

Edgar Filing: Travelstar, Inc. - Form 10QSB

Travelstar, Inc.  
Form 10QSB  
November 23, 2007

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

FORM 10-QSB

- (X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2007
- ( ) Transition report pursuant of Section 13 or 15(d) of the Securities Exchange Act of 1939 for the transition period \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 000-25973

TRAVELSTAR, INC.  
(formerly known as Joystar, Inc.)  
(Exact name of registrant as specified in its charter)

California

68-0406331

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer Identification No.)

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

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

-----  
Former address

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

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

Yes [ ] No [X]

The number of shares of the registrant's common stock as of September 30, 2007: 49,127,149 shares.

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

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TRAVELSTAR, INC. (formerly known as Joystar, Inc.)  
Balance Sheet (unaudited)

#### ASSETS

Current assets

Cash and cash equivalents

Accounts receivable

Prepaid expenses

Total current assets

Property and equipment, net

Intangible assets, net of amortization

Other assets

Total assets

Sep

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\$

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\$

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LILIBILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities

Accounts payable  
 Deferred merchant bookings  
 Accrued salaries  
 Accrued expenses  
 Accrued liabilities  
 Loans from shareholders

Total current liabilities

Commitments

Stockholders' equity

Preferred stock, no par value, 10,000,000 shares authorized; none issued

Common stock, no par value, 200,000,000 shares authorized; 49,127,149 shares issued and outstanding at September 30, 2007

Stock issued for deferred compensation

Stock subscribed not issued, 356,000 shares at September 30, 2007  
 Accumulated (deficit)

Total stockholders' equity (deficit)

Total liabilities and stockholders' equity

The accompanying notes are an integral part of these financial statements

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TRAVELSTAR, INC. (formerly known as Joystar, Inc.)  
 STATEMENTS OF OPERATIONS  
 (UNAUDITED)

	For the nine months ended September 30, 2007	For the nine months ended September 30, 2006 (restated)	For the months September
Revenue	\$ 6,799,992	\$ 6,850,791	\$ 2,0
Operating expenses:			
Selling and marketing	5,743,406	4,208,591	1,7
General and administrative	2,317,259	2,965,856	7
Technology and content	297,099	135,556	1

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Total operating expenses	8,357,764	7,310,003	2,6
Operating income/(loss)	(1,557,772)	(459,212)	(5
Interest income/(expense)	47,268	--	
Gain/(Loss) on fair value of Warrants and stock purchase rights	3,457,265	(3,302,671)	
Other income/(loss)	(583)		
Net Other income/(expense)	3,504,950	(3,302,671)	
Income/(Loss) before income taxes	1,947,178	(3,761,883)	(5
Income tax provision		1,282	
Net income (loss)	\$ 1,947,178	(3,763,165)	(5
Net Income/(Loss) per share			
Basic	\$ 0.04	\$ (0.09)	\$
Diluted	\$ 0.04	\$ --	\$
Weighted average number of common shares-			
Basic	49,004,804	40,971,493	49,1
Diluted	49,426,952	40,971,493	49,1

The accompanying notes are an integral part of these financial statements

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TRAVELSTAR, INC. (formerly known as Joystar, Inc.)  
 STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
 For the Nine months ended September 30, 2007 (unaudited) (restated)

	COMMON STOCK			
	Number of Shares	Amount	Stock issued For Deferred Compensation	Stock Subscribed not Issued
Balance December 31, 2006 (revised)	48,772,430	\$ 14,071,360	\$ (122,500)	\$ 313,501
Deferred Compensation Earned	--	--	122,500	--
Stock Issued for Cash	220	200	--	--
Stock Issued for Services	354,499	243,294	--	--
Share based compensation	--	57,590	--	--
Reclassification of Accrued Liability	--	4,834,720	--	--
Net Income				
Balance September 30, 2007 (Unaudited)	49,127,149	\$ 19,207,164	\$ --	\$ 313,501

The accompanying notes are an integral part of these financial statements

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TRAVELSTAR, INC. (formerly known as Joystar, Inc.)  
STATEMENTS OF CASH FLOW (unaudited)

	For the nine months ended September 30, 2007
Cash flows from operating activities:	
Net Income/ (loss)	\$ 1,947,178
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation and amortization	86,173
Share based compensation	57,590
Stock issued for services	243,294
Stock issued for deferred compensation	122,500
Changes in assets and liabilities	
Decrease in prepaid expenses	22,500
Increase in receivables	(684,457)
Increase in accounts payable	684,349
Increase in deferred merchant bookings	309,968
Increase in accrued salaries/rent and payroll taxes	(412,799)
Increase/(Decrease) in accrued liability relating to warrants and other stock purchase rights	(3,446,653)
Net cash provided (used) by operations	(1,070,357)
Cash flows from investing activities:	
Acquisition of property and equipment	(179,192)
Net cash used by investing activities	(179,192)
Cash flows from financing activities:	
Loans from shareholders	--
Issuance of common stock for cash	200
Stock subscribed but not issued	--
Net cash provided by financing activities	200
Increase(Decrease) in cash and cash equivalents	(1,249,349)
Cash and cash equivalents at the beginning of the period	2,246,928
Cash and cash equivalents at the end of the period	\$ 997,579
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES	
Issuance of stock for services	\$ 243,294
Shares issued for deferred compensation	\$ 122,501
Subscribed shares issued	\$ --
Share based compensation	\$ 57,590

