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ONLINE VACATION CENTER HOLDINGS CORP

Form 10-Q

November 06, 2008

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

(Mark One)

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

For the quarterly period ended September 30, 2008

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 or organization

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

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

(Address of principal executive offices) (Zip Code)

(954) 377-6400

Registrant's telephone number including area code

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

Yes [X] No [ ]

Indicate by check mark whether the registrant is a 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.

Large accelerated filer [ ]

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

Accelerated Smaller rep

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [X] No

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At November 6, 2008, the number of shares outstanding of the registrant's common stock, \$0.0001 par value was 17,252,777.

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ONLINE VACATION CENTER HOLDINGS CORP.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2008
	----- (Unaudited)
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,814,084
Accounts receivable, net	968,441
Deposits and prepaid items	928,113
Deferred tax asset, net	4,387
Current assets held for sale	--
	-----
Total Current Assets	3,715,025
Restricted cash	50,000
Property and equipment, net	96,767
Deferred tax asset, net	345,642
Intangible assets, net	1,154,392
Goodwill	1,754,279
Other assets	64,788
Long lived assets held for sale	--
	-----
Total Assets	\$ 7,180,893 =====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	\$ 1,030,239
Deferred revenue	2,728,137
Notes payable, current portion	425,549
Current liabilities held for sale	--
	-----
Total Current Liabilities	4,183,925
Notes payable	92,571
Non current liabilities available for sale	--
	-----
Total Liabilities	4,276,496 -----
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	

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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; 17,252,777 and 18,492,977 shares issued and outstanding	1,725
Additional paid-in capital	4,348,904
Accumulated deficit	(1,443,077)
Treasury stock at cost; 5,000 shares	(3,155)
	-----
Total Stockholders' Equity	2,904,397
	-----
 Total Liabilities and Stockholders' Equity	 \$ 7,180,893
	=====

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

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

	For the Three Months Ended September 30,	
	2008	2007
	-----	-----
NET REVENUES	\$ 1,975,977	\$ 1,812,478
OPERATING EXPENSES:		
Selling and marketing	584,221	928,313
General and administrative	1,204,533	1,242,984
Depreciation and amortization	108,174	70,536
	-----	-----
OPERATING INCOME (LOSS)	79,049	(429,355)
Interest (expense), net	(2,876)	(7,737)
	-----	-----
Income (loss) from continuing operations before provision (benefit) for income taxes	76,173	(437,092)
Provision (benefit) for income taxes	34,303	(166,555)
	-----	-----
Income (loss) from continuing operations	41,870	(270,537)
DISCONTINUED OPERATIONS:		
Loss from discontinued operations of Phoenix International Publishing, LLC, net of tax	--	(68,750)
	-----	-----

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NET INCOME (LOSS)	\$ 41,870	\$ (339,287)
	=====	=====
EARNINGS PER SHARE - Basic		
Income (Loss) from continuing operations	\$ --	\$ (0.02)
(Loss) from discontinued operations	\$ --	--
	-----	-----
Net (Loss)	\$ --	\$ (0.02)
	=====	=====
Weighted average shares outstanding - Basic	17,252,777	18,492,977
	=====	=====
EARNINGS PER SHARE - Diluted		
Income (Loss) from continuing operations	\$ --	\$ (0.02)
(Loss) from discontinued operations	\$ --	--
	-----	-----
Net (Loss)	\$ --	\$ (0.02)
	=====	=====
Weighted average shares outstanding - Diluted	17,252,777	18,492,977
	=====	=====

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

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

	For the Nine Months	
	September 30,	S
	2008	
	-----	-----
Cash flows from continuing operating activities:		
Net loss	\$ (42,930)	\$
Loss from discontinued operations, net of tax	(119,274)	
	-----	-----
Income (loss) from continuing operations	76,344	
Adjustments to reconcile to net cash inflow from operating activities:		
Depreciation and amortization	294,841	
Stock based compensation expense	126,712	
Imputed interest expense- net	5,171	
Deferred income tax expense (benefit)	82,952	
Decrease in accounts receivable	85,115	
(Increase) in deposits and prepaid items	(161,062)	
Increase (Decrease) in accounts payable and accrued liabilities	50,161	
Increase in deferred revenue	343,416	
	-----	-----
Net cash provided by operating activities	903,650	
	-----	-----

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Cash flows from continuing investing activities:		
Capital expenditures		(62,178)
Increase in intangible assets		(367,807)
Decrease (Increase) in restricted cash		301,243
Increase in receivable upon disposition of discontinued operation		(89,691)
Cash paid upon disposition of discontinued operation		(4,932)
Cash paid for acquisition in excess of cash received		-
		-----
Cash used in investing activities		(223,365)
		-----
Cash flows from continuing financing activities:		
Acquisition of treasury stock under approved repurchase plan		(3,155)
Repayment of note payable		(100,000)
		-----
Cash used in financing activities		(103,155)
		-----
Discontinued Operations		
Cash provided by (used in) operating activities		47,912
		-----
Cash provided by (used in) discontinued operations		47,912
		-----
Increase (Decrease) in cash during the period		625,042
Cash at the beginning of the period		1,189,042
		-----
Cash at the end of the period	\$	1,814,084
		=====
		=====
Supplemental information:		
Cash paid for interest	\$	16,273
		=====
Cash paid for taxes	\$	15,684
		=====
Common stock issued in conjunction with acquisitions	\$	-
		=====
Net debt issued in conjunction with acquisitions	\$	-
		=====
Common stock received in conjunction with disposition of discontinued operation	\$	1,406,250
		=====
Reduction in fair value of conversion feature of debt	\$	-
		=====
		=====

