

ONLINE VACATION CENTER HOLDINGS CORP
Form 10-Q
November 12, 2010

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

(Mark One)

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from _____ to _____

Commission file number: 0-32137

Online Vacation Center Holdings Corp.
(Exact name of registrant as specified in its charter)

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

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

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

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Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes No

At November 11, 2010, the number of shares outstanding of the registrant's common stock, \$0.0001 par value was 14,660,178.

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ONLINE VACATION CENTER HOLDINGS CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,997,256	\$ 2,721,658
Accounts receivable, net	840,863	958,913
Deposits and prepaid items	2,493,827	1,107,018
Deferred tax asset, net	60,498	33,442
Total Current Assets	6,392,444	4,821,031
Restricted cash	48,000	48,000
Property and equipment, net	184,032	132,277
Intangible assets, net	1,209,761	1,076,315
Goodwill	395,542	395,542
Other assets	9,866	31,281
Total Assets	\$ 8,239,645	\$ 6,504,446
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,650,939	\$ 2,223,363
Deferred revenue	2,679,008	1,345,687
Capital lease obligations, current portion	42,028	16,421
Total Current Liabilities	5,371,975	3,585,471
Capital lease obligations	45,009	19,415
Deferred tax liability	282,228	195,597
Total Liabilities	5,699,212	3,800,483
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; 14,660,178 and 15,000,478 shares issued and outstanding	1,466	1,500

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Additional paid-in capital	3,776,234	3,959,217
Accumulated deficit	(1,237,267)	(1,256,754)
Total Stockholders' Equity	2,540,433	2,703,963
Total Liabilities and Stockholders' Equity	\$ 8,239,645	\$ 6,504,446

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
NET REVENUES	\$ 1,841,783	\$ 1,571,884	\$ 6,463,095	\$ 6,522,341
OPERATING EXPENSES:				
Selling and marketing	767,190	553,375	2,176,534	1,746,582
General and administrative	1,378,215	1,031,482	3,850,140	3,294,875
Depreciation and amortization	163,772	121,691	456,252	343,941
OPERATING INCOME (LOSS)	(467,394)	(134,664)	(19,831)	1,136,943
Interest income, net	1,977	2,859	5,115	5,921
Income (Loss) from continuing operations before provision (benefit) for income taxes	(465,417)	(131,805)	(14,716)	1,142,864
Provision (Benefit) for income taxes	(160,728)	411	(34,203)	517,397
Income (Loss) from continuing operations	(304,689)	(132,216)	19,487	625,467
DISCONTINUED OPERATIONS:				
Loss from discontinued operations, net of tax benefit	-	(873,343)	-	(932,358)
NET INCOME (LOSS)	\$ (304,689)	\$ (1,005,559)	\$ 19,487	\$ (306,891)
EARNINGS PER SHARE - Basic				
Income (Loss) from continuing operations	\$ (0.02)	\$ (0.01)	\$ 0.00	\$ 0.04
(Loss) from discontinued operations	\$ -	\$ (0.05)	\$ -	\$ (0.06)
Net income (loss)	\$ (0.02)	\$ (0.06)	\$ 0.00	\$ (0.02)

Weighted average shares outstanding - Basic	14,718,113	15,979,356	14,846,757	16,828,165
EARNINGS PER SHARE - Diluted				
Income (Loss) from continuing operations	\$ (0.02)	\$ (0.01)	\$ 0.00	\$ 0.04
(Loss) from discontinued operations	\$ -	\$ (0.05)	\$ -	\$ (0.06)
Net income (loss)	\$ (0.02)	\$ (0.06)	\$ 0.00	\$ (0.02)
Weighted average shares outstanding - Diluted	14,718,113	15,979,356	14,846,757	16,828,165