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Shares issued for accrued prior year compensation

The accompanying notes are an integral part of these financial statements

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JOYSTAR, INC.

### NOTES TO FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND SEPTEMBER 30, 2006 (UNAUDITED)

#### NOTE 1 -- ORGANIZATION

##### DESCRIPTION OF BUSINESS

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

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

Results of operations for the nine months ended September 30, 2007 and 2006 are not necessarily indicative of the results that may be expected for any future period. The balance sheet at December 31, 2006 was derived from audited financial statements.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been omitted. These financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2006.

#### NOTE 2 -- SIGNIFICANT ACCOUNTING POLICIES

##### ACCOUNTING ESTIMATES

We use estimates and assumptions in the preparation of our financial statements in accordance with accounting principles generally accepted in the United States ("GAAP"). Our estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our financial statements. These estimates and assumptions also affect the reported amount of net income during any period. Our actual financial results could differ significantly from these estimates. Our significant estimates underlying our financial statements include revenue recognition, accounting for merchant payables, recoverability of long-lived and intangible assets and goodwill, income taxes, and stock-based compensation.

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### REVENUE RECOGNITION

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

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

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

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

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

We recognize agency revenues on hotel, cruise and car rental reservations at the earlier of notification of the amount of the commission from a commission clearinghouse or a supplier or on receipt of the commissions from an individual supplier. The Company receives overrides from certain travel suppliers in the form of commissions as well as co-op marketing earnings based on the Company's gross travel bookings with the supplier, recognized each period based upon the Company's actual attainment of predetermined target sales levels. As of January 2007 the Company has changed its revenue recognition policy such that the Company only recognizes override revenues either upon receipt of funds or confirmation of its entitlement from the travel supplier.

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

The Company generates membership service revenues derived from the operation of

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

During the nine month period ended September 30, 2006 the Company recognized override revenues, based on its evaluation of the actual attainment of various supplier production goals, as of the end of each interim period. While the Company believes that its recognition of override revenue was accurate, this policy required the Company to track and measure a large number of complex agreements.

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Commencing in January 2007 the Company chose to modify this policy to only recognize override revenue that had either actually been received or for which the Company was notified by a supplier that the override had been earned, and that payment was forthcoming.

The Company does not believe that the change in policy would have resulted in a material difference in the revenue amounts recognized for the years ended December 31, 2005 and 2006.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Commission revenue for reservations is paid to the Company by the travel suppliers, typically upon completion of the travel associated with the reservation. Because the average time lag between booking date and commission payment date is approximately nine months, the company recognizes a reserve against revenues for bookings that may not produce a collectible commission due to possible cancellations or other factors. For the nine months ended September 30, 2007 the company recognized a reserve equal to 15% of the gross commissions generated. The reserve for the nine months ended September 30, 2007 was reduced to 15% from the level of 25% that was used for the year ended December 31, 2006. Management believes that this reduction in the reserve percentage was appropriate due to its implementation of improved internal processes for capturing data used to record revenues. The improved process consists of a more detailed review of reservations bookings made by its travel agents. As part of this review the Company is better able to eliminate or correct errors in the raw data, thereby reducing the percentage reserve requirements that were previously applied.

The Company will be monitoring receivables and adjusting the reserve levels on a regular basis, as required. Our host agency revenue includes the set-up, monthly and annual renewal fees we receive from our travel agency partners and are recorded in the period we receive them.

### SEASONALITY

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



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### OTHER

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

### CASH AND CASH EQUIVALENTS

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

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### PROPERTY AND EQUIPMENT

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

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

### INTANGIBLE ASSET

The Company acquired a client list for \$55,125 in order to promote sales. The Company believes that the client list has a minimal useful life of five years and is amortizing it over that time. If it should lose value prior to the five years the Company will write it off earlier. The amortization for the nine months ended September 30, 2007 and September 30, 2006 was \$6,423 and \$3,680 respectively.

Management reviews, on an annual basis, the carrying value of its intangible asset in order to determine whether impairment has occurred. Impairment is based on several factors including the Company's projection of future discounted operating cash flows. If an impairment of the carrying value were to be indicated by this review, the Company would perform the second step of the impairment test in order to determine the amount of impairment, if any. There was no impairment charge during the nine months ended September 30, 2007 and September 30, 2006.

