

ONLINE VACATION CENTER HOLDINGS CORP
Form 10QSB/A
May 16, 2007

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

FORM 10-QSB/A

(Mark One)

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

For the quarterly period ended March 31, 2007

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

For the transition period from _____ to _____

Commission file number: 0-32137

Online Vacation Center Holdings Corp.

(Exact name of registrant as specified in its charter)

Florida

65-0701352

State or other jurisdiction of
incorporation or organization

(I.R.S. Employer
Identification No.)

1801 N.W. 66th Avenue, Suite 102, Plantation, Florida 33313

(Address of principal executive offices) (Zip Code)

(954) 377-6400

Registrant's telephone number including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 1, 2007, there were 18,492,977 shares of Common Stock, par value, \$0.0001 per share outstanding.

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10QSB/A

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

Explanatory Note Regarding Amendment

We are filing this amendment to our quarterly report on Form 10-QSB for the quarter ended March 31, 2007, originally filed May 14, 2007, for the sole purpose of correcting a typographical error in Part I- Item 2-Management's Discussion and Analysis of Financial Condition and Results of Operation, whereby, "Selling and marketing expenses increased by \$901,830, 226%..." in lieu of the previously filed 326%. The amended filing is otherwise identical to our prior filing.

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

Forward Looking Statements

This Quarterly Report on Form 10-QSB includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance, industry prospects or future results of operations or financial position, made in this Quarterly Report on Form 10-QSB are forward-looking. We use words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons, including, those risks described in our Annual Report on Form 10-KSB for the year ended December 31, 2006 filed with the SEC on March 21, 2007 and the risks discussed in other SEC filings. These risks and uncertainties, as well as other risks and uncertainties, could cause our actual results to differ significantly from management's expectations. The forward-looking statements included in this report reflect the beliefs of our management on the date of this report. We undertake no obligation to update publicly any forward-looking statements for any reason.

Overview

Online Vacation Center Holdings Corp. (the "Company") is a Florida holding company, focused on building a network of diversified vacation marketers with a range of products that can be cross-sold to an extensive customer base. Target businesses will be financially and technologically sound and provide a high degree of personalized service to help consumers research, plan and purchase a vacation.

We provide vacation marketing services through our wholly owned subsidiaries:

- o Online Vacation Center, Inc., an internet-based vacation seller focused on serving the affluent retiree market,
- o Phoenix International Publishing, LLC ("Phoenix"), the United Kingdom's leading publisher of consumer magazines and guides about travel to the U.S. and Canada,
- o Thoroughbred Travel, LLC, a Houston, Texas based upscale travel agency, operating as Journeys Unlimited,
- o La Fern, Inc., operating as eLeisureLink.com, a Florida travel agency that sells land-based vacations,
- o La Tours and Cruises, Inc., a Houston, Texas based travel agency, operating as West University Travel, focused on providing luxury personal travel products such as cruises, European tours and all-inclusive vacations, and
- o Dunhill Vacations, Inc., a Fort Lauderdale, Florida travel newsletter and media provider.

Additionally, we acquired certain assets of SmartTraveler.com, Inc. in January 2007, including two online consumer travel newsletters as well as a home-based travel selling group.

We generate revenues from:

- o commissions on cruises
- o commissions on other travel related products

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10QSB/A

- o commissions on travel insurance
- o marketing performed for travel suppliers

3

We currently market our services by:

- o producing travel-related publications for consumers
- o telemarketing to our existing customer base
- o direct mailing to our existing customer base as well as targeted prospects
- o email blasting to our opt in subscription base.

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

Results of Operations

Quarter Ended March 31, 2007 Compared to Quarter Ended March 31, 2006

Revenues increased by 32.4%, \$654,852, from \$2,022,901 for the quarter ended March 31, 2006 ("first quarter of 2006") to \$2,677,753 for the quarter ended March 31, 2007 ("first quarter of 2007"). The increase is attributable to the revenues of the six acquisitions that we completed during the fourth quarter of 2006 and the first quarter of 2007 ("the acquisitions").

