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ONLINE VACATION CENTER HOLDINGS CORP  
Form 10QSB  
November 13, 2007

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

(Mark One)

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

For the quarterly period ended September 30, 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  No

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of November 13, 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

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Part I. Financial Information

Item 1 Financial Statements (Unaudited)

ONLINE VACATION CENTER HOLDINGS CORP.  
CONDENSED CONSOLIDATED BALANCE SHEETS

September 30,  
2007

(Unaudited)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,173,189
Accounts receivable, net	947,254
Deposits and prepaid items	891,603
Deferred tax asset, net	33,313

Total Current Assets	3,045,359
----------------------	-----------

Restricted cash	351,368
Property and equipment, net	139,158
Deferred tax asset, net	515,418
Intangible assets, net	1,792,854
Goodwill	2,913,869

Total Assets	\$ 8,758,026
--------------	--------------

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 1,517,871
Deferred revenue	3,108,017
Notes payable, current portion	98,431

Total Current Liabilities	4,724,319
---------------------------	-----------

Notes payable	506,767
---------------	---------

Total Liabilities	5,231,086
-------------------	-----------

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	

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issued and outstanding	1,849
Additional paid-in capital	5,575,725
Accumulated deficit	(2,050,634)
	-----
Total Stockholders' Equity	3,526,940
	-----
Total Liabilities and Stockholders' Equity	\$ 8,758,026
	=====

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

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

	For the three months ended		
	September 30,		
	2007	2006	2005
	-----	-----	-----
NET REVENUES	\$ 2,011,236	\$ 1,260,148	\$ 6,000,000
OPERATING EXPENSES:			
Selling and marketing	1,140,195	667,064	3,000,000
General and administrative	1,308,910	911,272	3,000,000
Depreciation and amortization	103,490	28,514	
	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	(541,359)	(346,702)	(1,000,000)
Interest income (expense), net	(7,666)	27,152	
	-----	-----	-----
Income (loss) before provision (benefit) for income taxes	(549,025)	(319,550)	(1,000,000)
Provision / (benefit) for income taxes	(209,738)	(155,823)	
	-----	-----	-----
NET (LOSS) INCOME	\$ (339,287)	\$ (163,727)	\$ (1,000,000)
	=====	=====	=====
Weighted average shares outstanding - Basic	18,492,977	17,279,603	18,000,000
	=====	=====	=====
EARNINGS PER SHARE - Basic	\$ (0.02)	\$ (0.01)	\$ (0.05)
	=====	=====	=====
Weighted average shares outstanding - Diluted	18,492,977	17,279,603	18,000,000

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	=====	=====	=====
EARNINGS PER SHARE - Diluted	\$ (0.02)	\$ (0.01)	\$
	=====	=====	=====

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

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

	For th
	-----
	September
	200
	-----
Cash flows from operating activities:	
Net income (loss)	\$ (693)
Adjustments to reconcile to net cash inflow/(outflow)	
from operating activities:	
Depreciation and amortization	281
Stock based compensation expense	150
Imputed interest expense	13
Deferred income tax provision	(398)
(Increase)/decrease in accounts receivable	96
Increase in deposits and prepaid items	(574)
Decrease in accounts payable and accrued liabilities	(7)
Increase in deferred revenue	1,023
	-----
Net cash (used by) provided from operating activities	(107)
	-----
Cash flows from investing activities:	
Capital expenditures	(117)

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Increase in intangible assets	(3)
Increase in restricted cash	(15)
Cash paid for acquisition in excess of cash received	(1,116)
	-----
Cash used in investing activities	(1,252)
	-----
Cash flows from financing activities:	
Repayment of note payable	(125)
	-----
Cash used in financing activities	(125)
	-----
Increase (decrease) in cash during the period	(1,485)
Cash at the beginning of the period	2,658
	-----
Cash at the end of the period	\$ 1,173
	=====
Supplemental information:	
Cash paid for interest	\$ 17
	=====
Cash paid (refunded) for taxes	\$ 6
	=====
Common stock issued in conjunction with acquisitions	\$ 337
	=====
Net debt issued in conjunction with acquisitions	\$ 216
	=====
Conversion of subordinated debt into common stock	\$
	=====
Reduction in fair value of conversion feature of debt	\$ 11
	=====
Capital expenditures included in accounts payable and accrued liabilities	\$
	=====

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

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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 and nine months ended September 30, 2007 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, and accounting for income taxes, contingencies and litigation. While the Company believes that such estimates are fair when considered in conjunction with the condensed consolidated financial position and results of operations taken as a whole, actual results could differ from those estimates and such differences may be material to the financial statements.