### INCOME TAXES

In accordance with SFAS No. 109, "Accounting for Income Taxes," we record income taxes under the liability method. Deferred tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for book and tax purposes. We determine deferred income taxes based on the differences in accounting methods and timing between financial statement and income tax reporting. Accordingly, we determine the deferred tax asset or liability for each temporary difference based on the tax rates that we expect will be in effect when we realize the

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underlying items of income and expense. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent earnings experience by jurisdiction, expectations of future taxable income, and the carryforward periods available to us for tax reporting purposes, as well as other relevant factors. We may establish a valuation allowance to reduce deferred tax assets to the amount we expect to realize. Due to inherent complexities arising from the nature of our businesses, future changes in income tax law, tax sharing agreements or variances between our actual and anticipated operating results, we make certain judgments and estimates. Therefore, actual income taxes could vary from these estimates.

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### ADVERTISING EXPENSE

We incur advertising expense consisting of offline costs, including print advertising, and online advertising expense to promote our brands. We expense the production costs associated with advertisements in the period in which the advertisement first takes place. We expense the costs of communicating the advertisement as incurred each time that the advertisement is shown.

### STOCK-BASED COMPENSATION

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

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

### EARNINGS PER SHARE

In February 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128 "Earnings Per Share" which requires the Company to present basic and diluted earnings per share, for all periods presented. The computation of loss per common share (basic and diluted) is based on the weighted average number of shares actually outstanding during the period. Diluted earnings per share give effect to all potential dilutive common shares outstanding during the period of computation. The computation of diluted earnings per share does not assume conversion, exercise or contingent exercise of securities that would have an anti-dilutive effect on earnings.

The following table reconciles basic earnings per share and diluted earnings per share and the related weighted average number of shares outstanding for the three and nine months ended September 30, 2007:

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### DISCLOSURE FOR RECONCILIATION OF BASIC AND DILUTED EARNINGS PER SHARE

	For the Three Months Ended September 30, 2007		
	Income (Numerator)	Shares (Denominator)	Per-share Amount
	-----	-----	-----
Net income/(loss)	\$ (527,947)	--	--
BASIC EPS			
Income available to common stockholders	\$ (527,947)	49,111,116	\$ (0.01)
Options	--	0	--
Warrants			
	-----	-----	-----
DILUTED EPS			
Income available to common stockholders + assumed conversions	\$ (527,947)	49,111,116	\$ (0.01)
	=====	=====	=====
	For the Nine months Ended September 30, 2007		
	Income (Numerator)	Shares (Denominator)	Per-share Amount
	-----	-----	-----
Net income	\$1,947,178		
BASIC EPS			
Income available to common stockholders	\$1,947,178	49,004,804	\$ 0.04
Options		--	
Warrants		422,148	
	-----	-----	-----
DILUTED EPS			
Income available to common stockholders + assumed conversions	\$1,947,178	49,426,952	\$ 0.04
	=====	=====	=====

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Stock warrants to purchase 11,850,144 shares of common stock at exercise prices ranging from \$0.50 to \$1.00 per share were outstanding during the three and nine months ended September 30, 2007 but were not included in the computation of diluted EPS because the warrants' exercise price was greater than the market price of the common shares as of September 30, 2007. The warrants were still outstanding on September 30, 2007 and expire in 2011.

#### ACCRUED LIABILITY RELATED TO WARRANTS AND STOCK PURCHASE RIGHTS

The Company accounts for freestanding derivative financial instruments potentially settled in its own common stock under Emerging Issues Task Force ("EITF") Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." As the Company potentially did not have, prior to June 21, 2007, sufficient authorized shares available to settle its open stock-based contracts, the initial fair value of the applicable contracts (consisting primarily of non-employee stock warrants and rights to purchase common stock- (see Note 5) has been classified as "accrued liability related to warrants and stock purchase rights" on the

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accompanying balance sheet and measured subsequently at fair value (based on a Black-Scholes computation), with gains and losses included in the statement of operations. The accrued liability had a balance of \$8,281,373 at December 31, 2006.

On June 21, 2007 the Company's Articles of Incorporation were amended to increase the number of authorized shares to 210 million, consisting of 10 million shares of Preferred Stock and 200 million shares of Common Stock. As of this amendment the Company has sufficient authorized shares available to settle its open stock-based contracts. As a result the Company revalued the accrued liability related to warrants and stock purchase rights to reflect the closing price of \$0.78 for the Company's common stock as of June 21, 2007. The Company recorded a gain of \$3,457,265 for the nine months ended September 30, 2007. In addition as of June 21, 2007 the Company reclassified the remaining liability of \$4,834,720 as Common Stock.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

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

### RECENT ACCOUNTING PRONOUNCEMENTS

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

### CERTAIN RISKS AND CONCENTRATIONS

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

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

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### 3. GOING CONCERN

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

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

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stock offerings.

