters of 2007 and 2006, this consultant received $30,000 for each quarter in fees and $60,000 in fees for both the first half of 2007 and 2006.

7. 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.

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

Forward Looking Statements

This Quarterly Report on Form 10-QSB 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-QSB 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-KSB for the year ended December 31, 2006 filed with the SEC on March 21, 2007 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

Online Vacation Center Holdings Corp. (the "Company", "us", "our" and "we") is a Florida holding company, focused on building a network of diversified vacation marketers with a wide range of products that can be cross-sold to an extensive customer base.

We provide vacation marketing services through our wholly owned subsidiaries:

- 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,
- Phoenix International Publishing, LLC, the United Kingdom's leading publisher of consumer magazines and guides about travel to the U.S. and Canada,
- Thoroughbred Travel, LLC, a Houston, Texas based upscale travel agency, operating as Journeys Unlimited,
- La Fern, Inc., operating as eLeisureLink.com, a Florida travel agency that sells land-based vacations,
- La Tours and Cruises, Inc., a Houston, Texas based travel agency, operating as West University Travel, focused on providing luxury personal travel products such as cruises, European tours and all-inclusive vacations,
- Dunhill Vacations, Inc., a travel newsletter and media provider,
- Cruises for Less, LLC, a home-based travel selling group, and
- Tone and Travel, LLC dba Curves Travel, the licensed travel management company of Curves International, Inc.

Phoenix International Publishing, LLC, Thoroughbred Travel, LLC, and La Fern, Inc. were acquired during the latter half of 2006, La Tours and Cruises, Inc.,

Dunhill Vacations, Inc. and certain assets of SmartTraveler.com, Inc. (currently utilized by Cruises for Less, LLC) were acquired during the first quarter of 2007 and Curves Travel in May 2007 (collectively the "Acquisitions").

We generate revenues from:

- marketing performed for travel suppliers
- commissions on cruises, tours and land-based vacations, and
- commissions on travel insurance

We currently market our services by:

- utilizing an advertising sales force,
- producing travel-related publications for consumers,
- telemarketing to our existing customer base,
- direct mailing to our existing customer base as well as targeted prospects, and
- email blasting to our opt-in subscription base

Operating expenses include primarily those items necessary to advertise our services, produce our marketing materials, maintain and staff our travel reservation and fulfillment center including technological enhancements, payroll, commissions and benefits, telephone, ticket delivery and general and administrative expenses including rent and computer maintenance fees.

Results of Operations

Quarter Ended June 30, 2007 Compared to Quarter Ended June 30, 2006

Revenues increased by 12.2%, $220,734, from $1,805,377 for the quarter ended June 30, 2006 ("second quarter of 2006") to $2,026,111 for the quarter ended June 30, 2007 ("second quarter of 2007"). The increase is attributable to the revenues of the Acquisitions.

Selling and marketing expenses increased by $550,369, 104.2% to $1,078,345 for the second quarter of 2007 as compared to $527,976 for the second quarter of 2006. The increase is primarily attributable to the Acquisitions and partially attributable to an increase in co-op marketing projects during the second quarter of 2007 for Online Vacation Center, Inc. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

General and administrative expenses increased by $348,342 or 36.6% to $1,298,910 for the second quarter of 2007 as compared to $950,568 for the second quarter of 2006. The increase is primarily attributable to the Acquisitions. General and administrative expenses primarily include management and non sales staff compensation, professional services, and occupancy costs.

Depreciation and amortization expense for the second quarter of 2007 was $93,643 as compared to $20,130 for the second quarter of 2006. Amortization expense increased by $70,777 during the second quarter of 2007 as a result of amortization of intangible assets acquired in conjunction with the Acquisitions. The remaining increase of $2,736 is attributable to an increase in depreciation expense.

Interest Income/(Expense) decreased from income of $18,250 for the second quarter of 2006 to expense of $8,799 for the second quarter of 2007. The second

quarter of 2006 income consisted of interest income earned on our invested excess cash balances which were higher than during the same period of 2007. The expense of the second quarter of 2007 represents the accrued interest expense on the debt issued by us in conjunction with our acquisition of Thoroughbred Travel, LLC, La Fern, Inc., and La Tours and Cruises, Inc. totaling $11,004 offset by interest income earned on our invested excess cash balances.

Our loss before benefit for income taxes was $453,586 in the second quarter of 2007 compared to income before provision for income taxes of $324,953 in the second quarter of 2006. The loss is due to an increase in sales and marketing expenses and an increase in general and administrative expenses, offset by an increase in revenues.