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

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

	For the Nine Months Ended September 30,	
	2010	2009
Cash flows from continuing operating activities:		
Net income	\$ 19,487	\$ (306,891)
Loss from discontinued operations, net of tax	-	932,358
Income from continuing operations	19,487	625,467
Adjustments to reconcile to net cash inflow from operating activities:		
Depreciation and amortization	456,252	343,941
Stock based compensation expense	16,323	64,896
Imputed interest expense- net	(1,498)	2,420
Deferred income tax expense	59,575	54,554
Decrease in accounts receivable	118,050	629,910
(Increase) in deposits and prepaid items	(1,385,464)	(155,312)
Increase in accounts payable and accrued liabilities	427,573	126,980
Increase in deferred revenue	1,333,321	88,891
Net cash provided by operating activities	1,043,619	1,781,747
Cash flows from continuing investing activities:		
Capital expenditures	(75,991)	(107,737)
Purchase of intangible assets	(497,579)	(381,177)
Decrease in restricted cash		15,000
Decrease in receivable upon disposition of discontinued operation	22,500	22,500
Cash used in investing activities	(551,070)	(451,414)
Cash flows from continuing financing activities:		
Purchase of treasury stock under approved purchase plan	-	(91,473)
Purchase of treasury stock	(199,340)	(944,850)
Payments under capital lease obligations	(17,611)	(18,550)
Repayment of notes payable	-	(100,000)
Cash used in financing activities	(216,951)	(1,154,873)
Discontinued Operations		
Cash provided by operating activities		425,300
Cash provided by discontinued operations	-	425,300
Increase in cash during the period	275,598	600,760
Cash at the beginning of the period	2,721,658	1,693,447
Cash at the end of the period	\$ 2,997,256	\$ 2,294,207

Supplemental disclosure of cash flow information:

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Cash paid for interest	\$	936	\$	13,834
Cash paid/(refunded) for taxes	\$	(214)	\$	266,700
Non-cash investing and financing activities:				
Retirement of treasury stock	\$	199,340	\$	494,796
Purchase of computer equipment under capital lease obligations	\$	67,877	\$	-

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

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

1. BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements of Online Vacation Center Holdings Corp., (the “Company”), and the notes thereto have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K, for the year ended December 31, 2009, and filed with the Securities and Exchange Commission on March 29, 2010 (the “2009 Annual Report”). The condensed consolidated balance sheet as of December 31, 2009 has been derived from audited financial statements. The interim financial information contained herein is not certified or audited; it reflects all adjustments (consisting of only normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the operating results for the periods presented, stated on a basis consistent with that of the audited financial statements.

The results of operations for the three months and nine months ended September 30, 2010 are not necessarily indicative of annual results. The Company manages its business as one reportable segment.

The Company has evaluated subsequent events that have occurred through the date these financial statements were issued. No subsequent events occurred that required either adjustment to or disclosure in these financial statements

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.

Fair Value

The carrying amounts of cash, cash equivalents, accounts receivable, deposits and prepaid items, accounts payable, and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities

2. DISPOSITION

On September 30, 2009, the Company’s Board of Directors authorized the sale of Thoroughbred Travel LLC (“Thoroughbred”) and La Tours and Cruises, Inc. (“La Tours”), Houston, Texas based travel agencies focused on providing luxury based personal travel products, such as cruises, European tours and all inclusive vacations. Additionally, the Company’s Board of Directors authorized the

ONLINE VACATION CENTER HOLDINGS CORP AND SUBSIDIARIES
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dissolution of La Fern, Inc. (“La Fern”) a Florida travel agency focused on providing land-based vacations. The Company acquired Thoroughbred in September 2006, La Fern in October 2006 and La Tours in January 2007.

On October 19, 2009, the Company entered into a definitive agreement (the “Sales Agreement”) to sell the assets and liabilities arising from customer travel after November 2, 2009 of La Tours and Thoroughbred to West University Travel LLC (“West U”), a Texas limited liability company. The principal members of West U are Ray Schutter, President of La Tours and Thoroughbred, and Cecilia Schutter from whom the Company purchased La Tours in January 2007.