### 4. RESTATEMENT OF FINANCIAL STATEMENTS

In connection with the preparation of the December 31, 2006 audit of the Company's financial statements and letters of comment received from the Securities and Exchange Commission, we determined that there were errors in the accounting treatment and reported amounts in our previously filed financial statements. As a result, we determined to restate our financial statements for the nine months ended September 30, 2006.

In connection with the restatement, we are designing internal procedures and controls for purposes of the preparation and certification of our financial statements going forward. In this process, we identified certain errors in accounting determinations and judgments, which have been reflected in the restated financial statements.

These restated financial statements include adjustments related to the following:

**Cash and Accrued expenses:** During the year ended December 31, 2006, the Company issued cash disbursements totaling \$144,068. These cash disbursements were reconciling items for an extended period of time and management determined that the disbursements should have been voided and reissued. Accordingly, the balances for cash and accrued expenses have been increased by \$144,068 at September 30, 2006. The above adjustment did not affect previously reported cash balances as of December 31, 2005.

**Accrued liability related to warrants and stock purchase rights and Loss on fair value of warrants and stock purchase rights:** During 2006, the Company had issued more shares of its common stock and other common stock equivalents including warrants and stock options which exceeded the authorized shares of common stock that the Company could issue. Accordingly, \$1,610,061 and \$3,302,671 of accrued liability expense for the loss on fair value of warrants and stock purchase rights was recognized as of and for the three and nine months ended September 30, 2006. The September 30, 2006, financial statements, reflect these adjustments. The above adjustment did not affect previously reported cash balances as of December 31, 2005.

On June 21, 2007 the Company's Articles of Incorporation were amended to increase the number of authorized shares to 210 million, consisting of 10 million shares of Preferred Stock and 200 million shares of Common Stock. As of this amendment the Company has sufficient authorized shares available to settle its open stock-based contracts. Originally the Company accounted for this transaction as a Gain on the fair value of warrants and stock purchase rights and recorded gains of \$6,858,989 and 8,281,373 for the three and nine months ended September 30, 2007. The Company has now determined that in compliance with EITF 00-19 the correct accounting was to revalue the liability as of June 21, 2007. As a result the Company revalued the accrued liability related to warrants and stock purchase rights to reflect the closing price of \$0.78 for the Company's common stock as of June 21, 2007. The Company recorded a gain of \$3,457,265 for the nine months ended September 30, 2007. In addition as of June 21, 2007 the Company reclassified the remaining liability of \$4,834,720 as Common Stock.

**General & Administrative Expenses:** During the three and nine months ended September 30, 2006, the Company recognized an additional \$1.011 and \$181,865 in compensation expense for the issuance of stock options to employees.

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The following financial statement line items were corrected for the three and nine months ended September 30, 2006 and 2007.

Nine months ended September 30, 2006

	As originally presented -----	Restated -----
Loss on fair value of warrants And stock purchase rights	0	\$(3,302,671)
Loss before income taxes	\$ (277,347)	\$(3,761,883)
Net Loss	\$ (278,629)	\$(3,763,165)
Net Loss per Share		
Basic	\$ (0.01)	\$ (0.09)

Three months ended September 30, 2006

	As originally presented -----	Restated -----
Loss on fair value of warrants And stock purchase rights	0	\$(1,610,061)
Income/(loss) before income taxes	\$ (46,202)	\$(1,657,274)
Net Income/(loss)	\$ (47,484)	\$(1,658,556)
Net Income/(loss) per Share		
Basic	\$ (0.00)	\$ (0.04)

### 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 30, 2007 -----
Office furniture/computers	\$ 331,614
Booking engine software	67,265
Web sites	130,262
	-----
	529,141
Less: accumulated depreciation	(162,653)
	-----
	\$ 366,488
	=====

### 6. CAPITAL STOCK COMMON STOCK

During the three months ended September 30, 2007, the Company issued 30,000 common shares for services for a total of \$21,000. During the nine months ended September 30, 2007, the Company issued 354,999 common shares for services for a total of \$243,294.

At September 30, 2007 the Company has 12,435,859 warrants outstanding to purchase shares of common stock at exercise prices ranging from \$0.35 to \$1.00. The warrants have lives of one to five years remaining.

On June 21, 2007, we filed a certificate of amendment to our Articles of Incorporation. The amendment changed the name of the Company from "Joystar, Inc." to "Travelstar, Inc." The amendment also increased our authorized capital from 50,000,000 shares of common stock and 10,000,000 shares of preferred stock to 200,000,000 shares of common stock and 10,000,000 shares of preferred stock. The amendment was approved by our Board of Directors and by written consent of

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the holders of a majority of our common stock.