The provision for income taxes decreased from an expense of $181,791 for the second quarter of 2006 to a tax benefit of $166,955 for the second quarter of 2007. The decrease is directly related to a decrease in results from operations whereby income before income taxes for the second quarter of 2006 was $324,953 whereas the loss before income taxes for the second quarter of 2007 was $453,586. The tax rate in the second quarter of 2006, 55.9%, was higher than the statutory rate because of tax rate differentials, the true-up of permanent tax differences, and the tax effect of deductible items for book but not tax purposes. The benefit rate in the second quarter of 2007, 36.8%, was lower than the statutory rate because of the tax effect of deductible items for book but not tax purposes.

As a result of the foregoing, our net loss for the second quarter of 2007 was $286,631 compared to net income of $143,162 in the second quarter of 2006.

Six Months Ended June 30, 2007 compared to Six Months Ended June 30, 2006

Revenues increased by 22.9%, $875,587, from $3,828,277 for the six months ended June 30, 2006 (the "first half of 2006") to $4,703,864 for the six months ended June 30, 2007 (the "first half of 2007"). The increase is attributable to the revenues of the Acquisitions.

Selling and marketing expenses increased by $1,452,199, 156.7% to $2,378,740 for the first half of 2007 as compared to $926,541 for the first half of 2006. The increase is primarily attributable to the Acquisitions and partially attributable to an increase in co-op marketing projects during the first half of 2007 for Online Vacation Center, Inc. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

General and administrative expenses increased by $574,693 or 27.2% to $2,689,569 for the first half of 2007 as compared to $2,114,876 for the first half of 2006. The increase is primarily attributable to the Acquisitions. General and administrative expenses primarily include management and non sales staff compensation, professional services, and occupancy costs.

Depreciation and amortization expense for the first half of 2007 was $177,658 as compared to $41,786 for the first half of 2006. Amortization expense increased by $131,593 during the first half of 2007 as a result of amortization of intangible assets acquired in conjunction with the Acquisitions. The remaining increase of $4,279 is attributable to an increase in depreciation expense.

Interest Expense decreased from $21,787 for the first half of 2006 to $3,319 for the first half of 2007. The first half of 2006 expense was attributable to interest of $48,658 on subordinated debt which was ultimately exchanged for 1,500,310 shares of our common stock in conjunction with the Share Exchange

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Agreement in March 2006, offset by interest income earned on our invested excess cash balances which were higher than during the same period of 2007. The expense in the first half of 2007 represents the excess of the accrued interest expense on the debt issued by us in conjunction with our acquisition of Thoroughbred Travel, LLC, La Fern, Inc., and La Tours and Cruises, Inc., totaling $21,883 offset by the interest income earned on our invested excess cash balances.

Our loss before benefit for income taxes was $545,422 in the first half of 2007 compared to income before provision for income taxes of $723,287 in the first half of 2006. The loss is due to an increase in sales and marketing expenses and an increase in general and administrative expenses, offset by an increase in revenues.

The provision for income taxes decreased from an expense of $359,717 for the first half of 2006 to a tax benefit of $191,602 for the first half of 2007. The decrease is directly related to a decrease in results from operations whereby income before income taxes for the first half of 2006 was $723,287 whereas the loss before income taxes for the first half of 2007 was $545,422. The tax rate in the first half of 2006, 49.7%, was higher than the statutory rate because of tax rate differentials, the true-up of permanent tax differences, the tax effect of deductible items for book but not tax purposes, and the gain on sale of cigar assets, the result of the transaction wherein we distributed the assets relating to the cigar business to a former director and majority shareholder in exchange for 2.7 million shares of its common stock. We recognized gain on each asset distributed based upon the difference between the fair market value and our adjusted basis in each asset at the time of closing. The benefit rate in the first half of 2007, 35.1%, was lower than the statutory rate because of the tax effect of items deductible for book but not for tax purposes.

As a result of the foregoing, our net loss for the first half of 2007 was $353,820 compared to net income of $363,570 in the first half of 2006.

Liquidity and Capital Resources

Cash at June 30, 2007 was $1,573,473 as compared to $2,658,885 at December 31, 2006. The primary source of our liquidity and capital resources has come from our operations.

Cash flows provided by operating activities for the first half of 2007 and 2006 were $90,011 and $710,407, respectively. Although the first half of 2007 had a net loss of $353,820 as compared to a net profit of $363,570 in the first half of 2006, this decrease of $717,390 was offset by improvements in non cash operating items, primarily relating to an increase in depreciation and amortization of $135,872 as a result of increased amortization expense associated with amortization of intangible assets acquired in conjunction with the Acquisitions.

