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ONLINE VACATION CENTER HOLDINGS CORP  
Form 10QSB  
November 13, 2006

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

FORM 10-QSB

(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, 2006.  
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( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
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)

Registrant's telephone number, including area code: (954) 377-6400

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 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 shell company (as defined in  
Rule 12b-2 of the Exchange Act).

Yes  [ ]                      No  [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

As of September 30, 2006, there were 18,256,777 shares of Common Stock, par  
value \$.0001 per share, outstanding.

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## PART I. FINANCIAL INFORMATION.

## Item 1. Financial Statements (Unaudited)

ONLINE VACATION CENTER HOLDINGS CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30 2006	December 2006
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,915,387	\$
Accounts receivable, net	699,000	
Prepaid expenses and other current assets	412,428	
Total Current Assets	4,026,816	
Restricted cash	315,000	
Property and equipment, net	87,071	
Deferred income taxes	857,542	
Goodwill	1,027,346	
Intangible assets, net	989,497	
Total Assets	\$ 7,303,272	\$
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,528,551	\$
Deferred revenue	569,200	
Customer deposits	1,608,516	
Total Current Liabilities	3,706,267	
Subordinate Debentures	-	
Total Liabilities	3,706,267	
Shareholders' Equity (Deficiency)		
Common Stock, 20,000,000 shares authorized at \$.001 par value; 171,429 shares issued and outstanding		-
Common Stock, 80,000,000 shares authorized at \$.0001 par value; 18,256,777 shares issued and outstanding		1,826
Additional paid-in capital		4,995,788
Accumulated deficit		(1,400,609)

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Total Shareholders' Equity (Deficiency)	3,597,005	
	-----	-----
Total Liabilities & Shareholders' Equity (Deficiency)	\$ 7,303,272	\$
	=====	=====

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

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### ONLINE VACATION CENTER HOLDINGS CORP. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS For the three months ended September 30,

	2006	2005
	-----	-----
	(Unaudited)	
NET REVENUES	\$ 1,260,148	\$ 1,612,857
Cost of goods sold	177,092	--
GROSS PROFIT	1,083,056	1,612,857
OPERATING EXPENSES:		
Sales and marketing	489,972	519,758
General and administrative	939,786	936,410
	-----	-----
INCOME (LOSS) FROM OPERATIONS	(346,702)	156,689
	-----	-----
Other income (expenses):		
Interest income (expense), net	27,152	(59,387)
	-----	-----
Total other income (expenses), net	27,152	(59,387)
	-----	-----
Earnings (loss) from continuing operations before provision for income taxes	(319,550)	97,302
Provision (benefit) for income taxes	(155,823)	39,407
	-----	-----
NET INCOME (LOSS)	\$ (163,727)	\$ 57,895
	=====	=====
EARNINGS PER SHARE - Basic	\$ (0.01)	\$ 0.00
	=====	=====
Weighted average shares outstanding - basic	18,256,777	18,256,777
	=====	=====
EARNINGS PER SHARE - Diluted	\$ (0.01)	\$ 0.00
	=====	=====

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Weighted average shares outstanding - Diluted	18,556,777	18,556,777
	=====	=====

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

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### ONLINE VACATION CENTER HOLDINGS CORP. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS For the nine months ended September 30,

	2006	2005
	-----	-----
	(Unaudited)	
NET REVENUES	\$ 5,083,352	\$ 6,001,064
Cost of goods sold	177,092	--
GROSS PROFIT	4,906,260	6,001,064
OPERATING EXPENSES:		
Sales and marketing	1,416,514	1,784,132
General and administrative	3,096,448	2,899,354
	-----	-----
INCOME FROM OPERATIONS	393,298	1,317,578
	-----	-----
Other income (expenses):		
Interest income (expense), net	5,366	(180,580)
	-----	-----
Total other income (expenses), net	5,366	(180,580)
	-----	-----
Earnings from continuing operations before provision for income taxes	398,664	1,136,998
Provision (benefit) for income taxes	203,894	(633,413)
	-----	-----
NET INCOME	\$ 194,770	\$ 1,770,411
	=====	=====
EARNINGS PER SHARE - Basic	\$ 0.01	\$ 0.10
	=====	=====
Weighted average shares outstanding - basic	18,256,777	18,256,777
	=====	=====
EARNINGS PER SHARE - Diluted	\$ 0.01	\$ 0.10
	=====	=====

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Weighted average shares outstanding - Diluted 18,556,777 18,556,777  
===== =====

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

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ONLINE VACATION CENTER HOLDINGS CORP. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For the nine months ended September 30,