### 7. STOCK OPTIONS

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

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The purchase price of the common stock subject to each Incentive Stock Option shall not be less than the fair market value (as determined in the 2003 Plan), or in the case of the grant of an Incentive Stock Option to a principal stockholder, not less than 110% of fair market value of such common stock at the time such option is granted. The purchase price of the common stock subject to each Nonstatutory Stock Option shall be determined at the time such option is granted, but in no case less than 100% of the fair market value of such shares of common stock at the time such option is granted. The options expire after 10 years from the date of grant and 5 years from the date of grant for a ten-percent shareholder, as defined. The options are exercisable over a period as determined by the Board of Directors and are subject to restrictions on transfer, repurchase and right of first refusal.

On December 13, 2005, the Company authorized for two of its officers to receive 1,500,000 shares of common stock. The shares were valued at \$330,000 or \$0.22 per share. The shares are considered subscribed and not issued at September 30, 2007. The Company charged \$330,000 to compensation expense during the year ended December 31, 2005.

The following table summarizes activity for all stock options for the nine months ended September 30, 2007:

	2007	
NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	
Outstanding, beginning of period	4,137,600	\$ 0.53
Granted	794,000	1.26
Exercised	--	--
Forfeited and expired	(261,000)	(0.50)
	4,670,600	\$ 0.55
	943,000	\$ 0.53
Options exercisable, end of period		
Weighted average fair value of options granted during the year	\$ 0.11	

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The fair value of the stock options granted during the nine months ended September 30, 2007 was approximately \$90,000 or \$0.11 per stock option, and was determined using the Black Scholes option pricing model. The factors used for the nine months ended September 30, 2007, were the option exercise price of \$0.50 to \$1.50 per share, a 5 year life of the options, volatility measure of 47.5%, a dividend rate of 0% and a risk free interest rate of 4.54% for 2007.

The following table summarizes information about stock options outstanding at September 30, 2007, with exercise prices equal to the fair market value on the date of grant with no restrictions on exercisability after vesting:

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OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	\$
\$0.50 to \$1.50	4,670,600	4.00	\$ 0.53	943,000	\$

As of September 30, 2007, there was approximately \$567,000 in unrecognized compensation cost related to unvested stock options. The amount of unrecognized compensation cost will be recognized over its weighted average life of approximately four years.

### 8. Subsequent Events

On September 17, 2007 the Company's 2003 Equity Compensation Plan was amended to provide for grants of options stock based awards up to an aggregate of 5,000,000 shares of common stock.

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion should be read in conjunction with our condensed financial statements and notes to those statements. The discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those expressed or implied in these forward-looking statements as a result of various factors, including those set forth at the end of this section under "Factors That May Impact Our Results of Operations".

#### CAUTIONARY AND FORWARD LOOKING STATEMENTS



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In addition to statements of historical fact, this prospectus contains forward-looking statements. The presentation of aspect of our future found herein is subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Without limiting the generality of the foregoing, words such as "may", "will", "expect", "believe", "anticipate", "intend", or "could" or the negative variations thereof or comparable terminology are intended to identify forward-looking statements.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by us in those statements. Important facts that could prevent us from achieving any stated goals include, but are not limited to, the following:

- (a) volatility or decline of the our stock price;
- (b) potential fluctuation in quarterly results;
- (c) our failure to earn revenues or profits;
- (d) inadequate capital to continue or expand its business, inability to raise additional capital or financing to implement our business plans;
- (e) failure to commercialize our technology or to make sales;
- (f) rapid and significant changes in markets;
- (g) litigation with or legal claims and allegations by outside parties
- (h) insufficient revenues to cover operating costs.

There is no assurance that we will be profitable, and we may not be able to successfully develop, manage or market our products and services. We may not be able to attract or retain qualified executives and technology personnel and our products and services may become obsolete. Government regulation may hinder our business. Additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, or the exercise of warrants and stock options, and other risks inherent in our businesses.

### OVERVIEW

Travelstar, Inc. sells complex leisure travel products through our virtual network of travel agents, company branded and private label websites. We empower travel entrepreneurs and leisure travelers with the tools and information they need to efficiently research, plan, and book travel. The effect of having such a massive and growing network of independent and home-based travel retailers all booking under the Travelstar Agency umbrella is significantly increasing our sales and revenue, and building strong brand recognition.

We refer to Travelstar, Inc. and its brands collectively as "Travelstar," the "Company," "us," "we" and "our" in this management's discussion and analysis of financial condition and results of operations. For additional information about our brands, see the disclosure set forth in Part I, Item 1, Business, under the caption "Management Overview."

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Tens of thousands of travel agents who are closing their storefront agencies and moving to a home-based operation are creating a value migration in the rapidly emerging host travel agency model. Because of our strong value proposition, we have been very successful in attracting professional travel agents and at the same time, eroding our competitors' market share. Since going to market with our hosting programs in August 2004, Travelstar has signed up over 5,000 travel agents making it one of the fastest growing and largest leisure travel network in the industry.