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

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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

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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. 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-KSB for the year ended December 31, 2007, and filed with the Securities and Exchange Commission on March 28, 2008. 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 ended and nine months September 30, 2008 are not necessarily indicative of annual results. The Company manages its business as one reportable segment.

### Use of Estimates

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The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For the Company, key estimates include allowance for doubtful accounts, the fair value of goodwill and intangible assets, asset lives used in computing depreciation and amortization, including amortization of intangible assets, and accounting for income taxes, contingencies and litigation. While the Company believes that such estimates are fair when considered in conjunction with the condensed consolidated financial position and results of operations taken as a whole, actual results could differ from those estimates and such differences may be material to the financial statements.

### 2. DISPOSITION

In November 2007, the Company's Board of Directors granted the Company the authority to sell Phoenix International Publishing LLC ("Phoenix"), a publisher of consumer magazines and guides about travel to the U.S. and Canada. On March 31, 2008, the Company completed the sale of Phoenix to Simon Todd ("Mr. Todd"), pursuant to the terms of an acquisition agreement ("Acquisition Agreement"), dated March 31, 2008, by and among the Company, Phoenix, and Mr. Todd. Pursuant to the Acquisition Agreement, the Company received 1,250,000 shares of the Company's common stock from Mr. Todd at closing. The Acquisition Agreement provides for, among other matters, contingent consideration from Mr. Todd in the event that certain thresholds of profitability, as defined, are attained within three years from the date of disposition or sale of Phoenix by Mr. Todd to a third party for an amount in excess of a defined amount for a period of three years from March 31, 2008. The amount of contingent consideration, if any, can not be determined as the likelihood of such future events giving rise to such contingent consideration can not be ascertained nor the effects estimated. Upon

execution of the Acquisition Agreement, Mr. Todd resigned as Vice President of the Company. Prior to the acquisition of Phoenix by the Company, Mr. Todd was the owner, sole member, and President of Phoenix. The Company acquired Phoenix

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from Mr. Todd on August 31, 2006 for 1,450,000 shares of the Company's common stock.

The Company recorded the sale of Phoenix at its fair value, as defined by Statement of Financial Accounting Standards No. 157, Fair Value Measurements, ("FAS 157") and Accounting Principles Board Opinion No. 29, Accounting for Nonmonetary Transactions ("APB 29"). APB 29 states, "If neither the fair value of a nonmonetary asset transferred nor the fair value of a nonmonetary asset received in exchange is determined within reasonable limits, the recorded amount of the nonmonetary asset transferred from the enterprise may be the only available measure of the transaction". The Company could not determine fair value of either the asset transferred (Phoenix) or the asset received (shares of the Company's common stock), and therefore recorded cost, \$1,406,250, the value of the shares received at the time shares were initially issued, was used to record the sale and a loss of \$58,382 was recognized.

In order to value the disposition, the Company reviewed the valuation techniques listed in FAS 157, paragraph 18: market approach, income approach, and cost approach. The Company also reviewed the different levels of inputs to valuation techniques as defined in FAS 157, paragraphs 22 through 30. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets. Level 2 inputs are quoted prices for identical or similar assets in markets that are not active, that is, markets in which there are few transactions for the asset, the prices are not current, or price quotations vary substantially either over time or among market makers. Adjustments to Level 2 inputs will vary depending on factors specific to the asset. Those factors include the volume and level of activity in the markets within which the inputs are observed. An adjustment that is significant to the fair value measurement in its entirety might render the measurement a Level 3 measurement, depending on the level in the fair value hierarchy within which the inputs used to determine the adjustment fall. Level 3 inputs are unobservable inputs for the asset. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date.

The Company had difficulty with the valuation of Phoenix as it is a unique business: Phoenix has no employees, is operated as a sole proprietorship, and has no tangible assets (the Company's investment in Phoenix was initially allocated to intangible assets and goodwill). Its competitors are dissimilar and would not be representative of Phoenix's value. The Company could not find a Level 1 input as there were no quoted prices in active markets for an identical asset. The Company then looked for Level 2 inputs, however, there were no quoted prices for similar assets in active markets nor identical assets in inactive markets. As stated previously, Phoenix is very different from its competitors and valuing it based on comparable values of other similar businesses was not representative of its value. This negated the market approach and the cost approach as valuation techniques. The Company then attempted to use an income approach by using present value techniques or an expected cash flow approach to value Phoenix. The Company's brief ownership of Phoenix coupled with its poor results during this time (as compared to its history of profitability before the Company's ownership) made this valuation technique a poor measure of Phoenix. Therefore, the Company could not determine within reasonable limits the value of Phoenix.