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

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Revenues	\$ 159,385	\$ 382,480
Impairment charges - intangibles	103,923	103,923
Impairment charges - goodwill	1,170,191	1,170,191
(Loss) before income taxes	(1,421,136)	(1,525,507)
Income tax benefit	(547,793)	(590,149)
(Loss) from discontinued operations	\$ (873,343)	\$ (932,358)

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (the “FASB”) has codified a single source of U.S. Generally Accepted Accounting Principles (GAAP), the Accounting Standards Codification™. Unless needed to clarify a point to readers, we will refrain from citing specific section references when discussing application of accounting principles or addressing new or pending accounting rule changes. There are no recently issued accounting standards that are expected to have a material effect on our financial condition, results of operations or cash flows.

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

4. EARNINGS PER SHARE

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

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

(Unaudited)

increase the number of shares outstanding and lower the earnings per share of the Company's common stock. This calculation is not done for periods in a loss position as this would be antidilutive. As of September 30, 2010, there were no stock options or stock awards that would have been included in the computation of diluted earnings per share that could potentially dilute basic earnings per share in the future. The information related to basic and diluted earnings per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Numerator:				
Continuing operations:				
Income (Loss) from continuing operations	\$ (304,689)	\$ (132,216)	\$ 19,487	\$ 625,467
Discontinued operations				
(Loss) from discontinued operations	--	(873,343)	--	(932,358)
Net income (loss)	\$ (304,689)	\$ (1,005,559)	\$ 19,487	\$ (306,891)
Denominator:				
Weighted average number of shares outstanding – basic and diluted	14,718,113	15,979,356	14,846,757	16,828,165
EPS:				
Basic:				
Continuing operations	\$ (0.02)	\$ (0.01)	\$ 0.00	\$ 0.04
Discontinued operations	- . --	(0.05)	- . --	(0.06)
Net income (loss)	\$ (0.02)	\$ (0.06)	\$ 0.00	\$ (0.02)
Diluted				
Continuing operations	\$ (0.02)	\$ (0.01)	\$ 0.00	\$ 0.04
Discontinued operations	- . --	(0.05)	- . --	(0.06)
Net income (loss)	\$ (0.02)	\$ (0.06)	\$ 0.00	\$ (0.02)

5. DEPOSITS AND PREPAID ITEMS

Deposits and prepaid items consist of the following:

	September 30, 2010	December 31, 2009
Deposits with suppliers	\$ 1,574,566	\$ 761,653
Advanced employee commissions	452,994	--

Prepaid expenses and current portion of note receivable	466,267	345,365
Deposits and prepaid items	\$2,493,827	\$1,107,018

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

(Unaudited)

In January 2010, the Company initiated a compensation plan for a part of its sales force. Employees in this unit are solely compensated by commission. Commission payments are treated as an asset (“Advanced employee commissions”) and are expensed at the time of client’s travel when the related revenue is recognized. Other sales employees, in accordance with the existing compensation plan, are paid a salary with a bonus which are expensed immediately.

6. INTANGIBLE ASSETS, NET

Intangible assets are capitalized at their respective cost and are amortized at their estimated useful lives ranging from four to fifteen years. The Company conducts its annual tests for impairment during the fourth quarter of the fiscal year or whenever events or changes in circumstances indicate that they may be impaired.

Intangible assets consist of the following:

	September 30, 2010	December 31, 2009
Trade names	\$ 203,322	\$ 186,322
Customer lists and relationships	2,081,908	1,601,329
	2,285,230	1,787,651
Less: Accumulated amortization	(1,075,469)	(711,336)
Intangible assets, net	\$ 1,209,761	\$ 1,076,315

Amortization expense for the quarters ended September 30, 2010 and 2009 and the nine months ended September 30, 2010 and 2009 was \$130,330, \$91,837, \$364,133 and \$253,281, respectively.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

	September 30, 2010	December 31, 2009
Accounts payable	\$ 2,122,438	\$ 1,687,448
Accrued compensation	436,819	374,552
Accrued professional fees	91,682	94,132
Other accrued expenses	--	67,231
Total	\$ 2,650,939	\$ 2,223,363

ONLINE VACATION CENTER HOLDINGS CORP AND SUBSIDIARIES
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(Unaudited)

8. STOCK REPURCHASES

On August 1, 2008, the Company announced that its Board of Directors had approved a program to repurchase of up to \$200,000 of our common stock which would be funded from available working capital and subject to the rules and regulations of the SEC and other applicable legal requirements. The plan does not require us to acquire a specific number of shares and may be suspended from time to time or discontinued. As initially adopted, the program did not extend beyond June 30, 2009. On March 2, 2009 the Company announced that its Board of Directors authorized the repurchase of an additional \$150,000 of our common stock to be funded from available working capital and subsequently extended the program until December 31, 2010.