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

### TRENDS

The travel industry and particularly the travel agency business model, has experienced significant change in this decade. The advent of the Internet and online travel agencies has forever changed the way travel products are distributed. Travel agents were forced to retool their business models which included the elimination of high costs associated with operating a store fronts and identifying markets where their knowledge and service would ensure they remained relevant in the eyes of travelers.

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

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

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

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

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

### STRATEGY

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

We also intend to continue innovating on behalf of our preferred supplier partners. As an example, we launched Starbase, a customer relationship management system for our agents to better manage their businesses. Starbase streamlines the interaction and booking process between our agents, customers and suppliers. Through this "direct connect" technology, our agents can complete

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the booking process with some of our cruise lines and vacation suppliers easier and in a more cost effective for our suppliers. It also automatically notifies Travelstar's internal accounting of bookings and cancellations and provides agents with real time commission tracking. In the absence of this direct connect technology, these processes are completed manually via a proprietary extranet.

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

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

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### SEASONALITY

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

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

To understand our financial position and results of operations, it is important to understand our critical accounting policies and estimates and the extent to which we use judgment and estimates in applying those policies. We prepared our financial statements and accompanying notes in accordance with generally accepted accounting principles in the United States. Preparation of the financial statements and accompanying notes requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and revenue and expenses during the periods reported.

Accounting estimates are an integral part of the financial statements prepared by management are based on management's current judgments. These judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Actual results may differ from our estimates under different assumptions or conditions.

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

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

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Commission revenue for reservations is paid to the Company by travel suppliers, typically upon completion of the travel associated with the reservation. Because the average time lag between booking date and commission payment date is approximately nine months, the Company recognizes a reserve against revenues for bookings that may not produce a collectible commission due to possible cancellations or other factors. For the year ended December 31, 2006, the Company recognized a reserve equal to 25% of the gross commissions earned. The Company will be monitoring receivables and adjusting the reserve levels on a regular basis, as required.

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

### STOCK-BASED COMPENSATION

We record stock-based compensation expense net of estimated forfeitures. In determining the estimated forfeiture rates for stock-based awards, we periodically conduct an assessment of the actual number of equity awards that have been forfeited to date as well as those expected to be forfeited in the future. We consider many factors when estimating expected forfeitures, including the type of award, the employee class and historical experience. The estimate of stock awards that will ultimately be forfeited requires significant judgment and to the extent that actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period such estimates are revised.

### NEW ACCOUNTING PRONOUNCEMENTS

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

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### OPERATING METRICS

Gross travel bookings represent the total dollar value of transactions booked for both agency and merchant transactions, recorded at the time of booking reflecting the total price due for travel, including taxes, fees and other charges, and are generally not reduced for cancellations and refunds. The term "gross travel bookings" is a "non-GAAP financial measure", as such term is defined by the Securities and Exchange Commission, and may differ from non-GAAP financial measures used by other companies. The measure of "gross travel bookings" is in no way derived from the financial statements. Revenue recorded in the Company's financial statements represents a percentage of commissions or ticketing fees paid by travel suppliers on travel bookings, membership services revenue and override commissions from travel suppliers. The Company believes that the measure "gross travel bookings" is useful for investors to evaluate the Company's future ongoing performance because they enable a more meaningful comparison of the activity levels of the Company's travel agent network with its historical results from prior periods.

### RESULTS OF OPERATIONS

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2006

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### GROSS TRAVEL BOOKINGS

Gross travel bookings for the three months ended September 30, 2007 increased to \$24.6 million compared to \$16.2 million for the three months ended September 30, 2006..

### REVENUE

Revenues for the three months ended September 30, 2007 were \$2,076,963 compared to \$2,114,540 for the three months ended September 30, 2006. While gross travel bookings increased, this was offset by the fact that the Company took a reserve against revenues of 15% in the three months ended September 30, 2007, while no reserve was taken in the three months ended September 30, 2006. As of January 2007 the Company has changed its revenue recognition policy such that the Company only recognizes override revenues either upon receipt of funds or confirmation of entitlement from the travel supplier. As a result, during the three months ended September 30, 2007 the Company recognized \$21,820 in override revenue, compared with \$181,007 during the three months ended September 30, 2006. See the discussion of reserves in Note 2 to the Financial Statements.

### SELLING AND MARKETING

Selling and marketing expenses relate to direct advertising and distribution expense, including traffic generation from Internet, search engines, private label and affiliate programs. The remainder of the expense relates to personnel costs, including staffing in our Agent Support Services and Preferred Supplier Relations to enhance supplier commission levels. Marketing and sales expenses for the three months ended September 30, 2007 were \$1,702,965 compared to \$1,308,643 for the three months ended September 30, 2006. The increase of \$394,052 was primarily due to the increased payments to our travel agents as a result of their increased sales levels. Selling and marketing expenses relate to travel agent commissions, direct advertising and distribution expense, including traffic generation from Internet, search engines, private label and affiliate programs.