	2006	2005
	-----	-----
	(Unaudited)	
Cash Flows from Operating Activities:		
Net income	\$ 194,770	\$ 1,770,4
Adjustments to reconcile to net cash inflow from operating activities:		
Provision for bad debts		3,5
Depreciation and amortization	70,300	51,7
Deferred income taxes	258,606	(696,9
Non-cash stock-based compensation expense	117,720	
Changes in operating assets and liabilities:		
Accounts receivable	(117,104)	(153,6
Prepaid expenses and other current assets	(191,708)	35,0
Accounts payable and accrued expenses	433,114	109,1
Deferred revenue	89,766	133,0
Customer deposits	33,041	(81,4
Cash payments for settlement obligation	--	(166,2
Net cash provided by operating activities	888,505	1,004,5
	-----	-----
Cash Flows from Investing Activities:		
Return of investment in restricted cash	--	(9
Purchases of property and equipment	(36,300)	(44,4
Cash paid for acquisitions	(150,000)	
	-----	-----
Net cash (used in) investing activities	(186,300)	(45,3
	-----	-----
Net increase in cash and cash equivalents	702,205	959,1
Cash and cash equivalents, beginning of year	2,213,182	1,176,9
	-----	-----
Cash and cash equivalents, end of year	\$ 2,915,387	\$ 2,136,1
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
-----		
Cash paid for interest	\$ 48,658	\$ 305,0
	=====	=====

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Cash (refunded) paid for taxes, net	\$ (30,627)	\$ 59,1
Issuance of restricted stock	\$ 1,637,200	\$
Purchases of capital assets included in accounts payable and accrued liabilities at period end	\$ 201,250	\$

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

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ONLINE VACATION CENTER HOLDINGS CORP. AND SUBSIDIARIES  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock 20,000,000 shares authorized Shares \$0.001 par value		Additional Paid-in Capital
Balance - December 31, 2004	171,429	171	248,473
Net income	-	-	-
Balance - December 31, 2005	171,429	171	248,473

	Common Stock 80,000,000 shares authorized		Additional Paid-in Capital
Share Exchange	(171,429)	(171)	(248,473)
Amended Capitalization	16,799,777	1,680	3,246,964
Management & Director Equity Grants	7,000	1	122,012
PIP Acquisition	1,450,000	145	1,631,105
Net income through September 30, 2006	-	-	-
Balance - September 30, 2006	18,256,777	1,826	5,000,081

The accompanying Notes to 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)

NOTE 1 - BACKGROUND

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

The company provides vacation travel services through its wholly owned subsidiaries Online Vacation Center, Inc., an internet-based vacation seller focused on serving the affluent retiree market and Thoroughbred Travel LLC, an upscale travel agency based in Houston, Texas that operates under the Journeys Unlimited name. Additionally, the company, through its wholly owned subsidiary Phoenix International Publishing, is the U.K.'s leading publisher of consumer magazines and guides about travel to the U.S. and Canada.

History  
-----

Under a share exchange agreement dated August 25, 2005, effective March 15, 2006, the Company issued to the Online Vacation Center Holdings, Inc. interest holders an aggregate of 15,000,000 shares of the Company's common stock in exchange for a 100% interest in Online Vacation Center Holdings, Inc. In connection with the share exchange, pursuant to an asset purchase agreement, the Company sold all of its assets (and transferred all of its liabilities) to Alan Rubin for a total purchase price of 2,700,000 shares of the Company's common stock. The 2,700,000 shares were returned to the Company and have been cancelled. For accounting purposes the consummation of these actions resulted in a reverse merger and Online Vacation Center Holdings, Inc. is the accounting survivor and surviving business entity; however, the Company is the surviving legal entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation  
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The accompanying consolidated financial statements include the accounts of Online Vacation Center Holdings Corp. and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

### Use of Estimates

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The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenues, costs and expenses during the reporting period.

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

Management evaluates these estimates and assumptions on a regular basis. Actual results could differ from those estimates.

### Interim Financial Statements

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The interim financial statements presented herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). 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 condensed or omitted pursuant to such rules and regulations. The interim financial statements should be read in conjunction with the Company's annual financial statements, notes and accounting policies included in the Company's year-end financial statements as of December 31, 2005. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary to provide a fair presentation of financial position as of September 30, 2006 and the related operating results and cash flows for the interim period presented have been made. The results of operations, for the period presented are not necessarily indicative of the results to be expected for the year.

### Revenue Recognition

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

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 the Company's status as a primary obligor and the extent of their pricing latitude. Based upon the Company's evaluation of vacation travel sales transactions and in accordance with the

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various indicators identified in EITF Issue No. 99-19, the Company's 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 to be recorded at the net amount, which is the amount charged to the customer less the amount to be paid to the supplier. The method of net revenue presentation does not impact operating profit, net income, earnings per share or cash flows.

### Concentration of Credit Risk

-----

The Company's business is subject to certain risks and concentrations including dependence on relationships with travel suppliers (primarily cruise lines), and to a lesser extent, exposure to risks associated with online commerce security and credit card fraud. The Company is highly

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

dependent on its relationships with three major cruise lines: Celebrity Cruises, Princess Cruises, and Royal Caribbean Cruise Line. The Company also depends on third party service providers for processing certain fulfillment services.

Concentrations of credit risk with respect to client accounts receivable are limited because of the Company's policy to require deposits from customers, the number of customers comprising the client base and their dispersion across geographical locations.

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of cash and bank certificates of deposit. These accounts are maintained with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At September 30, 2006 and December 31, 2005, the balances at various financial institutions over the FDIC insured limit relating to cash and cash equivalents and restricted cash were approximately \$2.7 million and \$2.0 million, respectively. The Company believes these balances are not at risk as they are held by sound financial institutions.