During the nine months ended September 30, 2010, the Company entered into agreements with three shareholders to purchase 30,000 shares, 100,000 shares and 18,900 shares respectively, and one affiliate to purchase 200,000 shares of the Company's common stock from the Company's working capital. All repurchased shares had been retired as of September 30, 2010. These repurchase transactions, totaling \$199,340, are not part of the Company's previously announced repurchase programs.

9. STOCK BASED COMPENSATION

The 2005 Management and Director Equity Incentive and Compensation Plan (the "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 to date expire no more than five years following the date of grant. All stock option grants currently outstanding vested either on the date of grant or will vest two years from the date of grant, provided that the individual is continuously employed with the Company. All outstanding restricted stock grants vest 20% upon grant and ratably over the successive four years, subject to continued employment with the Company.

No stock options were granted during the three months and nine months ended September 30, 2010.

A summary of the activity in our Plan for the nine months ended September 30, 2010 is presented below:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2009	2,402,400	\$ 1.39
Granted	-	0.00
Canceled	-	0.00
Exercised	-	0.00
Options outstanding at September 30, 2010	2,402,400	\$ 1.39

Compensation cost recognized for the three months and nine months ended September 30, 2010 and 2009 was \$0, \$15,568, \$1,093 and \$49,326, respectively.

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

(Unaudited)

As of September 30, 2010, all awards granted under our option plan had vested resulting in no future stock based compensation expense to be recognized. At September 30, 2010, 2,402,400 shares of common stock at weighted average strike price of \$1.39 per share were exercisable.

For the quarter ended September 30, 2010, no restricted shares were granted to employees and directors under the Plan. Compensation expense for the nine months ended September 30, 2010 and 2009 related to the restricted share grants was \$15,230 and \$15,570, respectively.

10. INCOME TAXES

The provision (benefit) for income taxes from continued operations for the three months ended and nine months ended September 30, 2010 and 2009 consist of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Current:				
Federal	\$ (173,510)	\$ (2,470)	\$ (72,643)	\$ (2,470)
State	(34,001)	(1,192)	(21,135)	(792)
	(207,511)	(3,662)	(93,778)	(3,262)
Deferred:				
Federal	40,113	3,696	51,081	446,424
State	6,670	377	8,494	74,235
	46,783	4,073	59,575	520,659
Provision/(Benefit) for income taxes	\$ (160,728)	\$ 411	\$ (34,203)	\$ 517,397

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Statutory federal income tax rate	(35.0)%	(35.0)%	(35.0) %	35.0%
State income taxes	(3.6)	(3.6)	(3.6)	3.6
Tax effect of non deductible items	1.1	4.3	43.1	2.2
True-ups	0.0	37.4	(231.7)	4.8
Other	(3.0)	(2.8)	(5.2)	(0.3)
Effective tax (benefit) rate	(34.5)%	0.3 %	(232.4)%	45.3%

The effective tax rate was greater than the statutory rate for the nine months ended September 30, 2010 primarily as a result of a true-up of the 2009 book provision to the 2009 federal tax return, related to the disposal of assets associated with La Tours and Thoroughbred with a higher tax basis than financial reporting basis and that a temporary difference was never recognized. The tax rate of .3% in the third quarter of 2009 and 45.3% for the nine months ended September 30, 2009 was due to an adjustment of prior year federal taxes.

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

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

	September 30, 2010	December 31, 2009
Net operating loss carryforwards and AMT tax credit	\$ 7,763	\$ 7,763
Depreciation and amortization	(389,531)	(302,828)
Accruals and other	160,038	132,910
Deferred income tax (liability), net	\$ (221,730)	\$ (162,155)

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

	September 30, 2010	December 31, 2009
Current	\$ 60,498	\$ 33,442
Non-current	(282,228)	(195,597)
Net deferred tax (liability)	\$ (221,730)	\$ (162,155)

11. 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.