Selling and marketing expenses increased by \$901,830, 226% to \$1,300,395 for the first quarter of 2007 as compared to \$398,565 for the first quarter of 2006. The increase is primarily attributable to the acquisitions and partially attributable to an increase in co-op marketing projects during the first quarter of 2007 for Online Vacation Center, Inc. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

General and administrative expenses increased by \$226,349 or 19.4% to \$1,390,659 for the first quarter of 2007 as compared to \$1,164,310 for the first quarter of 2006. The increase is entirely attributable to the acquisitions. General and administrative expenses primarily include management and non sales staff compensation, professional services, and occupancy costs.

Depreciation and amortization expense for the first quarter of 2007 was \$84,015 as compared to \$21,656 for the first quarter of 2006. Amortization expense increased by \$60,816 during the first quarter of 2007 as a result of amortization of intangible assets acquired in conjunction with the acquisitions. The remaining increase of \$1,543 is attributable to an increase in depreciation expense.

Interest Income/ (Expense) increased from an expense of \$40,036 for the first quarter of 2006 to income of \$5,480 for the first quarter of 2007. The first quarter of 2006 expense was attributable to accrued interest on subordinated debt which was ultimately exchanged for 1,500,310 shares of our common stock in conjunction with the Share Exchange Agreement in March 2006. The income in the first quarter of 2007 represents the excess of interest income earned on our cash balances at the bank over the accrued interest expense on the debt issued by us in conjunction with our acquisition of Thoroughbred Travel, LLC, La Fern, Inc., and La Tours and Cruises, Inc.

Our loss before benefit for income taxes was \$91,836 in the first quarter of 2007 compared to income before provision for income taxes of \$398,334 in the

first quarter of 2006. These results are primarily attributable to the six acquisitions that we completed in the first quarter of 2007 and the fourth quarter of 2006.

The provision for income taxes decreased from an expense of \$177,926 for the first quarter of 2006 compared to a tax benefit of \$24,647 for the first quarter of 2007. The decrease is directly related to a decrease in results from operations whereby income before income taxes for the first quarter of 2006 was \$398,334 whereas the loss before income taxes for the first quarter of 2007 was \$91,836. The tax rate in the first quarter of 2006, 44.6%, was due to the gain on sale of cigar assets, the result of the transaction wherein the Company distributed the assets relating to the cigar business to a former director and majority shareholder in exchange for 2.7 million shares of its common stock. The Company recognized gain on each asset distributed based upon the difference between the fair market value and the Company's adjusted basis in each asset at the time of closing. The benefit rate in the first quarter of 2007, 26.8% was due to the tax effect of non-deductible items.

As a result of the foregoing, our net loss for the first quarter of 2007 was \$67,189 compared to net income of \$220,408 in the first quarter of 2006.

Liquidity and Capital Resources

Cash at March 31, 2007 was \$2,054,104 as compared to \$2,658,885 at December 31, 2006. The primary source of our liquidity and capital resources has come from our operations.

Cash flows provided by operating activities for first quarter of 2007 and 2006 were \$280,728 and \$261,932, respectively. Although the first quarter of 2007 had a net loss of \$67,189 as compared to a net profit of \$220,408 in the first quarter of 2006, this decrease of \$287,597 was offset by improvements in non cash operating items. This was comprised of an increase in depreciation and amortization of \$84,015 as a result of increased amortization expense associated with amortization of intangible assets acquired in conjunction with the acquisitions and an increase in stock based compensation of \$62,080 as result of the issuance of restricted stock grants and options under our 2005 Management and Director Equity Incentive and Compensation Plan. Additionally, accounts receivable decreased by \$289,025 as a result of increased collection efforts during the first quarter of 2007.