### GENERAL AND ADMINISTRATIVE

General and Administrative expenses for the three months ended September 30, 2007 decreased to \$771,967 from \$800,477 for three months ended September 30, 2006. The decrease was primarily due to reductions in employee compensation, professional fees, telephone and travel expenses. We expect absolute amounts spent on corporate personnel and professional service to increase over time as we develop new business units requiring additional headcount and continue incurring incremental costs associated with being a public company.

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### TECHNOLOGY AND CONTENT

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

Technology and content expenses for the three months ended September 30, 2007

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were \$141,963 compared to \$52,633 for the three months ended September 30, 2006. Given the increasing complexity of our business, geographic expansion, increased supplier integration, service-oriented architecture improvements and other initiatives, we expect absolute amounts spent in technology and content to increase over time. The Company recently hired a Chief Technology Officer.

### ACCRUED LIABILITY RELATED TO WARRANTS AND STOCK PURCHASE RIGHTS

The Company accounts for freestanding derivative financial instruments potentially settled in its own common stock under Emerging Issues Task Force ("EITF") Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." As the Company potentially did not have, prior to June 21, 2007, sufficient authorized shares available to settle its open stock-based contracts, the initial fair value of the applicable contracts (consisting primarily of non-employee stock warrants and rights to purchase common stock- (see Note 5) has been classified as "accrued liability related to warrants and stock purchase rights" on the accompanying balance sheet and measured subsequently at fair value (based on a Black-Scholes computation), with gains and losses included in the statement of operations. The accrued liability had a balance of \$8,281,373 at December 31, 2006.

On June 21, 2007 the Company's Articles of Incorporation were amended to increase the number of authorized shares to 210 million, consisting of 10 million shares of Preferred Stock and 200 million shares of Common Stock. As of this amendment the Company has sufficient authorized shares available to settle its open stock-based contracts. As a result the Company revalued the accrued liability related to warrants and stock purchase rights to reflect the closing price of \$0.78 for the Company's common stock as of June 21, 2007. The Company recorded a gain of \$3,457,265 for the nine months ended September 30, 2007. In addition as of June 21, 2007 the Company reclassified the remaining liability of \$4,834,720 as Common Stock.

Net other income for the three months ended September 30, 2007 was \$11,985 compared to a loss of \$(1,610,061) in the three months ended September 30, 2006..

### PROFITABILITY/LOSS

Net loss for the three months ended September 30, 2007 was \$(527,947) compared to a net loss of \$(1,658,556) for the three months ended September 30, 2006.

### NINE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2006 GROSS TRAVEL BOOKINGS

Gross travel bookings for the nine months ended September 30, 2007 increased to \$70.2 million compared to \$49.3 million for the nine months ended September 30, 2006.

### REVENUE

Revenues for the nine months ended September 30, 2007 were \$6,799,992 compared to \$6,850,791 for the nine months ended September 30, 2006. While gross travel bookings increased, this was offset by the fact that the Company took a reserve against revenues of 15% in the nine months ended September 30, 2007, while no reserve was taken in the nine months ended September 30, 2006.

See the discussion of reserves in Note 2 to the Financial Statements.

#### SELLING AND MARKETING

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

Marketing and sales expenses for the nine months ended September 30, 2007 were \$5,743,406 compared to \$4,208,591 for the nine months ended September 30, 2006. The increase was primarily due to the increased payments to our travel agents as a result of their increased sales levels. Selling and marketing expenses relate to travel agent commissions, direct advertising and distribution expense, including traffic generation from Internet, search engines, private label and affiliate programs.

#### GENERAL AND ADMINISTRATIVE

General and Administrative expenses for the nine months ended September 30, 2007 decreased to \$2,317,259 from \$2,965,856 for nine months ended September 30, 2006. The decrease was primarily due to reductions in employee compensation, professional fees, telephone and travel expenses. We expect absolute amounts spent on corporate personnel and professional service to increase over time as we develop new business units requiring additional headcount and continue incurring incremental costs associated with being a public company.

#### TECHNOLOGY AND CONTENT

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

Technology and content expenses for the nine months ended September 30, 2007 were \$297,099. Given the increasing complexity of our business, geographic expansion, increased supplier integration, service-oriented architecture improvements and other initiatives, we expect absolute amounts spent in technology and content to increase over time. The Company recently hired a Chief Technology Officer.