## 2. 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

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

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

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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.

In July 2002, "The Public Company Accounting Reform and Investor Protection Act of 2002" (the "Sarbanes-Oxley Act") was enacted. Section 404 of the Sarbanes-Oxley Act stipulates that public companies must take responsibility for maintaining an effective system of internal control. The Sarbanes-Oxley Act requires public companies to report on the effectiveness of their control over financial reporting and obtain an attestation report from their independent registered public accounting firm about management's report. The Sarbanes-Oxley Act requires most public companies (large accelerated and accelerated filers) to report on their internal controls over financial reporting for years ending on or after November 15, 2004. Other public companies (non-accelerated filers) must begin to comply with the new requirements which include a report on the effectiveness related to internal control over financial reporting for their first year ending on or after December 15, 2007 and must file an auditor's attestation report on internal controls over financial reporting in their annual reports in the first annual report for a fiscal year ending on or after December 15, 2008. The Company is a non-accelerated filer and expects to be able to comply with these filing requirements.

### 3. SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of those items necessary to advertise the Company's services, produce marketing materials, maintain and staff travel reservation and fulfillment center including payroll, commissions and benefits. Certain marketing material production costs incurred in the three and nine months ended September 30, 2006 have been reclassified to conform to this presentation.

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

### 4. EARNINGS PER SHARE

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

For the Three Months Ended  
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	September 30, -----	
	2007 -----	2006 -----
Numerator:		
Net earnings (loss)-basic and diluted	\$ (339,287) =====	\$ (163,727) =====
Denominator:		
Weighted average number of shares outstanding - basic and diluted	18,492,977 =====	17,279,603 =====
EPS:		
Basic and diluted	\$ (0.02) =====	\$ (0.01) =====

	For the Nine Months Ended ----- September 30, -----	
	2007 -----	2006 -----
Numerator:		
Net earnings (loss)	\$ (693,107)	\$ 194,770
Effect of dilutive stock options	--	--
Diluted	\$ (693,107) =====	\$ 194,770 =====
Denominator:		
Weighted average number of shares outstanding - basic	18,480,907	16,552,022
Effect of dilutive stock options	--	189,723
Diluted	18,480,907 =====	16,741,745 =====
EPS:		
Basic	\$ (0.04) =====	\$ 0.01 =====
Diluted	\$ (0.04) =====	\$ 0.01 =====

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

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 three months ended September 30, 2007 or 2006 under the Plan.

A summary of the activity in the Company's Plan for the nine months ended September 30, 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	5,000	2.91
Exercised	-	0.00
	-----	-----
Options outstanding at September 30, 2007	1,975,000	\$ 1.37
	=====	=====

The weighted fair value of options granted during the nine months ended September 30, 2007 was \$0.95 with the following assumptions: average expected life of 3.5 years; 4.72% average risk-free interest rate; 46.03% volatility; 5% forfeiture rate. Compensation cost recognized for the three and nine months ended September 30, 2007 was \$44,149 and \$131,856, respectively. Compensation cost recognized for the three and nine months ended September 30, 2006 was \$34,847 and \$111,770, respectively.

As of September 30, 2007, there was approximately \$124,930 of total stock-based compensation expense not yet recognized relating to non-vested awards granted under the Company's option plan as calculated under SFAS 123R. This expense is net of estimated forfeitures and is expected to be recognized over a weighted-average period of approximately six months. The number of non-exercisable shares was 1,575,000 shares of common stock at September 30, 2007. At September 30, 2007, 400,000 shares of common stock at \$1.27 per share were exercisable.

During the nine months ended September 30, 2007, 11,200 restricted shares were granted to employees under the Plan. Compensation expense for nine months ended September 30, 2007 and 2006 related to the restricted share grants was \$18,520 and \$5,950, respectively.

### 6. DEFERRED REVENUE

Deferred revenues consist of sales commissions received from vacation travel suppliers, fees received from customers in advance of passenger cruise travel, and publication advertising billed in advance of publication distribution. These sales commissions, fees, and advertising billings are recognized as revenue upon the customers' travel and distribution of the publication, respectively. Balances at December 31, 2006 have been reclassified to conform to this presentation.

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

#### 7. RELATED PARTY TRANSACTIONS

Effective October 2005, Online Vacation Center Holdings, Inc. engaged a consultant on a month to month basis who now serves as the Company's Chairman. In consideration for such services, the consultant received a monthly fee of \$10,000. The consultant and Company, by mutual accord, terminated the consulting services as of September 30, 2007. During the third quarters of 2007 and 2006, this consultant received \$30,000 for each quarter in fees and \$90,000 in fees for both the nine months ended September 30, 2007 and 2006.

#### 8. 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:

- o Online Vacation Center, Inc. ("Online Vacation Center"), a full service vacation seller focused on serving the affluent retiree market. Historically, this subsidiary has been the core business, accounting for the majority of revenue and net income through the sale of high margin cruise packages,
- o Phoenix International Publishing, LLC, the United Kingdom's leading publisher of consumer magazines and guides about travel to the U.S. and Canada,
- o Thoroughbred Travel, LLC, a Houston, Texas based upscale travel agency, operating as Journeys Unlimited,
- o La Fern, Inc., operating as eLeisureLink.com, a Florida travel agency that sells land-based vacations,
- o 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,
- o Dunhill Vacations, Inc., a travel newsletter and media provider,
- o Cruises for Less, LLC, a home-based travel selling group, which uses assets acquired from Smart Traveler.com, Inc., and
- o Tone and Travel, LLC dba Curves Travel, the licensed travel management company of Curves International, Inc.

In the last thirteen months, we have completed seven (7) acquisitions. We acquired Phoenix International Publishing, LLC, Thoroughbred Travel, LLC, and La Fern, Inc. in the latter half of 2006, La Tours and Cruises, Inc., Dunhill Vacations, Inc. and certain assets of SmartTraveler.com, Inc. in the first quarter of 2007 and Curves Travel in May 2007 (collectively the "Acquisition Companies").

We generate revenues from:

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

We currently market our services by:

- o utilizing an advertising sales force,
- o producing travel-related publications for consumers,
- o telemarketing to our existing customer base,
- o direct mailing to our existing customer base as well as targeted prospects, and
- o 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, payroll, commissions and benefits, and general and administrative expenses including professional fees, management compensation, rental payments and technology costs.

#### Results of Operations

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

Revenues increased by \$751,088 or 59.6% to \$2,011,236 for the quarter ended September 30, 2007 ("the third quarter of 2007") compared to \$1,260,148 for the quarter ended September 30, 2006 ("the third quarter of 2006"). The increase was due to more customers traveling during the third quarter of 2007 and additional revenues from the Acquisition Companies. We derived revenues from seven (7) Acquisition Companies in the third quarter of 2007 compared to revenues from two (2) Acquisition Companies in the third quarter of 2006.

Selling and marketing expenses increased by \$473,131 or 70.9% to \$1,140,195 for the third quarter of 2007 compared to \$667,064 for the third quarter of 2006. The increase is attributable to increased expenses incurred by the Acquisition Companies and an increase in Online Vacation Center's co-op marketing projects and sales staff compensation during the third quarter of 2007. We incurred selling and marketing expenses for seven (7) Acquisition Companies in the third quarter of 2007 compared to expenses associated with two (2) Acquisition Companies in the third quarter of 2006. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

General and administrative expenses ("G&A expenses") increased by \$397,638 or 43.6% to \$1,308,910 for the third quarter of 2007 compared to \$911,272 for the third quarter of 2006. The increase is attributable to the increased expenses of the Acquisition Companies. We incurred G&A expenses for seven (7) Acquisition Companies in the third quarter of 2007 compared to expenses associated with two (2) Acquisition Companies in the third quarter of 2006. G&A expenses primarily

include management and non sales staff compensation, professional services, and occupancy costs.

Depreciation and amortization expense for the third quarter of 2007 was \$103,490 compared to \$28,514 for the third quarter of 2006. The increase of \$74,976 is attributable to the increased amortization expenses associated with seven (7) Acquisition Companies in the third quarter of 2007 compared to expenses associated with two (2) Acquisition Companies in the third quarter of 2006.

Interest income/(expense) decreased from income of \$27,152 for the third quarter of 2006 to net interest expense of \$7,666 for the third quarter of 2007. Interest income during the third quarter of 2006 consisted of interest income earned on our invested excess cash balances which were higher than our cash balances during the same period of 2007. Our net interest expense in the third quarter of 2007 primarily represents the interest expense on the debt issued by us in conjunction with our acquisition of Thoroughbred Travel, LLC, La Fern, Inc., and La Tours and Cruises, Inc. totaling \$11,317 offset by interest income earned on our excess invested cash balances during this time period.

Our loss before income taxes was \$549,025 in the third quarter of 2007 compared to a loss before income taxes of \$319,550 in the third quarter of 2006. The loss is due to increased sales and marketing expenses and G&A expenses, offset by an increase in revenues.

Our tax benefit for income taxes increased from a tax benefit of \$155,823 for the third quarter of 2006 to a tax benefit of \$209,738 for the third quarter of 2007. The increased benefit for income taxes is directly related to our increased loss before income taxes. In the third quarter of 2007, our loss before income taxes was \$319,550 compared to a loss before income taxes of \$549,025 in the third quarter of 2006. The benefit rate in the third quarter of 2006, 48.8%, 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 purposes but not tax purposes. The benefit rate in the third quarter of 2007, 38.2%, was lower than the statutory rate because of the tax effect of deductible items for book purposes but not tax purposes.

As a result of the foregoing, our net loss for the third quarter of 2007 was \$339,287 compared to a net loss of \$163,727 in the third quarter of 2006.

Nine Months Ended September 30, 2007 compared to Nine Months Ended September 30, 2006

Revenues increased by \$1,631,748 or 32.1% to \$6,715,100 for the nine months ended September 30, 2007 compared to \$5,083,352 for the nine months ended September 30, 2006. The increase is primarily attributable to the revenues from the Acquisition Companies. We derived revenues from seven (7) Acquisition Companies in the nine months ended September 30, 2007 compared to revenues from two (2) Acquisition Companies in the nine months ended September 30, 2006.

Selling and marketing expenses increased by \$1,925,329 or 120.8% to \$3,518,935 for the nine months ended September 30, 2007 compared to \$1,593,606 for the nine

months ended September 30, 2006. The increase is primarily attributable to the increased expenses associated with the Acquisition Companies and partially attributable to an increase in Online Vacation Center's co-op marketing projects and sales staff compensation during the nine months ended September 30, 2007. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

G&A expenses increased by \$972,331 or 32.1% to \$3,998,479 for the nine months ended September 30, 2007 compared to \$3,026,148 for the nine months ended September 30, 2006. The increase is primarily attributable to the increased G&A expenses associated with the Acquisition Companies. G&A expenses primarily include management and non sales staff compensation, professional services, and occupancy costs.

Depreciation and amortization expense for the nine months ended September 30, 2007 was \$281,148 compared to \$70,300 for the nine months ended September 30, 2006. The increase of \$206,409 is attributable to the increased amortization expenses associated with seven (7) Acquisition Companies during the nine months ended September 30, 2007 compared to expenses associated with two (2) Acquisition Companies during the nine months ended September 30, 2006. The remaining increase of \$4,439 is attributable to an increase in depreciation expense during this time period.

Interest income/(expense) decreased from \$5,366 of net interest income for the nine months ended September 30, 2006 compared to net interest expense of \$10,985 for the nine months ended September 30, 2007. Net interest expense in the nine months ended September 30, 2006 was attributable to interest on \$3,000,000 of subordinated debt (which was ultimately exchanged for 1,500,310 shares of our common stock in conjunction with the Share Exchange Agreement in March 2006), offset by interest income earned on our invested cash balances which were higher than during the same period of 2007. Net interest expense in the nine months ended September 30, 2007 primarily represents the excess of the interest expense on the debt issued by us in conjunction with our acquisition of Thoroughbred Travel, LLC, La Fern, Inc., and La Tours and Cruises, Inc., totaling \$34,151 offset by the interest income earned on our invested excess cash balances.