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

Paragraph 18 of APB 29 states, "The Board concludes that in general accounting for nonmonetary transactions should be based on the fair values of the assets involved which is the same basis as that used in monetary transactions. Thus,



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the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if it is more clearly evident than the fair value of the asset surrendered". The Company concluded that the value of the Company's stock was "more clearly evident than the fair value of the asset surrendered", in this case, Phoenix. The Company then tried to value the Company's stock.

At the time of the disposition, the Company's stock rarely traded. It traded eight days out of twenty in March 2008 for a total of 9,300 shares. The last trade before the transaction was on March 28th and the next trade was on April 8th during this time period. On March 31st, the disposition date, the bid was \$0.30 and the ask was \$1.05. The Company determined that the stock no longer had an active market and therefore was not a Level 1 input. In reviewing the adjustments needed to determine the stock's value, the Company concluded that the adjustments needed to the price of the stock would be so significant given its lack of market activity and pricing spread that it would render the measurement a Level 3 measurement.

Paragraph C21c of FAS 157 allows a practicability exception to the requirement to measure fair value if fair value is not reasonably determinable. This is further discussed in paragraph 26 of APB 29, "Fair value should be regarded as not determinable within reasonable limits if major uncertainties exist about the realizability of the value that would be assigned to an asset received in a nonmonetary transaction account for at fair value. An exchange involving parties with essentially opposing interests is not considered a prerequisite to determining a fair value of a nonmonetary asset transferred; nor does an exchange insure that a fair value for accounting purposes can be ascertained within reasonable limits. If neither the fair value of a nonmonetary asset transferred nor the fair value of a nonmonetary asset received in exchange is determined within reasonable limits, the recorded amount of the nonmonetary asset transferred from the enterprise may be the only available measure of the transaction". As discussed previously, the Company concluded that the value of their stock was a Level 3 measurement, an unobservable input. In determining what value should be given to this input, the Company concluded that it could not determine the value within reasonable limits. Accordingly, the Company concluded that the sale of Phoenix would be recorded using the asset's recorded value, \$1,406, 250, the value of the shares received at the time the shares were initially issued.

For tax purposes, the transaction was treated as split-off with no resulting tax consequences. The Company retired the 1,250,000 shares of its common stock received as of March 31, 2008.

The results of operations and cash flows of Phoenix has been removed from the results of continuing operations and have been accounted for as discontinued operations.

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

For the three months ended September 30:

	2008	2007
Revenues	\$ 0	\$ 198,758

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Loss before income taxes	\$ 0	\$ 111,033
Loss on sale of Phoenix	0	--
Income tax benefit	0	42,283
	----	-----
Loss from discontinued operations	\$ 0	\$ 68,750
	=====	=====

For the nine months ended September 30:

	2008	2007
	-----	-----
Revenues	\$ 107,569	\$ 675,475
Loss before income taxes	\$ 98,503	\$ 392,826
Loss on sale of Phoenix	58,382	--
Income tax benefit	37,611	151,553
	-----	-----
Loss from discontinued operations	\$ 119,274	\$ 241,273
	=====	=====

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

The assets and liabilities of discontinued business have been reclassified and are segregated in the consolidated balance sheet of December 31, 2007 as summarized as follows:

December 31, 2007  
 -----

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Accounts receivable	\$ 501,992
Deposits and prepaid items	2,096
	-----
Total current assets held for sale	\$ 504,088
	=====
Intangible assets, net	\$ 783,244
Goodwill	1,126,030
	-----
Total long lived assets held for sale	\$ 1,909,274
	=====
Accounts payable and accrued liabilities	\$ 359,182
Deferred revenue	183,500
	-----
Total current liabilities available for sale	\$ 542,682
	=====
Non current deferred income taxes payable	\$ 302,176
	-----
Non current liabilities available for sale	\$ 302,176
	=====

In conjunction with the Acquisition Agreement, Phoenix is obligated to pay its pre-disposition intercompany debt balance to the Company of \$100,000 in forty consecutive monthly payments of \$2,500 commencing on October 1, 2008. The series of forty monthly payments of \$2,500 has been discounted, using the Company's estimated incremental borrowing rate of 6.5% and the aggregate related unamortized net imputed interest of \$10,309 as of September 30, 2008 has been offset against the face value of the receivable and a corresponding interest expense recorded. The current portion of this receivable from Phoenix, \$24,903, has been classified as deposits and prepaid items and the remaining balance of \$64,788 as other assets as of September 30, 2008.

### 3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

#### Fair Value Measurements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements, ("FAS 157"). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of FAS 157 as of January 1, 2008 did not have a material impact on the Company's financial position, results of operations or cash flows except as discussed in Note 2. Cash equivalents and restricted cash are carried at cost which approximates fair value.

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

In October 2008 the FASB issued FASB Staff Position ("FSP") SFAS No. 157-3, Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active, ("FSP 157-3") to clarify the application of the provisions of FAS157 in an inactive market and how an entity would determine fair value in an inactive market. FSP157-3 is effective immediately and applies to our September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect our results of operations or financial

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condition as of and for the periods ended September 30, 2008.

### Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statement No. 87, 88, 106 and 132(R), ("FAS 158"). This Standard requires recognition of the funded status of a benefit plan in the statement of financial position. The Standard also requires recognition in other comprehensive income certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. FAS 158 provides recognition and disclosure elements to be effective as of the end of the fiscal year after December 15, 2006 and measurement elements to be effective for fiscal years ending after December 15, 2008. The Company does not expect the remaining elements of this Statement to have a material impact on the Company's financial condition, results of operations or cash flows when adopted.

### Fair Value Option of Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("FAS 159"). This Standard provides companies with an option to report selected financial assets and liabilities at fair value in an attempt to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. FAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Upon adoption of this Statement, the Company did not elect the FAS 159 option for its existing financial assets and liabilities and therefore adoption of SFAS 159 did not have any impact on its consolidated financial statements.

### Business Combinations

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, ( "FAS 141(R) "). This Standard establishes principles and requirements for how an acquirer in a business combination:

- o Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree
- o Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and
- o Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

FAS 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company has not yet assessed the impact of adoption, if any, on its consolidated financial statements.

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

### Noncontrolling Interest in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51, ("FAS 160"). This Standard amends Accounting Research Bulletin No. 51 ("ARB 51") to establish

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accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of FAS 141(R). FAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company has not yet assessed the impact of adoption, if any, on its consolidated financial statements.

### Accounting for Collaborative Arrangements

In December 2007, the Emerging Issues Task Force ("EITF") met and ratified EITF No.07-01, Accounting for Collaborative Arrangements, in order to define collaborative arrangements and to establish reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. This EITF is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This EITF is to be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. We are currently assessing the impact of this EITF to our consolidated financial statements.

### Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets," which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under FAS 142 "Goodwill and Other Intangible Assets". The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of the expected cash flows used to measure the fair value of the asset under FAS 141 (revised 2007) "Business Combinations" and other U.S. generally accepted accounting principles. The Company is currently evaluating the potential impact of FSP FAS 142-3 upon its consolidated financial statements.

### Disclosure about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, Disclosure about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133, ("FAS 161"). This Statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. The Company is required to adopt FAS 161 on January 1, 2009. The Company is currently evaluating the potential impact of FAS No. 161 upon its consolidated financial statements.

### Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)

In May 2008, the FASB issued FSP No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash

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Settlement)" The FSP, which clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The FSP requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer's nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. The FSP requires bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in our consolidated statement of operations. The FSP requires retrospective application to the terms of instruments as they existed for all periods presented. The FSP is effective for us as of January 1, 2009 and early adoption is not permitted. The Company is currently evaluating the potential impact of FSP APB 14-1 upon its consolidated financial statements.

### The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (FAS No. 162). FAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. FAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AICPA Audit Section No. 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles". The implementation of this standard will not have a material impact on the Company's consolidated financial position and results of operations.

### Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP EITF 03-6-1). FSP EITF 03-6-1 clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of FSP EITF 03-6-1 on its consolidated financial position and results of operations.

### Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock

In June 2008, the FASB ratified EITF Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock" (EITF 07-5). EITF 07-5 provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies on the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 is effective for fiscal years

beginning after December 15, 2008. The Company is currently assessing the impact of EITF 07-5 on its consolidated financial position and results of operations.

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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 or conversion of notes into shares of common stock that could share in the earnings of the Company. This calculation is not done for periods in a loss position as this would be antidilutive. The information related to basic and diluted earnings per share is as follows:

	Quarter Ended 2008	September 30, 2007
	-----	-----
Numerator:		
Continuing operations:		
Income (loss) continuing operations	\$ 41,870	\$ (270,537)
Effect of dilutive convertible debt	--	--
	-----	-----
Total	\$ 41,870	\$ (270,537)
	=====	=====
Discontinued operations		
Loss from discontinued operations	\$ --	\$ (68,750)
	=====	=====
Net income (loss)	\$ 41,870	\$ (339,287)
	=====	=====
Denominator:		
Weighted average number of shares outstanding - basic	17,252,777	18,492,977
Effect of dilutive stock options and convertible debt	--	--
	-----	-----
Diluted	17,252,777	18,492,977
	=====	=====
EPS:		
Basic:		
Continuing operations	\$ --	\$ (0.02)
Discontinued operations	--	--
	-----	-----
Net income (loss)	\$ --	\$ (0.02)
	=====	=====
Diluted		
Continuing operations	\$ --	\$ (0.02)
Discontinued operations	--	--
	-----	-----
Net (income) loss	\$ --	\$ (0.02)
	=====	=====