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

Forward Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance, industry prospects or future results of operations or financial position, made in this Quarterly Report on Form 10-Q are forward-looking. We use words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons, including, those risks described in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission ("SEC") on March 29, 2010 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., a Florida holding company ("we," "us," or the "Company"), provides vacation travel services through its wholly-owned subsidiaries. Our travel companies include:

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, and

Dunhill Vacations, Inc. ("Dunhill"), the publisher of three travel newsletters, "Top Travel Values", "Spotlight", and "TRAVELFLASH".

We are focused on internally growing and developing our company with a range of products that can be cross-marketed to our extensive customer base and providing a high degree of personalized service to help customers research, plan and purchase a vacation.

We generate revenues from:

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

We currently market our services by:

producing travel-related publications for consumers
telemarketing to our existing customer base
direct mailing to our existing customer base as well as targeted prospects

e-mail communications to our subscription base

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

Results of Operations

Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009

Continuing operations:

Revenues increased by \$269,899, 17.2%, to \$1,841,783 for the three months ended September 30, 2010 (“the third quarter of 2010”) compared with \$1,571,884 for the three months ended September 30, 2009 (“the third quarter of 2009”). The increase is attributable to an increase in commission revenues, marketing and publishing revenues.

Selling and marketing expenses increased by \$213,815, 38.6%, to \$767,190 for the third quarter of 2010 compared with \$553,375 for the third quarter of 2009. The increase is primarily attributable to an increase in sales staff compensation, commensurate with our increase in revenues, and marketing material expenses. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

General and administrative expenses increased by \$346,733, 33.6%, to \$1,378,215 for the third quarter of 2010 compared with \$1,031,482 for the third quarter of 2009. The increase is primarily attributable to an increase in non sales staff compensation, professional and credit card processing fees and travel expenses. General and administrative expenses primarily include management and non sales staff compensation, professional services, and occupancy costs.

Depreciation and amortization expense for the third quarter of 2010 was \$163,772 compared with \$121,691 for the third quarter of 2009. Amortization expense increased by \$38,493 during the third quarter of 2010, as a result of an increase in the amortization expense of the Dunhill subscriber list.

Net interest income decreased to \$1,977 for the third quarter of 2010 compared with \$2,859 for the third quarter of 2009. The decrease in net interest income for the third quarter of 2010 was primarily attributable to an economic environment of lower market rates of interest paid on our cash balances.

Our loss before income tax benefit was \$465,417 in the third quarter of 2010 compared with a loss before for income tax benefit of \$131,805 in the third quarter of 2009. These results are primarily attributable to the increase in general and administrative expenses, selling and marketing costs and depreciation and amortization expenses offset by an increase in revenues during the third quarter of 2010.

The benefit for income taxes increased to a benefit of \$160,728 for the third quarter of 2010 compared with a provision for income taxes of \$411 for the third quarter of 2009. The increase in benefit is related to a decrease in income before income taxes of \$333,612 during the third quarter of 2010. The benefit rate in the third quarter of 2010 was 34.5% as compared to a tax rate of .3% in the third quarter

of 2009 was due to an adjustment of prior year's federal taxes in the third quarter of 2009.

As a result of the foregoing, our loss from continuing operations was \$304,689 for the third quarter of 2010 compared with a loss from continuing operations of \$132,216 for the third quarter of 2009.

Nine Months Ended September 30, 2010 compared to Nine Months Ended September 30, 2009

Continuing Operations

Revenues decreased by \$59,246, 1.0%, to \$6,463,095 for the nine months ended September 30, 2010 compared with \$6,522,341 for the nine months ended September 30, 2009. The decrease is attributable to a decrease in commission revenues offset by an increase in publishing and marketing revenues.

