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Travelstar, Inc.
Form 10QSB
August 20, 2007

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

FORM 10-QSB

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

COMMISSION FILE NUMBER 000-25973

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

California

68-0406331

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

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

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

Former address

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

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

Yes [] No [X]

The number of shares of the registrant's common stock as of June 30, 2007:
49,097,149 shares.

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

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TRAVELSTAR, INC. (formerly known as Joystar, Inc.)
BALANCE SHEET

June 30, 2007

ASSETS

Current assets

Cash and cash equivalents	\$ 2,389,257
Accounts receivable	3,392,144
Prepaid expenses	54,257

Total current assets	5,835,658
----------------------	-----------

Property and equipment, net	393,468
-----------------------------	---------

Intangible assets, net of amortization	48,685
Other assets	18,970

Total assets	\$ 6,296,781
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LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities

Accounts payable	\$ 2,962,730
Deferred merchant bookings	303,939
Accrued salaries	67,615
Accrued expenses	128,865
Accrued liabilities	721,058
Loans from shareholders	374

Total current liabilities 4,184,581

Commitments

--

Stockholders' equity

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

Common stock, no par value, 200,000,000
shares authorized; 49,097,149 shares
issued and outstanding at June 30, 2007 14,350,533

Stock issued for deferred compensation (17,500)

Stock subscribed not issued, 356,000 shares at
June 30, 2007 313,501

Accumulated (deficit) (12,534,334)

Total stockholders' equity (deficit) 2,112,200

Total liabilities and stockholders' equity \$ 6,296,781

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The accompanying notes are an integral part of these financial statements

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

For the six months ended June 30, 2007	For the six months ended June 30, 2006 (revised)	For the three months ended June 30, 2007	For the three months ended June 30, 2006 (revised)
-----	-----	-----	-----

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Revenue	\$ 4,723,029	\$ 4,736,251	\$ 2,250,296	\$ 2,553,579
	-----	-----	-----	-----
Operating expenses:				
Selling and marketing	4,040,441	2,899,948	1,836,660	1,419,710
General and administrative	1,568,593	1,984,524	886,108	1,017,684
Technology and content	131,680	82,923	106,865	25,832
	-----	-----	-----	-----
Total operating expenses	5,740,714	4,967,395	2,829,633	2,463,226
	-----	-----	-----	-----
Operating income/(loss)	(1,017,685)	(231,144)	(579,337)	90,353
Interest income/(expense)	37,609	--	18,986	--
Gain/(Loss) on fair value of Warrants and stock purchase rights	8,281,373	(1,692,611)	6,858,989	(752,108)
Other income/(loss)	8,596		8.596	
	-----	-----	-----	-----
Net Other income/(expense)	8,327,578	(1,692,611)	6,886,571	(752,108)
	-----	-----	-----	-----
Income/(Loss) before income taxes	7,309,893	(1,923,755)	6,307,234	(661,755)
Income tax provision	--	--	--	--
	-----	-----	-----	-----
Net income (loss)	\$ 7,309,893	(1,923,755)	6,307,234	(661,755)
	=====	=====	=====	=====
Net Income/(Loss) per share				
Basic	\$ 0.15	\$ (0.05)	\$ 0.13	\$ (0.02)
Diluted	\$ 0.14	\$ (0.05)	\$ 0.12	\$ (0.02)
	=====	=====	=====	=====
Weighted average number of common shares-				
Basic	48,950,766	39,782,316	49,027,179	41,829,599
Diluted	53,408,897	39,782,316	53,485,310	41,829,599
	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements

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TRAVELSTAR, INC. (formerly known as Joystar, Inc.)
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Six Months ended June 30, 2007

	COMMON STOCK			
	Number of Shares	Amount	Stock issued for Deferred Compensation	Stock Subscribed not Issued
	-----	-----	-----	-----
Balance December 31, 2006 (revised)	48,772,430	\$ 14,071,460	\$ (122,500)	\$ 313,501

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Deferred Compensation Earned	--	--	105,000	--
Stock Issued for Cash	220	200	--	--
Stock Issued for Services	324,499	222,294	--	--
Share based compensation	--	56,579	--	--
Net Income	--	--	--	--
	-----	-----	-----	-----
Balance June 30, 2007 (Unaudited)	49,097,149	\$ 14,350,533	\$ (17,500)	\$ 313,501
	=====	=====	=====	=====