Our loss before income taxes was \$1,094,447 in the nine months ended September 30, 2007 compared to income before income taxes of \$398,664 in the nine months ended September 30, 2006. The loss is due to an increase in sales and marketing expenses and G&A expenses, offset by an increase in revenues during this time period.

Our provision for income taxes decreased from an expense of \$203,894 for the nine months ended September 30, 2006 to a tax benefit of \$401,340 for the nine months ended September 30, 2007. The decrease is directly related to a decrease in our results from operations in which income before income taxes was \$398,664 for the nine months ended September 30, 2006 compared to a loss before income taxes of \$1,094,447 for the nine months ended September 30, 2007. The tax rate

in the nine months ended September 30, 2006, 51.1%, was higher than the statutory rate because of tax rate differentials, the true-up of permanent tax

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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 nine months ended September 30, 2007, 36.7%, 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 was \$693,107 for the nine months ended September 30, 2007 compared to net income of \$194,770 for the nine months ended September 30, 2006.

### Liquidity and Capital Resources

Cash at September 30, 2007 was \$1,173,189 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 used by operating activities during the nine months ended September 30, 2007 were \$107,734 and cash flows provided from operations for the nine months ended September 30, 2006 were \$888,505, respectively. Our net loss for the nine months ended September 30, 2007 increased by \$887,877, non-cash operating items decreased by \$400,147 offset by an increase of \$291,785 provided by working capital items.

Cash flows used in investing activities for the nine months ended September 30, 2007 increased to \$1,252,962 compared to \$186,300 during the nine months ended September 30, 2006. Our primary cash out flow related to the excess of cash paid over cash received totaling \$966,713 in conjunction with the four acquisitions completed during the nine months ended September 30, 2007 as compared to two acquisitions completed during the nine months ended September 30, 2006. The balance of the increase, \$99,949, is primarily attributable to capital expenditures, primarily computers and software, made during the nine months ended September 30, 2007 and an increase in restricted cash representing collateral for a new letter of credit.

Cash flows used in financing activities during the nine months ended September 30, 2007 was \$125,000 representing repayment of a note issued in conjunction with the Thoroughbred Travel LLC. acquisition. There were no cash flows from financing activities during the nine months ended September 30, 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.

At September 30, 2007, we had a working capital deficit of \$1,678,960, a decrease of \$2,260,441 from December 31, 2006 and an accumulated deficit of \$2,050,634, an increase of \$693,107 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



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longer-term liquidity and capital requirements, which may include strategic growth through acquisitions. We can not provide any assurances that we will be able to obtain additional capital or financing in amounts or on terms acceptable to us, if at all or on a timely basis.

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

### Seasonality and Inflation

The domestic and international leisure travel industry is seasonal. Our results have been subject to quarterly fluctuations caused primarily by the seasonal variations in the travel industry. Leisure travel net revenues and net income are generally lower in the third quarter. We expect seasonality to continue in the future. We do not expect inflation to materially affect our revenues and net income.

### Critical Accounting Policies

We prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. As such, management is required to make certain estimates, judgments and assumptions that it believes are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. A more extensive list of significant accounting policies and a description of accounting policies that are considered critical may be found in our 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 ("FIN") No. 48, "Accounting for

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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 September 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 September 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 September 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.

### 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

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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 September 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 September 30, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### 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

None

### ITEM 5. OTHER INFORMATION

Effective October 2005, Online Vacation Center Holdings, Inc. engaged a consultant on a month to month basis who now serves as the Company's Chairman. In consideration for such services, the consultant received a monthly fee of \$10,000. The consultant and Company, by mutual accord, terminated the consulting services as of September 30, 2007. During the third quarters of 2007 and 2006, this consultant received \$30,000 for each quarter in fees and \$90,000 in fees for both the nine months ended September 30, 2007 and 2006.

### ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
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- 10.1 Termination of Consulting Agreement effective as of September 30, 2007 between the Company and Richard A. McKinnon +
  - 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. +

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+ Filed herewith

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant

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caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ONLINE VACATION CENTER HOLDINGS CORP.

/S/ Edward B. Rudner

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Chief Executive Officer, President, Chief Financial  
Officer and Director

Date: November 13, 2007