### Advertising Costs

-----

Substantially all advertising costs are charged to expense as incurred and principally represent direct mail costs and online advertising, including fees paid to search engines and distribution partners. Direct mail advertising costs are recorded as prepaid expenses and charged to expense as consumed. Advertising expense for the nine-month period ended September 30, 2006 and 2005 was \$641,053 and \$1,006,789, respectively. Advertising expense for the three-month period ended September 30, 2006 and 2005 was \$216,107 and \$275,696, respectively.

### Cash and Cash Equivalents

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The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At September 30, 2006 and December 31, 2005, cash and cash equivalents include cash in the bank and cash on hand.

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### Accounts Receivable

Vacation travel suppliers generally pay commissions between 60 days before to 90 days after travel has commenced, overrides in the first quarter following the period earned, and marketing invoices between 30 days to 90 days after invoice date. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the specific supplier's current ability to pay its obligation to the Company and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are recognized as revenue in the period received. At September 30, 2006 and December 31, 2005, the allowance for doubtful accounts was \$4,317.

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

### Restricted Cash

In accordance with Accounting Review Board (ARB) No. 43, Chapter 3A, "Current Assets and Current Liabilities", cash which is restricted as to withdrawal is considered a noncurrent asset. Restricted cash consists of collateral for two letters of credit and a reserve for credit card processing. The Company's credit card processor, Global Payments, holds a \$280,000 reserve for credit cards processed. Global Payments will hold this reserve for as long as the Company uses them as their credit card processor and will release all funds no later than six months after the final transaction deposit. Certificates of deposit of \$35,000 are collateral for two outstanding letters of credit due to expire in 2007. The letters of credit are required by industry and state regulations and will be renewed.

### Property and Equipment

Property and equipment, including significant improvements, are recorded at cost. Repairs and maintenance and any gains or losses on dispositions are recognized as incurred. Depreciation and amortization are provided for on a straight-line basis to allocate the cost of depreciable assets to operations over their estimated service lives.

Asset Category	Depreciation/ Amortization Period
Office equipment	2 to 3 Years
Furniture & fixture	5 to 7 Years
Leasehold improvements	6.5 Years

### Goodwill and Indefinite-Lived Intangible Assets

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill acquired in business combinations is assigned to reporting units that are expected to benefit from the synergies of the combination as of the acquisition date. Under this standard, goodwill and intangibles with indefinite useful lives are no longer amortized. The Company assesses goodwill and indefinite-lived intangible assets for impairment annually at

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the beginning of the fourth quarter, or more frequently if events and circumstances indicate impairment may have occurred in accordance with SFAS No. 142. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Company records an impairment loss equal to the difference. SFAS No. 142 also requires that the fair value of indefinite-lived purchased intangible assets be estimated and compared to the carrying value. The Company recognizes an impairment loss when the estimated fair value of the indefinite-lived purchased intangible assets is less than the carrying value. At September 30, 2006 and December 31, 2005, goodwill in the accompanying consolidated balance sheets was \$1,027,346 and \$0.

### Long-Lived Assets

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The Company's accounting policy regarding the assessment of the

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

recoverability of the carrying value of long-lived assets, including property and equipment and purchased intangible assets with finite lives, is to review the carrying value of the assets if the facts and circumstances suggest that they may be impaired. If this review indicates that the carrying value will not be recoverable, as determined based on the projected undiscounted future cash flows, the carrying value is reduced to its estimated fair value.

### Foreign Currency Translation

-----

The Company conducts publishing operations in both the United States and the United Kingdom, whose functional currency is the British pound. At the balance sheet date, each asset, liability, revenue and expense is recorded in British pounds by the use of the exchange rate in effect at that date. At the period end, monetary assets and liabilities are translated into US dollars by using the exchange rate in effect at that date. The resulting foreign currency transaction gains and losses are included in operating revenues and expenses for the year. These gains or losses were insignificant in the nine-month period ended September 30, 2006 and 2005.

### Income Taxes

-----

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

### Comprehensive Income

-----

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes certain changes in equity that are excluded from net income. At September 30, 2006, there were no material items to be included in accumulated other comprehensive income.

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### Earnings Per Share

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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 that could share in the earnings of the Company. 300,000 stock options that have vested but have not been exercised are included in the weighted average shares outstanding - diluted.

### Stock-Based Compensation

-----

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" ("SFAS No. 148") which amends FASB

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

Statement No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"). The Company has adopted the expense recognition provision of SFAS 123 and is providing expense for stock based compensation for grants made on and after January 1, 2003. There was no stock based compensation granted during the year ended December 31, 2005. On March 16, 2006, 1,860,000 stock options and 7,000 restricted shares were granted to employees and directors under the 2005 Management and Director Equity Incentive and Compensation Plan. Compensation cost recognized in the nine-month period ended September 30, 2006 was \$111,771 for the stock options and \$5,950 for the restricted shares.

### Off-Balance Sheet Arrangements

-----

The Company has not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources and would be considered material to shareholders. An officer of the Company has provided personal guarantees to various lenders as required for the extension of credit to the Company.

### