

Edgar Filing: Joystar Inc - Form 10QSB

Joystar Inc  
Form 10QSB  
August 15, 2005

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 June 30, 2005
- ( ) 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

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 [ ]

The number of shares of the registrant's common stock as of June 30, 2005:  
27,857,383 shares.

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

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### JOYSTAR, INC. BALANCE SHEETS (UNAUDITED)

	June 30, 2005	December 31, 2004
	-----	-----
ASSETS		
Current assets:		
Cash	\$ 88,318	\$ 283,869
Other receivables	25,172	100
Prepaid expenses	11,657	16,265
	-----	-----
Total current assets	125,147	300,234
Property and equipment, net	46,669	37,327
	-----	-----
Total assets	\$ 171,816	\$ 337,561
	=====	=====

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### LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities:		
Accounts payable	\$ 190,401	\$ 144,416
Accrued salaries	2,061	172,038
Accrued payroll taxes	376,708	203,970
Accrued rent	35,000	35,000
Loans from shareholder	471	259,834
	-----	-----
Total current liabilities	604,641	815,258
Commitments and contingency	--	--
Stockholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized; none issued	--	--
Common stock, no par value, 50,000,000 shares authorized; 27,857,383 and 23,228,633 shares issued and outstanding at June 30, 2005 and December 31, 2004, respectively	6,155,299	4,178,663
Stock issued for deferred compensation	(484,750)	(621,250)
Stock subscribed not issued, 227,333 shares and 887,333 shares at June 30, 2005 and December 31, 2004, respectively	204,800	794,800
Accumulated deficit	(6,308,174)	(4,829,910)
	-----	-----
Total stockholders' (deficit)	(432,825)	(477,697)
	-----	-----
Total liabilities and stockholders' equity (deficit)	\$ 171,816	\$ 337,561
	=====	=====

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

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### JOYSTAR, INC. STATEMENTS OF OPERATIONS (UNAUDITED)

	For the six months ended June 30, 2005	For the six months ended June 30, 2004	For the three months ended June 30, 2005	For the month June
	-----	-----	-----	-----
Gross Revenues:				
Travel commissions	\$ 187,408	\$ 41,059	\$ 137,899	\$
Cost of revenues	130,791	--	98,047	
	-----	-----	-----	-----
Net revenues	56,617	41,059	39,852	
Operating expenses:				
General and administrative	1,151,168	613,283	646,975	
Marketing and sales	374,072	1,009,564	195,834	
	-----	-----	-----	-----
Total operating expenses	1,525,240	1,622,847	842,809	
	-----	-----	-----	-----
Loss from operations before				

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interest and taxes	(1,468,623)	(1,581,788)	(802,957)	(
Interest expense	9,641	--	9,641	
Provision for taxes - State	--	2,560	--	
	-----	-----	-----	-----
Net loss	\$ (1,478,264)	\$ (1,584,348)	\$ (812,598)	\$
	=====	=====	=====	=====
Loss per share	\$ (0.06)	\$ (0.07)	\$ (0.03)	\$
	=====	=====	=====	=====
Weighted average number of common shares outstanding	24,031,395	21,239,656	24,618,082	21,
	=====	=====	=====	=====

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

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JOYSTAR, INC.  
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
(UNAUDITED)

	COMMON STOCK		Stock issued for Deferred Compensation	Stock Subscribed not Issued
	Number of Shares	Amount		
	-----	-----	-----	-----
Balance at December 31, 2004	23,228,633	\$ 4,178,663	\$ (621,250)	\$ 794,8
Stock issued for services	705,294	366,891	--	
Stock issued for cash	2,582,070	1,140,270	--	(590,0
Stock issued for note payable to shareholder	742,411	259,834	--	
Stock issued for accrued payroll	571,429	200,000	--	
Stock issued for interest	27,546	9,641	--	
Deferred compensation earned	--	--	136,500	
Net loss	--	--	--	
	-----	-----	-----	-----
Balance June 30, 2005	27,857,383	\$ 6,155,299	\$ (484,750)	\$ 204,8
	=====	=====	=====	=====

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

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JOYSTAR, INC.  
STATEMENTS OF CASH FLOWS  
(UNAUDITED)

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	For the six months ended June 30, 2005	For the six months ended June 30, 2004
	-----	-----
Cash flows from operating activities:		
Net loss	\$(1,478,264)	\$(1,584,348)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	6,739	3,638
Stock issued for services	531,353	893,272
Stock issued for interest	9,641	
Changes in assets and liabilities:		
Decrease (increase) in prepaid expenses	4,609	190
Decrease (increase) in other receivables	(25,072)	1,000
Increase (decrease) in accounts payable	45,985	(17,191)
Increase in accrued salaries	2,061	79,637
Increase in payroll taxes	164,786	--
Increase in accrued rent	7,952	466
	-----	-----
Net cash used by operations	(730,210)	(623,336)
	-----	-----
Cash flows from investing activities:		
Acquisition of property and equipment	(16,081)	(15,594)
	-----	-----
Net cash used by investing activities	(16,081)	(15,594)
	-----	-----
Cash flows from financing activities:		
Increase (decrease) in loans from shareholders	470	(500)
Issuance of common stock	550,270	275,480
Reduction of shareholder loan, subscribed 60,000 shares of common stock	--	(83,295)
Stock subscribed not issued	--	443,000
	-----	-----
Net cash provided by financing activities	550,740	634,685
	-----	-----
Decrease in cash	(195,551)	(4,245)
Cash at the beginning of the period	283,869	136,319
	-----	-----
Cash at the end of the period	\$ 88,318	\$ 132,074
	=====	=====

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Issuance of stock for services	\$ 531,353	\$ 893,272
Income taxes paid	\$ --	\$ --
Shares issued for shareholder loan	\$ 259,834	\$ 83,295
Shares issued for interest	\$ 9,641	\$ --
Subscribed shares issued	\$ 590,000	\$ --
Shares issued for accrued prior year compensation	\$ 172,038	\$ --

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

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FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004  
(UNAUDITED)

-----  
1. BASIS OF PRESENTATION  
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Joystar, Inc. a California corporation (" the Company") was incorporated on February 5, 1998. The Company specializes in selling complex travel products including cruises, vacation packages and group travel through its national sales force of independent travel agents.

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 six months ended June 30, 2005 and 2004 are not necessarily indicative of the results that may be expected for any future period. The balance sheet at December 31, 2004 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, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
-----

REVENUE RECOGNITION  
-----

The Company recognizes revenue when the travel is completed and Joystar has been paid the corresponding commission from the supplier. The Company records revenues from travel related sales transactions where the Company both purchases from the supplier and sells to the customer the requested travel service. This is reflected in the Statement of Operations at the net amount, which reflects the gross amount charged to the customer less the cost paid to the supplier. The Company also receives commissions from travel suppliers for processing reservations.

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Revenues derived in the future from annual memberships or other activities where a time factor is involved will be deferred over the appropriate period and recognized as earned.

PROPERTY AND EQUIPMENT  
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Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful life of the assets, which is seven years for furniture and equipment and three years for computer equipment.

USE OF ESTIMATES  
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The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires

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management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### INCOME TAXES

Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

### NET LOSS 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. The Company has no common stock equivalents, which would dilute earnings per share.

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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. However, the Company had been in the development stage since its inception, 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 its development stage operations. However, there is no assurance that the necessary funds will be realized by securing debt or through stock offerings.

### 4. LEGAL PROCEEDINGS

In March, 2004 a former employee of the Company who was terminated prior to the acquisition of Joystar, filed a lawsuit in Orange County Superior Court for breach of contract and specific performance relating

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to the exercise of options, among other causes of action. A proposed settlement has been submitted to the Company in which the Company will issue an additional 300,000 shares and a cash payment of \$12,700 for cost. As of the date of this report, this agreement has not yet been finalized. The Company's financial statements do not reflect any adjustment to record the possible settlement.

An independent third party stockbroker has filed a lawsuit against the Company for refusal to register certain shares to them. A proposed settlement has been submitted by the Company in which the Company will register an additional 138,600 shares. As of the date of this report, this agreement has not yet been finalized. The Company's financial statements do not reflect any adjustment to record the possible settlement.

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### 5. SUBSEQUENT EVENTS

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As of July 18, 2005, the Company sold in its private placement of up to \$1,100,000, a total of 2,082,143 shares of its common stock, no par value per share, at a purchase price of \$0.35 per share to institutional and accredited investors. Additionally, William M. Alverson, the Company's CEO and one other officer and director converted their respective loans to the Company totaling \$575,000 to equity under the same terms. In addition to common stock shares, each subscriber received one warrant to purchase the Company's common stock for each two shares purchased. The warrants have the exercise price of \$0.50 per share and expire in five years from the date of issuance. The warrants are subject to call provisions as described in the warrant agreement. The subscribers have certain registration rights to register the shares and the warrants purchased in the placement.

The number of warrants outstanding at June 30, 2005 and subsequent to the shares issued in July were 821,443 and 1,862,514, respectively. The Company issued 20,000 shares of common stock for services in the amount of \$10,300.

Subsequent to June 30, 2005 the Company acquired the assets of Vacation and Cruise Resources, Inc. DBA Miami Cruise Center for \$25,000 cash and 137,500 of restricted common shares valued at the closing price on the date of issue \$70,125.

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

#### PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

ALL FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE DEEMED BY THE COMPANY TO BE COVERED BY AND TO QUALIFY FOR THE SAFE HARBOR PROTECTION PROVIDED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. PROSPECTIVE SHAREHOLDERS SHOULD UNDERSTAND THAT SEVERAL FACTORS GOVERN WHETHER ANY FORWARD - LOOKING STATEMENT CONTAINED HEREIN WILL BE OR CAN BE ACHIEVED. ANY ONE OF THOSE FACTORS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED HEREIN. THESE FORWARD - LOOKING STATEMENTS INCLUDE PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS, INCLUDING PLANS AND OBJECTIVES RELATING TO THE PRODUCTS AND THE FUTURE ECONOMIC PERFORMANCE OF THE COMPANY. ASSUMPTIONS RELATING TO THE



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FOREGOING INVOLVE JUDGMENTS WITH RESPECT TO, AMONG OTHER THINGS, FUTURE ECONOMIC, COMPETITIVE AND MARKET CONDITIONS, FUTURE BUSINESS DECISIONS, AND THE TIME AND MONEY REQUIRED TO SUCCESSFULLY COMPLETE DEVELOPMENT PROJECTS, ALL OF WHICH ARE DIFFICULT OR IMPOSSIBLE TO PREDICT ACCURATELY AND MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMPANY. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THOSE ASSUMPTIONS COULD PROVE INACCURATE AND, THEREFORE, THERE CAN BE NO ASSURANCE THAT THE RESULTS CONTEMPLATED IN ANY OF THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN WILL BE REALIZED. BASED ON ACTUAL EXPERIENCE AND BUSINESS DEVELOPMENT, THE COMPANY MAY ALTER ITS MARKETING, CAPITAL EXPENDITURE PLANS OR OTHER BUDGETS, WHICH MAY IN TURN AFFECT THE COMPANY'S RESULTS OF OPERATIONS. IN LIGHT OF THE SIGNIFICANT UNCERTAINTIES INHERENT IN THE FORWARD - LOOKING STATEMENTS INCLUDED THEREIN, THE INCLUSION OF ANY SUCH STATEMENT SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES OR PLANS OF THE COMPANY WILL BE ACHIEVED.

### General

Joystar, Inc., a California corporation, (the "Company") was incorporated in the State of California on February 5, 1998.

Joystar is one of the nation's largest and fastest growing travel agency networks. The Company specializes in selling complex travel products including cruises, vacation packages and group travel through its national sales force of 2,200 professional travel agents. Joystar's comprehensive business combines innovative technology, marketing opportunities and expert support services to the Company's independent and home-based travel agents. The Company makes it possible for professional travel agents to concentrate on promoting travel and creating customer loyalty without the administrative and financial burden of owning/operating a traditional storefront travel agency.

These financial statements should be read in conjunction with the financial statements and notes for the year ended December 31, 2004.