Selling and marketing expenses increased by \$429,952, 24.6% to \$2,176,534 for the nine months ended September 30, 2010 compared with \$1,746,582 for the nine months ended September 30, 2009. The increase is attributable to an increase in marketing material expenses and sales staff compensation during the nine months ended September 30, 2010. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

General and administrative expenses increased by \$555,265 or 16.9% to \$3,850,140 for the nine months ended September 30, 2010 compared with \$3,294,875 for the nine months ended September 30, 2009. The increase is primarily attributable to an increase in compensation costs, professional and credit card processing fees. General and administrative expenses primarily include management and non sales staff compensation, professional services, and occupancy costs.

Depreciation and amortization expense for the nine months ended September 30, 2010 was \$456,252 compared with \$343,941 for the nine months ended September 30, 2009. Amortization expense increased by \$110,852 during the nine months ended September 30, 2010 as a result of the increase in the amortization expense of the Dunhill subscriber list.

Net interest income decreased to \$5,115 for the nine months ended September 30, 2010 compared with \$5,921 for the nine months ended September 30, 2009.

Our loss before benefit for income taxes was \$14,716 for the nine months ended September 30, 2010 compared with our income before provision for income taxes of \$1,142,864 for the nine months ended September 30, 2009. The decrease in income before income taxes is due to a decrease in revenues, an increase in general and administrative expenses, selling and marketing expenses and depreciation and amortization expense.

The provision for income taxes decreased from \$517,397 for the nine months ended September 30, 2009 to a tax benefit of \$34,203 for the nine months ended September 30, 2010. The decrease is directly related to the decrease in results from operations where loss before income tax benefit was \$14,716 for the nine months ended September 30, 2010 compared with income before income taxes of \$1,142,864 for the nine months ended September 30, 2009. The tax benefit rate for the nine months ended September 30, 2010 was 232.4% as a result of a true-up of the 2009 income tax provision with the 2009 federal tax return. The tax rate for the nine months

ended September 30, 2009, 45.3%, was higher than the statutory rate because of an adjustment of prior year federal taxes in the third quarter of 2009.

As a result of the foregoing, our income from continuing operations for the nine months ended September 30, 2010 was \$19,487 compared with income from continuing operations of \$625,467 for the nine months ended September 30, 2009.

Discontinued Operations

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

On October 19, 2009, we entered into a definitive agreement (the “Sales Agreement”) to sell the assets and liabilities arising from customer travel after November 2, 2009 of La Tours and Thoroughbred to West University Travel LLC (“West U”), a Texas limited liability company. The principal members of West U are Ray Schutter, President of La Tours and Thoroughbred, and Cecilia Schutter from whom we purchased La Tours in January 2007.

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

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Revenues	\$ 159,385	\$ 382,480
Impairment charges - intangibles	103,923	103,923
Impairment charges - goodwill	1,170,191	1,170,191
(Loss) before income taxes	(1,421,137)	(1,525,507)
Income tax benefit	(547,794)	(590,149)
(Loss) from discontinued operations	\$ (873,343)	\$ (932,358)

As a result of the foregoing, our net loss was \$304,689 for the third quarter of 2010 compared with net loss of \$1,005,559 in the third quarter of 2009. Our net income for the nine months ended September 30, 2010 was \$19,487 compared with a net loss of \$306,891 for the nine months ended September 30, 2009.

Liquidity and Capital Resources

Cash at September 30, 2010 was \$2,997,256 compared with \$2,721,658 at December 31, 2009. The primary source of our liquidity and capital resources has come from cash provided by our operations.

Cash flows provided by continuing operating activities for the nine months ended September 30, 2010 and 2009 were \$1,043,619 and \$1,781,747, respectively. The decrease of \$738,128 in 2010 was attributable to a decrease of income from continuing operations of \$605,980, a decrease in cash provided by working capital items of \$196,989 offset by an increase in non-cash operating items of \$64,841.

Cash flows used in continuing investing activities for the nine months ended September 30, 2010 increased to \$551,070 from \$451,414 for the nine months ended September 30, 2009. The primary reason for the increase in cash out flows was related to purchases of intangible assets offset by a decrease in capital expenditures during the nine months ended September 30, 2010.