Cash flows used in investing activities for the first half of 2007 increased to $1,175,423 compared to $19,598 during the first half of 2006. The primary cash out flow related to the excess of cash paid over cash received totaling $1,116,713 in conjunction with the four acquisitions completed during the first half of 2007. The balance of the increase, $58,710, is primarily attributable to capital expenditures, primarily computers and software, made during the first half of 2007 and an increase in restricted cash representing collateral for letters of credit and a reserve for credit card processing.

There were no cash flows from financing activities during the first half of 2007 and 2006; however, in conjunction with the Share Exchange Agreement in March 2006, $3,000,000 of 8% subordinated debentures due on January 1, 2008 were ultimately exchanged for 1,500,310 shares of our common stock effective as of March 16, 2006.

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At June 30, 2007, we had a working capital deficit of $1,089,225, a decrease of $1,670,706 from December 31, 2006 and an accumulated deficit of $1,711,347, an increase of $353,820 from December 31, 2006.

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 but hope to mitigate the effects of seasonality by acquiring companies in the travel industry that are not as sensitive to seasonality, such as travel advertising. 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 2006 Annual Report on Form 10-KSB filed on March 21, 2007, 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.

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 publication. Emerging Issues Task Force (EITF) Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent", discusses the weighing of the relevant

qualitative factors regarding our status as a primary obligor and the extent of their pricing latitude. Based upon our evaluation of vacation travel sales transactions and in accordance with the various indicators identified in EITF Issue No. 99-19, our vacation travel suppliers assume the majority of the business risks such as providing the service and the risk of unsold travel packages. As such, all vacation travel sales transactions are to be 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.

We adopted the provisions of FASB Interpretation No.48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109, "effective January 1, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. Adoption of FIN 48 as of January 1, 2007 did not have a significant impact on our financial statements. At the date of adoption and as of June 30, 2007, we do not have a liability for any unrecognized tax benefits. Our policy is to record interest and penalties on uncertain tax positions as income tax expense. As of June 30, 2007, we have not accrued nor recognized interest or penalties related to uncertain tax positions. We do not currently anticipate recording any significant increase or decrease to unrecognized tax benefits during 2007 related to U.S. federal or state tax positions.

We file income tax returns in the U.S. federal jurisdiction and various states. We have not been subject to U.S. federal income tax examinations by tax authorities nor state authorities since our inception in 2000. We believe that we have not taken any uncertain tax positions that would impact our condensed consolidated financial statements as of June 30, 2007.

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. 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.

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ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of management, including Edward B. Rudner, our Chief Executive Officer and Chief Financial Officer, 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) of the Securities Exchange Act of 1934. In designing and evaluating the disclosure controls and procedures, management recognizes that there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their desired control objectives. Additionally, in evaluating and implementing possible controls and procedures, management is required to apply its reasonable judgment.

Based upon the required evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of June 30, 2007, that our disclosure controls and procedures are effective in timely alerting him to material information relating to the Company that is required to be disclosed by us in the reports that we file or submit under the Exchange Act to be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no significant changes in our internal controls over financial reporting or in other factors that could significantly affect internal controls over financial reporting subsequent to the date we carried out our evaluation.

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

The Company's annual meeting of stockholders was held on May 15, 2007. Of the total number of common shares outstanding on March 30, 2007, a total of 11,309,958 were represented in person or by proxy. Results of votes with respect to proposals submitted at that meeting are as follows:

a. To elect four nominees to serve as directors to hold office until the next annual meeting of our stockholders or until their successors have been elected and qualified. Our stockholders voted to elect all four nominees to serve as directors. Votes recorded by nominee were as follows:

Nominee	For	Against/ Withheld
Richard A. McKinnon	11,306,626	3,332
Edward B. Rudner	11,306,626	3,332
Brian P. Froelich	11,307,476	2,482

Frank Bracken	11,306,726	3,232

There were no abstentions and no broker non-votes in connection with the election of directors.

b. To ratify our Board's appointment of Jewett, Schwartz, Wolfe & Associates as our independent public accountants for the 2007 fiscal year. Our stockholders voted to approve this proposal with 11,307,752 votes for and 948 votes against. There were no abstentions and no broker non-votes in connection with the ratification of our independent public accountants for fiscal 2007.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. +
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. +
32.1	Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. +
32.2	Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. +

\+ 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: August 14, 2007