#### ACCRUED LIABILITY RELATED TO WARRANTS AND STOCK PURCHASE RIGHTS

The Company accounts for freestanding derivative financial instruments potentially settled in its own common stock under Emerging Issues Task Force ("EITF") Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." As the Company potentially did not have, prior to June 21, 2007, sufficient authorized shares available to settle its open stock-based contracts, the initial fair value of the applicable contracts (consisting primarily of non-employee stock warrants and rights to purchase common stock- (see Note 5) has been classified as "accrued liability related to warrants and stock purchase rights" on the accompanying balance sheet and measured subsequently at fair value (based on a Black-Scholes computation), with gains and losses included in the statement of

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operations. The accrued liability had a balance of \$8,281,373 at December 31, 2006.

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On June 21, 2007 the Company's Articles of Incorporation were amended to increase the number of authorized shares to 210 million, consisting of 10 million shares of Preferred Stock and 200 million shares of Common Stock. As of this amendment the Company has sufficient authorized shares available to settle its open stock-based contracts. As a result the Company revalued the accrued liability related to warrants and stock purchase rights to reflect the closing price of \$0.78 for the Company's common stock as of June 21, 2007. The Company recorded a gain of \$3,457,265 for the nine months ended September 30, 2007 compared with losses of \$3,302,671 for the nine months ended September 30, 2006. In addition as of June 21, 2007 the Company reclassified the remaining liability of \$4,834,720 as Common Stock.

Net other income for the nine months ended September 30, 2007 was \$3,504,950 compared to an expense of \$(3,302,671) in the nine months ended September 30, 2006. This change was primarily due to a reduction in the Accrued Liability Related to Warrants and Stock Purchase Rights.

### PROFITABILITY/LOSS

Net income for the nine months ended September 30, 2007 was \$1,947,178 compared to a net loss of \$(3,763,165) for the nine months ended September 30, 2006.

The increase in net income was due to the reduction in the provision of the accrued liability of related to warrants and stock purchase rights in the nine months ended September 30, 2007. The Company's operating loss for the nine months ended September 30, 2007 was \$(1,557,772) compared to an operating loss of \$(459,212) for the nine months ended September 30, 2006.

Our business continues to be dominated by complex leisure travel. Commission revenue for these types of bookings is paid to the company by travel suppliers, typically upon completion of the travel. Because the average time lag between booking travel and receiving the commission is approximately nine months, we determined it prudent to recognize a reserve against revenues for the possibility of cancellations or other factors. Therefore, we recognized a reserve equal to 15% of the gross commissions generated for the nine months ended September 30, 2007. The Company will be monitoring receivables and adjusting the reserve levels on a regular basis, as required.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's cash balance at September 30, 2007 was \$977,582 as compared to \$2,246,929 at December 31, 2006. The principal reason for the decline in cash was the Company's operating loss during the nine months ended September 30, 2007, of \$1,557,772. The Company has funded certain expenses by issuing shares for compensation and services. During the nine months ended September 30, 2007 the Company issued \$243,294 in shares for services. Typically there is approximately a six to nine month lag between when the Company's travel agents make a sale and when the commission on this sale is paid by the supplier. This results in an increase in Accounts Receivable as the Company's sales grow. During the nine months ended September 30, 2007 Accounts Receivable increased by \$684,457 as a result of the growth of the Company's sales. Offsetting this increased use of cash, the Company's Accounts Payable to its travel agents and other vendors increased by \$684,349. During the nine months ended September 30, 2006 the Company invested \$179,192 in Property, Plant and Equipment, primarily consisting of computer equipment and the capitalization of certain software



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development associated with new internet sites that the Company was preparing to launch. This compares with \$82,083 invested in Property, Plant and Equipment during the nine months ended September 30, 2006.

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### Item 3. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of September 30, 2007, that the design and operation of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated, recorded, processed, summarized and reported to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding whether or not disclosure is required.

During the quarter ended September 30, 2007, there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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## PART II. OTHER INFORMATION

### Item 1. Legal proceedings

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds NONE

Item 3. Defaults on Senior Securities NONE

Item 4. Submission of Items to a Vote NONE

Item 5. Other Information NONE

### Item 6.

#### (a) Exhibits -----

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

Exhibit No. -----	Description -----
* Exhibit 10.1	Subscription Agreement
* Exhibit 10.2	Warrant Agreement
* Exhibit 10.3	Escrow Agreement
* Exhibit 10.4	Standstill Agreement

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- \* Exhibit 10.5 Agreement for the purchase and sale of assets between Vacation and Cruise Resources, Inc. and Travelstar, Inc. dated August 11, 2005.
- \* Exhibit 10.6 Employment Agreement with William M. Alverson.
- Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
- Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
- Exhibit 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act
- Exhibit 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

b) Reports on 8K during the quarter: None

\* Previously filed with the Securities and Exchange Commission.

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SIGNATURES

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

Date: November 20, 2007

TRAVELSTAR, INC.

By: /s/ William Alverson

-----  
Chief Executive Officer

By: /s/ Jerry Galant

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Chief Financial Officer

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