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

	Nine Months Ended September 30, 2008	2007
	-----	-----
Numerator:		
Continuing operations:		
Income (loss) from continuing operations	\$ 76,344	\$ (451,834)
Effect of dilutive convertible debt	--	--
Total	\$ 76,344	\$ (451,834)
	=====	=====
Discontinued operations		
Loss from discontinued operations	\$ (119,274)	\$ (241,273)
	=====	=====
Net loss	\$ (42,930)	\$ (693,107)
	=====	=====
Denominator:		
Weighted average number of shares outstanding - basic	17,666,249	18,480,907
Effect of dilutive stock options and convertible debt	--	--
Diluted	17,666,249	18,480,907
	=====	=====
EPS:		
Basic:		
Continuing operations	\$ --	\$ (0.02)
Discontinued operations	(0.01)	(0.02)
Net loss	\$ --	\$ (0.04)
	=====	=====
Diluted		
Continuing operations	\$ --	\$ (0.02)
Discontinued operations	(0.01)	(0.02)
Net loss	\$ --	\$ (0.04)
	=====	=====

### 5. STOCK BASED COMPENSATION

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



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

On March 26, 2008, 232,400 stock options were granted to seven employees under the Plan. All options have a five-year life and an exercise price of \$1.27. All options granted during the quarter vest two years after date of grant. No options were granted during the quarter ended September 30, 2008.

A summary of the activity in our Plan for the quarter ended September 30, 2008 is presented below:

	Shares -----	Weighted Average Exercise Price -----
Options outstanding at December 31, 2007	2,215,000	\$ 1.41
Granted	232,400	1.27
Canceled	-	0.00
Exercised	-	0.00
	-----	-----
Options outstanding at September 30, 2008	2,447,400 =====	\$ 1.39 =====

The weighted fair value of options granted during the nine months ended September 30, 2008 was \$0.04 with the following assumptions: average expected life of 3.5 years; 2.03% average interest rate; 42.1% volatility; 5% forfeiture rate. Compensation cost recognized for the quarters ended September 30, 2008 and 2007 and the nine month periods then ended was \$28,805, \$44,149, \$110,462 and \$131,856, respectively.

As of September 30, 2008, there was approximately \$85,563 of total stock-based compensation expense not yet recognized relating to non-vested awards granted under our option plan as calculated under SFAS 123R. This expense is net of estimated forfeitures and is expected to be recognized over a weighted-average period of approximately 13 months. The number of non-exercisable shares was 587,400 shares of common stock at September 30, 2008. At September 30, 2008, 1,860,000 shares of common stock at \$1.27 per share were exercisable.

For the nine months ended September 30, 2008, 9,800 restricted shares were granted to employees and directors under the Plan. Compensation expense for the nine months ended September 30, 2008 and 2007 related to the restricted share grants was \$16,250 and \$18,520, respectively. No restricted shares were granted during the three months ended September 30, 2008.

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

## 6. INCOME TAXES

The provision for income taxes from continuing operations for the three months and six months ended September 30, 2008 and September 30, 2007, respectively, consists of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Current				
Federal	\$ --	\$ (7,211)	\$ --	\$ (7,211)
State	2,397	3,745	20,364	3,745
	-----	-----	-----	-----
	2,397	(3,466)	20,364	(3,466)
	-----	-----	-----	-----
Deferred				
Federal	\$ 27,357	\$ (139,452)	\$ 103,341	\$ (210,816)
State	4,549	(23,637)	17,183	(35,506)
	-----	-----	-----	-----
	\$ 31,906	(163,089)	120,524	(246,322)
	-----	-----	-----	-----
Total provision (benefit) for income taxes - net	\$ 34,303	\$ (166,955)	\$ 140,888	\$ (249,788)
	=====	=====	=====	=====

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,
	2008	2007	2008
Statutory federal income tax (benefit) rate	35.0%	(35.0)%	35.0%
State income taxes net of federal income tax benefit	3.6	(3.6)	3.6
True up of prior year's state income taxes net of federal income tax benefit	(1.7)	-.-	7.7
Tax effect of non deductible items	8.1	0.5	18.6
	-----	-----	-----
Effective income tax (benefit) rate	45.0%	(38.1)%	64.9%
	=====	=====	-----

The tax effect of non-deductible items in 2008 include stock compensation

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expense related to incentive stock options of \$28,601 and \$87,348 for the three months ended and nine months ended September 30, 2008, respectively, and net imputed interest expense of associated with the debt issued in conjunction with the acquisition of La Tours and Cruises, Inc. net of the imputed interest income from the receivable from Phoenix.

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### 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 financial reporting purposes and for tax purposes. The tax effect of these temporary differences representing deferred tax asset and liabilities result principally from the following:

	September 30, 2008	December 31, 2007
	-----	-----
Net operating loss carry- forwards and AMT tax credit	\$ 340,300	\$ 430,328
Depreciation and amortization	(89,266)	(49,635)
Accruals and other	98,995	52,289
	-----	-----
Deferred income tax asset	\$ 350,029	\$ 432,982
	=====	=====

The net deferred tax assets are comprised of the following:

	September 30, 2008	December 31, 2007
	-----	-----
Current	\$ 4,387	\$ 1,665
Non-current	345,642	431,317
	-----	-----
Net deferred income tax asset	\$ 350,029	\$ 432,982
	=====	=====

#### 7. TREASURY STOCK

On August 1, 2008, the Company announced that its Board of Directors had approved a program to repurchase of up to \$200,000 of the Company's common stock to be funded from available working capital and subject to the applicable rules and regulations of the Securities and Exchange Commission and other applicable legal requirements. The program will not extend beyond June 30, 2009, does not require the Company to acquire a specific number of shares and may be suspended from time to time or discontinued. On September 30, 2008, the Company purchased 5,000 shares of its common stock in the open market at a cost of \$3,155.

#### 8. COMMITMENTS AND CONTINGENCIES

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

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results of its operations.

### 9. SUBSEQUENT EVENT

On October 1, 2008, the Company paid \$337,085 to the former owner of La Fern, Inc representing payment in full of the note payable and accrued interest thereon issued in conjunction with the acquisition of La Fern Inc. in October 2006.

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

### Forward Looking Statements

This Quarterly Report on Form 10-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-KSB for the year ended December 31, 2007 filed with the Securities and Exchange Commission ("SEC") on March 28, 2008 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

We are focused on internally growing and developing our group of diversified vacation marketers with a range of products that can be cross-sold to an extensive customer base and provide a high degree of personalized service to help consumers research, plan and purchase a vacation.

We provide vacation marketing services through eight wholly owned subsidiaries. Our portfolio of travel companies include:

- o Online Vacation Center, Inc. ("Online Vacation Center"), a full service vacation seller focused on serving the affluent retiree market. Historically, this subsidiary has been the core business, accounting for the majority of revenue and net income through the sale of high margin cruise packages. This business is now integrated with our other travel companies, Curves Travel, the licensed travel management company of Curves International, Inc., La Fern, Inc., operating as eLeisureLink.com and focusing on land-based vacations, and Cruises for Less, our home-based selling group,
- o Dunhill Vacations, Inc. ("Dunhill"), the publisher of three travel newsletters, "Top Travel Values", "Spotlight", and "TRAVELFLASH", and
- o La Tours and Cruises, Inc. and Thoroughbred Travel, LLC, our Houston travel agencies operating as "West University Travel / Journeys Unlimited", focused on providing luxury personal travel products such as cruises, European tours and all-inclusive vacations.

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We generate revenues from:

- o commissions on cruises
- o commissions on other travel related products
- o commissions on travel insurance
- o marketing and publishing services performed for travel suppliers

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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 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.

In November 2007, our Board of Directors granted us the authority to sell Phoenix, a publisher of consumer magazines and guides about travel to the U.S. and Canada. On March 31, 2008, we completed the sale of Phoenix to Simon Todd ("Mr. Todd"), pursuant to the terms of an acquisition agreement ("Acquisition Agreement"), dated March 31, 2008, by and among the Company, Phoenix, and Mr. Todd. Pursuant to the Acquisition Agreement, we received 1,250,000 shares of our common stock from Mr. Todd at closing. Upon execution of the Acquisition Agreement, Mr. Todd resigned as Vice President of the Company. Prior to our acquisition of Phoenix, Mr. Todd was the owner, sole member, and President of Phoenix. We acquired Phoenix from Mr. Todd on August 31, 2006 for 1,450,000 shares of our common stock.

Results of Operations

Three Months Ended September 30, 2008 Compared to the Three Months Ended September 30, 2007

Continuing operations:

Revenues increased by \$163,499, 9.0%, to \$1,975,977 for the three months ended September 30, 2008 ("the third quarter of 2008") compared to \$1,812,478 for the three months ended September 30, 2007 ("the third quarter of 2007"). The increase is attributable to an increase in publishing revenues offset by a decrease in commission revenues.

Selling and marketing expenses decreased by \$344,092, 37.1%, to \$584,221 for the third quarter of 2008 compared to \$928,313 for the third quarter of 2007. The decrease is primarily attributable to a decrease in sales staff compensation and marketing costs. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

General and administrative expenses decreased by \$38,451, 3.1%, to \$1,204,533 for the third quarter of 2008 compared to \$1,242,984 for the third quarter of 2007. The decrease is primarily attributable to a decrease in professional services and occupancy expenses offset by an increase in compensation related expenses. General and administrative expenses primarily include management and

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

Depreciation and amortization expense increased by \$37,638 to \$108,174 for the third quarter of 2008 compared to \$70,536 for the third quarter of 2007. The increase is attributable to an increase in the amortization expense of the Dunhill subscriber list.

Net interest expense decreased from \$7,737 for the third quarter of 2007 to \$2,876 for the third quarter of 2008. The reduction in net interest expense for third quarter of 2008 was primarily attributable to lower balances of debt

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outstanding in conjunction with our acquisition of Thoroughbred Travel, LLC and La Tours and Cruises, Inc ("La Tours").

Our income before provision for income taxes was \$76,173 in the third quarter of 2008 compared to a loss before benefit for income taxes of \$437,092 in the third quarter of 2007. These results are primarily attributable to an increase in revenues and a decrease in selling and marketing expenses during the third quarter of 2008.

The provision for income taxes increased to \$34,303 for the third quarter of 2008 compared to a benefit for income taxes of \$166,555 for the third quarter of 2007. The increase is directly related to our increase in income before income taxes of \$76,173 during the third quarter of 2008 compared to a loss before income tax benefits of \$437,092 in the third quarter of 2007. The tax rate in the third quarter of 2008, 45%, was due to the tax effect of non deductible items and a true up of prior year state taxes. The tax benefit rate in the third quarter of 2007 was 38.1%.

As a result of the foregoing, our income from continuing operations was \$41,870 for the third quarter of 2008 compared to a loss from continuing operations of \$270,537 for the third quarter of 2007.

Nine Months Ended September 30, 2008 compared to Nine Months Ended September 30, 2007

### Continuing Operations

Revenues increased by \$883,927, 14.6%, to \$6,923,551 for the nine months ended September 30, 2008 compared to \$6,039,624 for the nine months ended September 30, 2007. The increase is attributable to an increase in commission and publishing revenues offset by a decrease in marketing revenues.

Selling and marketing expenses decreased by \$378,094, 13.6% to \$2,414,527 for the nine months ended September 30, 2008 compared to \$2,793,431 for the nine months ended September 30, 2007. The decrease is attributable to a decrease in sales staff compensation costs and marketing materials production expenses. Selling and marketing expenses primarily consist of sales staff compensation and costs to produce marketing materials.

General and administrative expenses increased by \$217,997 or 5.8% to \$3,971,569 for the nine months ended September 30, 2008 compared to \$3,753,572 for the nine months ended September 30, 2007. The increase is primarily attributable to an increase in the general and administrative expenses associated with publishing activities commensurate with its increase in revenues and general and administrative expenses of Curves Travel which was acquired in May 2007. 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,

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2008 was \$294,841 as compared to \$182,286 for the nine months ended September 30, 2007. Amortization expense increased by \$91,908 as a result of amortization of intangible assets acquired in conjunction with the Curves Travel acquisition in May 2007 and an increase in the amortization expense of the Dunhill subscriber list. The remaining increase of \$20,647 is attributable to an increase in depreciation expense.

Net interest expense increased from \$11,957 for the nine months ended September 30, 2007 to \$25,382 for the nine months ended September 30, 2008. The increase is primarily attributable to the first quarter of 2008 expense imputed on the receivable from Phoenix payable over 40 months and decreased interest income

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earned on lower cash balances at the bank at declining interest rates during the nine months ended September 30, 2008.

Our income before provision for income taxes was \$217,232 for the nine months ended September 30, 2008 compared to our loss before benefit for income taxes of \$701,622 for the nine months ended September 30, 2007. These results are primarily attributable to an increase in revenues and a decrease in selling and marketing expenses, offset by an increase in general and administrative expenses, depreciation and amortization and net interest expense.

The provision for income taxes increased from a benefit of \$249,788 for the nine months ended September 30, 2007 to a tax provision of \$140,888 for the nine months ended September 30, 2008. The increase is directly related to the increase in results from operations where income before income taxes was \$217,232 for the nine months ended September 30, 2008 whereas the loss before income taxes was \$701,622 for the nine months ended September 30, 2007. The tax rate for the nine months ended September 30 2008, 64.9%, was higher than the statutory rate because of the tax effect of non deductible items and a true up of prior year state taxes. The benefit rate for the nine months ended September 30 2007 was 35.6%.

As a result of the foregoing, our income from continuing operations for the nine months ended September 30, 2008 was \$76,344 compared to a loss from continuing operations of \$451,834 for the nine months ended September 30, 2007.

### Discontinued Operations

We acquired Phoenix, a United Kingdom publisher of consumer magazines and guides about travel to the U.S. and Canada, on August 31, 2006 for 1,450,000 shares of our common stock. In November 2007, the Company's Board of Directors granted the Company the authority to sell Phoenix. On March 31, 2008, we sold Phoenix to Mr. Todd, the former owner of Phoenix, in exchange for 1,250,000 shares of our common stock which were owned by Mr. Todd. We recorded the sale of Phoenix at its fair value, as defined by Statement of Financial Accounting Standards No. 157, Fair Value Measurements, resulting in a loss of \$58,382. For tax purposes, the transaction was treated as split-off with no resulting tax consequences. We retired the 1,250,000 shares of our common stock received from Mr. Todd in the sale transaction as of March 31, 2008.