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

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

	For the six months ended June 30, 2007	June 30, 2006 (revised)
	-----	-----
Cash flows from operating activities:		
Net Income/ (loss)	\$ 7,309,893	\$(1,923,700)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	45,913	26,300
Share based compensation	56,579	
Stock issued for services	222,294	499,500
Stock issued for deferred compensation	105,000	
Changes in assets and liabilities		
Decrease in prepaid expenses	22,500	(20,000)
Increase in receivables	(690,891)	(3,648,800)
Increase in accounts payable	1,183,981	1,944,100
Increase in deferred merchant bookings	303,939	
Increase in accrued salaries/rent and payroll taxes	34,847	343,900
Increase/(Decrease) in accrued liability relating to warrants and other stock purchase rights	(8,281,373)	1,692,600
	-----	-----
Net cash provided (used) by operations	312,682	(1,085,900)
Cash flows from investing activities:		
Acquisition of property and equipment	(170,505)	(71,700)
	-----	-----
Net cash used by investing activities	(170,505)	(71,700)
Cash flows from financing activities:		
Loans from shareholders	--	
Issuance of common stock for cash	200	1,774,300
Stock subscribed but not issued	--	
	-----	-----

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Net cash provided by financing activities	200	1,774,3
Increase(Decrease) in cash and cash equivalents	142,377	616,63
Cash and cash equivalents at the beginning of the period	2,246,880	218,
Cash and cash equivalents at the end of the period	\$ 2,389,257	\$ 835

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Issuance of stock for services	\$ 222,294	\$ 499,5
Shares issued for deferred compensation	\$ 105,000	\$
Subscribed shares issued	\$ --	\$ 720,0
Share based compensation	\$ 56,579	\$
Shares issued for accrued prior year compensation		\$ 127,0

The accompanying notes are an integral part of these financial statements

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TRAVELSTAR, INC. (formerly known as Joystar, Inc.)
 NOTES TO FINANCIAL STATEMENTS
 FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND JUNE 30, 2006

NOTE 1 -- ORGANIZATION

DESCRIPTION OF BUSINESS

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

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

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

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

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NOTE 2 -- SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING ESTIMATES

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

REVENUE RECOGNITION

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

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

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

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

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

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marketing, and support services to a growing network of independent travel agencies.

We recognize agency revenues on hotel, cruise and car rental reservations at the earlier of notification of the amount of the commission from a commission clearinghouse or a supplier or on receipt of the commissions from an individual supplier. Override commissions are recognized each period based upon our actual attainment of predetermined target sales levels. Where historical financial data is not available to project the target sales levels, we record the override commission upon receipt of the commission from the supplier.

SEASONALITY

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

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

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

The Company receives overrides from certain travel suppliers in the form of commissions as well as co-op marketing earnings base on the Company's gross travel bookings with the supplier, recognized each period based upon the Company's actual attainment of predetermined target sales levels. Commencing in January 2007 the company recognizes override revenues only upon receipt of funds or confirmation of its entitlement from the travel supplier.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Commission revenue for reservations is paid to the company by the travel suppliers, typically upon completion of the travel associated with the reservation. Because the average time lag between booking date and commission payment date is approximately six months, the company recognizes a reserve against revenues for bookings that may not produce a collectible commission due to possible cancellations or other factors. For the six months ended June 30, 2007 the company recognized a reserve equal to 15% of the gross commissions generated. The company will be monitoring receivables and adjusting the reserve levels on a regular basis, as required.

Our host agency revenue includes the set-up, monthly and annual renewal fees we receive from our travel agency partners and are recorded in the period we receive them.

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OTHER

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

CASH AND CASH EQUIVALENTS

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

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PROPERTY AND EQUIPMENT

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

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

INTANGIBLE ASSET

The Company acquired a client list for \$55,125 in order to promote sales. The Company believes that the client list has a minimal useful life of five years and is amortizing it over that time. If it should lose value prior to the five years the Company will write it off earlier. The amortization for the six months ended June 30, 2007 and June 30, 2006 was \$1,840 and \$1,840 respectively.

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

INCOME TAXES

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

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

ADVERTISING EXPENSE

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

STOCK-BASED COMPENSATION

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

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

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EARNINGS PER SHARE

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

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

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ACCRUED LIABILITY RELATED TO WARRANTS AND STOCK PURCHASE RIGHTS

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

In June 2007 the Company's Articles of Incorporation were amended to increase the number of authorized shares to 210 million, consisting of 10 million shares of Preferred Stock and 200 million shares of Common Stock. Upon this increase the Company now has sufficient authorized shares available to settle its open stock-based contracts. As a result the Company has eliminated the accrued liability related to warrants and stock purchase rights. The Company recorded a gain of \$6,858,989 and \$8,281,373 for the three and six months ended June 30, 2007.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

CERTAIN RISKS AND CONCENTRATIONS

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

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

3. GOING CONCERN

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

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Such operations will require management to secure additional financing for the Company in the form of debt or equity.

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

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4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	JUNE 30, 2007

Office furniture/computers	\$ 330,245
Booking engine software	67,265
Web sites	122,944

	520,454
Less: accumulated depreciation	(126,986)

	\$ 393,468
	=====

5. CAPITAL STOCK

COMMON STOCK

During the three months ended June 30, 2007, the Company issued 163,525 common shares for services for a total of \$135,325. During the six months ended June 30, 2007, the Company issued 324,499 common shares for services for a total of \$222,294.

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

6. STOCK OPTIONS

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

On December 13, 2005, the Company authorized for two of its officers to receive

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1,500,000 shares of common stock. The shares were valued at \$330,000 or \$0.22 per share. The shares are considered subscribed and not issued at December 31, 2005. The Company has charged \$330,000 to compensation expense during the year ended December 31, 2005.

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

	2007	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of period	4,137,600	\$ 0.53
Granted	310,000	1.39
Exercised	--	--
Forfeited and expired	--	--
Outstanding, end of period	4,447,600	\$ 0.53
Options exercisable, end of period	843,000	\$ 0.53
Weighted average fair value of options granted during the year	\$ 0.18	

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The fair value of the stock options granted during the six months ended June 30, 2007 was approximately \$56,579 or \$0.18 per stock option, and was determined using the Black Scholes option pricing model. The factors used for the six months ended June 30, 2007, were the option exercise price of \$0.98 to \$1.50 per share, a 5 year life of the options, volatility measure of 47.5%, a dividend rate of 0% and a risk free interest rate of 4.54% for 2007.

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

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED- AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$0.50 to \$1.50	4,447,600	4.00	\$ 0.53	843,000	\$ 0.53

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As of June 30, 2007, there was approximately \$503,673 in unrecognized compensation cost related to unvested stock options. The amount unrecognized compensation cost will be recognized over its weighted average life of approximately four years.

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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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF PLAN OF OPERATION

The information contained in this section has been derived from our financial statements and should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those expressed or implied in these forward-looking statements as a result of various factors, including those set forth at the end of this section under "Factors That May Impact Our Results of Operations".

OVERVIEW

Travelstar, Inc. sells complex leisure travel products through our virtual

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

We refer to Travelstar, Inc. and its brands collectively as "Travelstar," the "Company," "us," "we" and "our" in this management's discussion and analysis of financial condition and results of operations.

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

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

TRENDS

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

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

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

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

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

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

STRATEGY

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

We also intend to continue innovating on behalf of our preferred supplier partners. As an example, we launched Starbase, a customer relationship management system for our agents to better manage their businesses. Starbase streamlines the interaction and booking process between our agents, customers and suppliers. Through this "direct connect" technology, our agents can complete the booking process with some of our cruise lines and vacation suppliers easier and in a more cost effective for our suppliers. It also automatically notifies Travelstar's internal accounting of bookings and cancellations and provides agents with real time commission tracking. In the absence of this direct connect technology, these processes are completed manually via a proprietary extranet.

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

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

SEASONALITY

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

To understand our financial position and results of operations, it is important to understand our critical accounting policies and estimates and the extent to which we use judgment and estimates in applying those policies. We prepared our financial statements and accompanying notes in accordance with generally accepted accounting principles in the United States. Preparation of the financial statements and accompanying notes requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and revenue and expenses during the periods reported. We base our estimates on historical experience, where applicable and other assumption that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

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

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

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

STOCK-BASED COMPENSATION

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

NEW ACCOUNTING PRONOUNCEMENTS

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

OPERATING METRICS

Gross bookings represent the total retail value of transactions booked for both agency and merchant transactions, recorded at the time of booking reflecting the total price due for travel, including taxes, fees and other charges, and are generally not reduced for cancellations and refunds.