Cash flows used in financing activities decreased to \$216,951 for the nine months ended September 30, 2010 compared with \$1,154,873 for the nine months ended September 30, 2009. The primary decrease in cash outflows was due to a decrease of repurchases of our common stock of \$836,983 and the absence of any repayment obligations under notes issued in conjunction with acquisition transactions.

Cash flows provided by discontinued operations, solely from operating activities for the nine months ended September 30, 2009 totaled \$425,300.

At September 30, 2010, we had a working capital of \$1,020,469 as compared to working capital of \$1,235,560 at December 31, 2009, a decrease of working capital of \$215,091. We had an accumulated deficit of \$1,237,267 at September 30, 2010, a decrease of \$19,487 from December 31, 2009.

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. 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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingencies. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be

materially different from those estimates. The following policies are those that we consider to be the most critical:

Revenue Recognition

We recognize revenue when it is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists, services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. Vacation travel sales transactions are billed to customers at the time of booking, however, commission revenue is not recognized in the accompanying consolidated financial statements until the customers' travel occurs. Advertising revenue is recognized upon distribution of the marketing publication.

After considering and weighing relevant qualitative factors regarding our status as a primary obligor, the extent of our pricing latitude of vacation travel sales transactions and in accordance with the various indicators, our vacation travel suppliers assume the majority of the business risks such as providing the service and the risk of unsold travel packages. As such, all vacation travel sales transactions are recorded at the net amount, which is the amount charged to the customer less the amount to be paid to the supplier. The method of net revenue presentation does not impact operating profit, net income, earnings per share or cash flows.

Intangible Asset Testing

Absent any circumstances that warrant testing at another time, we test for goodwill and non-amortizing intangible asset impairment as part of our year-end closing process. Our goodwill testing consists of comparing the estimated fair values of each of our operating entities to their carrying amounts, including recorded goodwill. We estimate the fair values of our reporting unit by discounting its projected future cash flows. Developing these 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 reporting units 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.

We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. For additional information, see "Footnote 2 - Summary of Significant Accounting Policies" in our audited financial statements for fiscal 2009 included in our 2009 Annual Report filed with the SEC on March 29, 2010.

ITEM 4. – CONTROLS AND PROCEDURES

We carried out an evaluation required by the Securities Exchange Act of 1934 (the "1934 Act"), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the 1934 Act, as of September 30, 2010, the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our

disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

The following table provides information with respect to Company purchases made of its common stock during the third quarter of the 2010 fiscal year:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares (or Units) Purchased as Part of a Publicly Announced Plan or Program (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Programs
July 1, 2010 – July 31, 2010	--	\$ -.	--	\$ 232,899
August 1, 2010 – August 31, 2010 (2)	130,000	\$ 0.600	--	\$ 232,899
September 1, 2010 – September 30, 2010	--	\$ -.	--	\$ 232,899
Total	130,000	\$ 0.600	--	\$ 232,899

1. On August 1, 2008, we announced that our Board of Directors had approved a program to repurchase of up to \$200,000 of our common stock to be funded from available working capital and subject to the applicable rules and regulations of the SEC and other applicable legal requirements. The plan does not require us to acquire a specific number of shares and may be suspended from time to time or discontinued. As initially adopted, the program did not extend beyond June 30, 2009. On March 2, 2009 we announced that our Board of Directors authorized the repurchase of an additional \$150,000 of our common stock to be funded from available working capital and subsequently extended the program until December 31, 2010.
2. On August 10, 2010, we entered into agreements with Reginald Flosse and a shareholder to purchase 100,000 and 30,000 shares, respectively, of the Company's common stock at a purchase price of \$0.60 per share. The purchase price was paid from our working capital. Reginald Flosse is an affiliate of the Company and holds more than 10% of our issued and outstanding stock. This repurchase transaction is not part of our previously announced repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. (REMOVED AND RESERVED)

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO. +
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO. +
32	Section 1350 Certification. +
+	Filed herewith

SIGNATURES

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

ONLINE VACATION CENTER HOLDINGS CORP.

/s/ Edward B. Rudner
Chief Executive Officer, President, Chief Financial
Officer and Director

Date: November 11, 2010