The results of operations and cash flows of Phoenix has been removed from the results of continuing operations and the assets and liabilities of Phoenix have been classified as available for sale, as of December 31, 2007. The comparisons of the results of operations of Phoenix between the third quarters of 2008 and 2007 and the nine months ended September 30th of 2008 and 2007, respectively, are as follows:

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	For the Three Months Ended September 30:		
	2008	2007	Increase/ (Decrease)
	-----	-----	-----
Revenues	\$ 0	\$ 198,758	\$ (198,758)
Operating (loss)	\$ 0	\$ (112,004)	\$ 112,004
(Loss) on sale of Phoenix	\$ 0	--	\$ --
Net (loss) from discontinued operations	\$ 0	\$ (68,750)	\$ 68,750

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	For the Nine Months Ended September 30:		
	2008	2007	Increase/ (Decrease)
	-----	-----	-----
Revenues	\$ 107,569	\$ 675,475	\$ (567,906)
Operating (loss)	\$ (98,805)	\$ (393,797)	\$ 294,992
(Loss) on sale of Phoenix	\$ (58,382)	--	\$ (58,382)
Net (loss) from discontinued operations	\$ (119,274)	\$ (241,273)	\$ 121,999

As a result of the foregoing, our net income was \$41,870 for the three months ended September 30, 2008 compared to a net loss of \$339,287 for the three months ended September 30, 2007. Our net loss for the nine months ended September 30, 2008 was \$42,930 compared to a net loss of \$693,107 for the nine months ended September 30, 2007.

#### Liquidity and Capital Resources

Cash at September 30, 2008 was \$1,814,084 as compared to \$1,189,042 at December 31, 2007. The primary source of our liquidity and capital resources has come from our operations.

Cash flows provided by continuing operating activities for nine months ended September 30th of 2008 and 2007 were \$903,650 and \$85,428, respectively. The increase of \$818,222 in 2008 was primarily attributable to an increase of income from continuing operations of \$528,178 and an increase in non-cash operating items of \$409,747, partially offset by an increase in cash used by working capital items of \$119,703.

Cash flows used in continuing investing activities for the nine months ended September 30, 2008 decreased to \$223,365 from \$1,252,962 during the nine months ended September 30, 2007. The primary decrease in cash out flows related to no acquisition activity in 2008 compared to \$1,116,713 used for four acquisitions completed during the first half of 2007 and a decrease in restricted cash of \$316,476, partially offset by an increase in intangible assets and the pre-disposition intercompany balance receivable from Phoenix totaling \$459,320 in 2008.

Cash flows used in continuing financing activities for the nine months ended September 30, 2008 totaled \$103,155 as result of payment of a note issued in conjunction with the La Tours acquisition and the repurchase of 5,000 shares of common stock in the open market totaling \$3,155 in accordance with its previously announced buy-back program. Cash flows used in continuing financing activities for the nine months ended September 30, 2007 totaled \$125,000 as result of payment of a note issued in conjunction with the Thoroughbred Travel acquisition.



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Cash flows provided by discontinued operations, solely from its operating activities, increased by \$241,074, to \$47,912 provided during the nine months ended September 30, 2008 compared to a use of \$193,162 for the nine months ended September 30, 2007.

At September 30, 2008, we had a working capital deficit of \$468,900, as compared to a working capital deficit of \$847,857 at December 31, 2007, an increase of working capital of \$378,957. At September 30, 2008, we had an accumulated deficit of \$1,443,077, as compared to an accumulated deficit of \$1,400,147 at December 31, 2007, a deficit increase of \$42,930.

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

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liquidity needs of our operations. We may need to seek to sell equity or debt securities or obtain credit lines from financial institutions to meet our longer-term liquidity and capital requirements. We can not provide any assurances that we will be able to obtain additional capital or financing in amounts or on terms acceptable to us, if at all or on a timely basis.

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

### Seasonality and Inflation

The domestic and international leisure travel industry is seasonal. Our results have been subject to quarterly fluctuations caused primarily by the seasonal variations in the travel industry. Leisure travel net revenues and net income are generally lower in the third quarter. We expect seasonality to continue in the future. 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 Annual Report on Form 10-KSB for the year ended December 31, 2007 filed with the SEC on March 28, 2008, 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

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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.

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 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

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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 4(T). - CONTROLS AND PROCEDURES

As of September 30, 2008 under the supervision of and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report (the "Evaluation Date"). Based upon the evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the Evaluation Date. Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls include controls and procedures designed to reasonably ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with this evaluation, our management identified no changes in our internal control over financial reporting that occurred during the most recent

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fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

The following table provides information with respect to Company purchases made of Online Vacation Center Holdings Corp. common stock during the third quarter of the 2008 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) Maxi (or Ap Dollar Shares Yet Be Und Pl Pro
July 1, 2008 - July 31, 2008	--	\$ --	--	\$
August 1, 2008 - August 31, 2008	--	\$ --	--	\$ 2
September 1, 2008 - September 30, 2008	5,000	\$ 0.631	5,000	\$ 1
Total	5,000	\$ 0.631	5,000	\$ 1

On August 1, 2008, the Company announced that its Board of Directors had approved a program to repurchase of up to \$200,000 of the Company's common stock to be funded from available working capital and subject to the applicable rules and regulations of the Securities and Exchange Commission

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and other applicable legal requirements. The program will not extend beyond June 30, 2009, does not require the Company to acquire a specific number of shares and may be suspended from time to time or discontinued

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

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

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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

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Chief Executive Officer, President,  
Chief Financial Officer and Director

Date: November 6, 2008