RESULTS OF OPERATIONS

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

THREE MONTHS ENDED JUNE 30, 2007 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2006

GROSS TRAVEL BOOKINGS

Gross travel bookings for the three months ended June 30, 2007 increased to \$21,386,400 compared to \$15,109,400 for the three months ended June 30, 2006. Gross travel bookings refers to the total dollar value, inclusive of all taxes and fees, of all travel services purchased by consumers. The term "gross travel bookings" is a "non-GAAP financial measure, as such term is defined by the

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Securities and Exchange Commission, and may differ from non-GAAP financial measures used by other companies. The measure of "gross travel bookings" is in no way derived from the financial statements. Revenue recorded in the Company's financial statements represents a percentage of commissions or ticketing fees paid by travel suppliers on travel bookings, membership services revenue and override commissions from travel suppliers. The Company believes that the measure "gross travel bookings" is useful for investors to evaluate the Company's future ongoing performance because they enable a more meaningful comparison of the activity levels of the Company's travel agent network with its historical results from prior periods.

REVENUE

Revenues for the three months ended June 30, 2007 were \$2,250,296 compared to \$2,553,579 for the three months ended June 30, 2006.

While gross travel bookings increased, this was offset by the fact that the company took a reserve against revenues of 15% in the three months ended June 30, 2007, while no reserve was taken in the three months ended June 30, 2006. The company now recognizes override revenues only upon receipt of funds or confirmation of entitlement from the travel supplier. As a result, during the three months ended June 30, 2007 the company recognized \$62,000 in override revenue, compared with \$275,508 during the three months ended June 30, 2006. See the discussion of reserves in Note 2 to the Financial Statements.

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SELLING AND MARKETING

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

Marketing and sales expenses for the three months ended June 30, 2007 were \$1,836,660 compared to \$1,419,710 for the three months ended June 30, 2006. The increase of \$416,950 was primarily due to the increased payments to our travel agents as a result of their increased sales levels. Selling and marketing expenses relate to travel agent commissions, direct advertising and distribution expense, including traffic generation from Internet, search engines, private label and affiliate programs.

GENERAL AND ADMINISTRATIVE

General and Administrative expenses for the three months ended June 30, 2007 decreased to \$886,108 from \$1,017,684 for three months ended June 30, 2006. The decrease was primarily due to reductions in employee compensation, professional fees, telephone and travel expenses. We expect absolute amounts spent on corporate personnel and professional service to increase over time as we develop new business units requiring additional headcount and continue incurring incremental costs associated with being a public company.

TECHNOLOGY AND CONTENT

Technology and content expense includes product development expenses such

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

Technology and content expenses for the three months ended June 30, 2007 were \$106,865 compared to \$25,832 for the three months ended June 30, 2006. Given the increasing complexity of our business, geographic expansion, increased supplier integration, service-oriented architecture improvements and other initiatives, we expect absolute amounts spent in technology and content to increase over time. The Company recently hired a Chief Technology Officer.

ACCRUED LIABILITY RELATED TO WARRANTS AND STOCK PURCHASE RIGHTS

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

In June 2007 the Company's Articles of Incorporation were amended to increase the number of authorized shares to 210 million, consisting of 10 million shares of Preferred Stock and 200 million shares of Common Stock. Upon this increase the Company now has sufficient authorized shares available to settle its open stock-based contracts. As a result the Company has eliminated the accrued liability related to warrants and stock purchase rights. The accrued liability has a zero balance as of June 30, 2007.

Net other income for the three months ended June 30, 2007 was \$6,886,571 compared to a loss of \$(752,108) in the three months ended June 30, 2006. This change was primarily due a reduction in the Accrued Liability Related to Warrants and Stock Purchase Rights.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash balance increased to \$2,389,257 at June 30, 2007 as compared to \$2,246,880 at December 31, 2006. The Company has recovered cash from trade accounts receivable. During the three months ended June 30, 2007 the Company issued \$222,294 in shares for services

PROFITABILITY/LOSS

Net income for the three months ended June 30, 2007 was \$6,307,234 compared to a net loss of \$661,755 for the three months ended June 30, 2006.

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The increase in net income was due to the elimination of the provision of the accrued liability of related to warrants and stock purchase rights.

SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2006

GROSS TRAVEL BOOKINGS

Gross travel bookings for the six months ended June 30, 2007 increased to \$45,605,000 compared to \$33,056,000 for the six months ended June 30, 2006. Gross travel bookings refers to the total dollar value, inclusive of all taxes and fees, of all travel services purchased by consumers. The term "gross travel bookings" is a "non-GAAP financial measure, as such term is defined by the Securities and Exchange Commission, and may differ from non-GAAP financial measures used by other companies. The measure of "gross travel bookings" is in no way derived from the financial statements. Revenue recorded in the Company's financial statements represents a percentage of commissions or ticketing fees paid by travel suppliers on travel bookings, membership services revenue and override commissions from travel suppliers. The Company believes that the measure "gross travel bookings" is useful for investors to evaluate the Company's future ongoing performance because they enable a more meaningful comparison of the activity levels of the Company's travel agent network with its historical results from prior periods.