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### RESULTS OF OPERATIONS

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Joystar experienced positive results in the following areas:

1. Increase revenues from travel completed
2. Increase bookings corresponding to revenue received
3. Dramatic growth in agent memberships
4. Increase in new travel bookings not yet completed
5. Substantial reduction of debt (subsequent event)
6. Attained positive net worth (subsequent event)

-----  
The Company recognizes revenue when the travel is completed and Joystar has been paid the corresponding commission from the supplier.

Revenues recognized from travel completed for the quarter ended June 30, 2005, increased 252% to \$126,222 compared to \$50,031 for the previous quarter ended March 31, 2005.

Revenues recognized from travel completed for the six months ended June 30, 2005, increased 100% to \$176,253 compared to \$0 for the six months ended June 30, 2004.

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Completed travel bookings for which Joystar was paid a commission for the quarter ended June 30, 2005 increased 255% to \$1,367,477 compared to \$535,788 for the previous quarter ended March 31, 2005.

Completed travel bookings for which Joystar was paid a commission for the six months ended June 30, 2005 increased 100% to \$1,903,265 compared to \$0 for the six months ended June 30, 2004.

During the same period, membership increased by 820 travel agents to 2,022.

Additionally, Joystar received new travel bookings (not completed) totaling over \$4,300,000 during the 3 months ended June 30, 2005.

Marketing and sales expenses for the six months ended June 30, 2005 decreased \$636,000 to \$374,000 compared to \$1,010,000 for the six months ended June 30, 2004. This was due to Company's successful results of marketing over the past year and the Company's ability to attract professional agents to its Network more cost effectively.

General and administrative expenses for the six months ended June 30, 2005 were \$1,151,000 as compared to \$613,000 for the six months ended June 30, 2004, an increase of \$538,000 due primarily to the increases in employees and salaries of \$356,000, insurance of \$35,000, legal fees \$31,000 and a general increase in other expenses due to increased activity.

### LIQUIDITY AND SOURCES OF CAPITAL

-----

In July, the Company closed a \$1,640,000 private placement which included \$1,057,000 in cash and the conversion of \$575,000 from debt to equity under the same terms. The Company issued 2,082,143 shares of common stock for \$728,750 as part of the \$1,627,000 financing. The Company intends to raise an additional 5 million dollars in 2005. The Company expects to finance the capital needed with additional issuances of its securities. In order to fund the Company's growth, the Company has engaged an NASD member firm to provide investment banking services. There is no assurance that the Company will be able to secure such financing.

At June 30, 2005 the Company had a cash balance of \$88,318 as compared to a cash balance of \$283,869 at December 31, 2004.

The Company had negative working capital at June 30, 2005. In July, the Company raised an additional \$728,750 resulting in positive working capital. To date the Company has financed operations by issuance of shares of common stock in private placements of \$3,011,000 and issuance of shares for services in the amount of \$3,144,000 including new money.

### 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 June 30, 2005, that the design and operation

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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 June 30, 2005, 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

In March, 2004 a former employee of the Company who was terminated prior to the acquisition of Joystar, filed a lawsuit in Orange County Superior Court for breach of contract and specific performance relating to the exercise of options, among other causes of action. A proposed settlement has been submitted to the Company in which the Company will issue an additional 300,000 shares and a cash payment of \$12,700 for cost. As of the date of this report, this agreement has not yet been finalized. The Company's financial statements do not reflect any adjustment to record the possible settlement.

An independent third party stockbroker has filed a lawsuit against the Company for refusal to register certain shares to them. A proposed settlement has been submitted by the Company in which the Company will register an additional 138,600 shares. As of the date of this report, this agreement has not yet been finalized. The Company's financial statements do not reflect any adjustment to record the possible settlement.

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

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Exhibit 10.2            Warrant Agreement

Exhibit 10.3            Escrow Agreement

Exhibit 10.4            Standstill Agreement

Exhibit 31              Certification of Chief Executive Officer and Chief  
Financial Officer Pursuant to Section 302 of the  
Sarbanes-Oxley Act

Exhibit 32              Certification of Chief Executive Officer and Chief  
Financial Officer Pursuant to Section 906 of the  
Sarbanes-Oxley Act

b)            Reports on 8K during the quarter: NONE

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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: August 15, 2005

JOYSTAR, INC.

By: /s/ William Alverson

-----  
Chief Executive Officer and Chief  
Financial Officer

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