Cash flows used in investing activities for the first quarter of 2007 increased to \$885,509 compared to \$496 during the first quarter of 2006. The primary cash out flow related to the excess of cash paid over cash received totaling \$858,133 in conjunction with the three acquisitions completed during the first quarter of 2007. The balance of the increase, \$27,376, is attributable to capital expenditures, primarily computers and software, made during the first quarter of 2007.

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

At March 31, 2007, we had a working capital deficit of \$432,460, a decrease of \$1,013,941 from December 31, 2006 and an accumulated deficit of \$1,424,716, an increase of \$67,189 from December 31, 2006.

Management believes that the existing cash and cash expected to be provided by

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10QSB/A

operating activities will be sufficient to fund the short term capital and

5

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

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

Seasonality and Inflation

The domestic and international leisure travel industry is seasonal. Our results have been subject to quarterly fluctuations caused primarily by the seasonal variations in the travel industry. Leisure travel net revenues and net income are generally lower in the third quarter. We expect seasonality to continue in the future but hope to mitigate the effects of seasonality by acquiring companies in the travel industry that are not as sensitive to seasonality, such as travel advertising. We do not expect inflation to materially affect our revenues and net income.

Critical Accounting Policies

We prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. As such, management is required to make certain estimates, judgments and assumptions that it believes are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. A more extensive list of significant accounting policies and a description of accounting policies that are considered critical may be found in our 2006 Annual Report on Form 10-KSB filed on March 21, 2007, in the Notes to the Consolidated Financial Statements, Note 2, and the Critical Accounting Policies section. The significant accounting policies which management believes are the most critical to aid in fully understanding and evaluating our reported financial results include revenue recognition, intangible asset testing and income taxes.

Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin (SAB) No. 104 "Revenue Recognition in Financial Statements", which states that revenue is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists, services have been rendered, the seller's price to the buyer is fixed or determinable, and collectibility is reasonably assured. Vacation travel sales transactions are billed to customers at the time of booking, however, commission revenue is not recognized in the accompanying consolidated financial statements until the customers' travel occurs. Advertising revenue is recognized upon distribution of media.

Emerging Issues Task Force (EITF) Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent", discusses the weighing of the relevant qualitative factors regarding our status as a primary obligor and the extent of our pricing latitude. Based upon our evaluation of vacation travel sales transactions and in accordance with the various indicators identified in EITF Issue No. 99-19, our vacation travel suppliers assume the majority of the

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10QSB/A

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

6

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 value of our reporting unit by discounting its projected future cash flow. Developing future cash flow projections requires us to make significant assumptions and estimates regarding the sales, gross margin and operating expenses of our reporting unit, as well as economic conditions and the impact of planned business or operational strategies. Should future results or economic events cause a change in our projected cash flows, or should our operating plans or business model change, future determinations of fair value may not support the carrying amount of our unit, and the related goodwill would need to be written down to an amount considered recoverable. Any such write down would be included in the operating expenses. While we make reasoned estimates of future performance, actual results below these expectations, or changes in business direction can result in additional impairment charges in future periods.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
2.1	Acquisition Agreement, dated January 3, 2007, by and among Online Vacation Center Holdings Corp., La Tours and Cruises, Inc., and Ray Schutter and Ceciliae Schutter (incorporated by reference to Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on January 4, 2007 and as amended on March 21, 2007).
2.2	Acquisition Agreement, dated January 5, 2007, by and among Online Vacation Center Holdings Corp., Dunhill Vacations, Inc. and Messrs. Pat Daly, James DiStefano and Robert Dunhill (incorporated by reference to Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on January 11, 2007 and as amended on March 22, 2007).
2.3	Acquisition Agreement, dated January 19, 2007, by and among Online Vacation Center Holdings Corp., SmartTraveler.com, Inc. and Pat Coloyan (incorporated by reference to Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on January 22, 2007).
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. +
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. +
32.1	Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. +

Edgar Filing: ONLINE VACATION CENTER HOLDINGS CORP - Form 10QSB/A

32.2 Certification by Chief Financial Officer pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002. +

+

Filed herewith
7

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: May 15, 2007