REVENUE

Revenues for the six months ended June 30, 2007 were \$4,723,029 compared to \$4,736,251 for the six months ended June 30, 2006.

While gross travel bookings increased, this was offset by the fact that the company took a reserve against revenues of 15% in the six months ended June 30, 2007, while no reserve was taken in the six months ended June 30, 2006. The company now recognizes override revenues only upon receipt or confirmation of entitlement from the travel supplier. As a result, during the six months ended June 30, 2007 the company recognized \$66,718 in override revenue, compared with \$374,659 during the six months ended June 30, 2006.

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

SELLING AND MARKETING

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

Marketing and sales expenses for the six months ended June 30, 2007 were \$4,040,441 compared to \$2,899,948 for the six months ended June 30, 2006. The increase was primarily due to the increased payments to our travel agents as a result of their increased sales levels. Selling and marketing expenses relate to travel agent commissions, direct advertising and distribution expense, including traffic generation from Internet, search engines, private label and affiliate programs.

GENERAL AND ADMINISTRATIVE

General and Administrative expenses for the six months ended June 30, 2007 decreased to \$1,568,593 from \$1,984,524 for six months ended June 30, 2006. The decrease was primarily due to reductions in employee compensation, professional fees, telephone and travel expenses. We expect absolute amounts spent on

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corporate personnel and professional service to increase over time as we develop new business units requiring additional headcount and continue incurring incremental costs associated with being a public company.

TECHNOLOGY AND CONTENT

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

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Technology and content expenses for the six months ended June 30, 2007 were \$131,680. Given the increasing complexity of our business, geographic expansion, increased supplier integration, service-oriented architecture improvements and other initiatives, we expect absolute amounts spent in technology and content to increase over time. The Company recently hired a Chief Technology Officer.

ACCRUED LIABILITY RELATED TO WARRANTS AND STOCK PURCHASE RIGHTS

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

In June 2007 the Company's Articles of Incorporation were amended to increase the number of authorized shares to 210 million, consisting of 10 million shares of Preferred Stock and 200 million shares of Common Stock. Upon this increase the Company now has sufficient authorized shares available to settle its open stock-based contracts. As a result the Company has eliminated the accrued liability related to warrants and stock purchase rights. The accrued liability has a zero balance as of June 30, 2007.

Net other income for the six months ended June 30, 2007 was \$8,327,578 compared to an expense of \$(1,692,611) in the six months ended June 30, 2006. This change was primarily due a reduction in the Accrued Liability Related to Warrants and Stock Purchase Rights.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash balance increased to \$2,389,257 at June 30, 2007 as compared to \$2,246,880 at December 31, 2006. The Company has recovered cash from

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trade accounts receivable. During the six months ended June 30, 2007 the Company issued \$222,294 in shares for services

PROFITABILITY/LOSS

Net income for the six months ended June 30, 2007 was \$7,309,893 compared to a net loss of \$1,923,755 for the six months ended June 30, 2006.

The increase in net income was due to the elimination of the provision of the accrued liability of related to warrants and stock purchase rights. The Company's operating loss for the six months ended June 30, 2007 was \$1,017,685 compared to an operating loss of \$231,144 for the six months ended June 30, 2006.

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

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

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

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PART II. OTHER INFORMATION

Item 1. Legal proceedings

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

Item 3. Defaults on Senior Securities NONE

Item 4. Submission of Items to a Vote NONE

Item 5. Other Information NONE

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Item 6.

(a) Exhibits

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

Exhibit No. -----	Description -----
* Exhibit 10.1	Subscription Agreement
* Exhibit 10.2	Warrant Agreement
* Exhibit 10.3	Escrow Agreement
* Exhibit 10.4	Standstill Agreement
* Exhibit 10.5	Agreement for the purchase and sale of assets between Vacation and Cruise Resources, Inc. and Travelstar, Inc. dated August 11, 2005.
* Exhibit 10.6	Employment Agreement with William M. Alverson.
Exhibit 31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
Exhibit 32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act
Exhibit 32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

b) Reports on 8K during the quarter:

Form 8-K filed on June 26, 2007.

* Previously filed with the Securities and Exchange Commission.

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SIGNATURES

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

Date: August 20, 2007

TRAVELSTAR, INC.

By: /s/ William Alverson

Chief Executive Officer

By: /s/ Jerry Galant

Chief Financial Officer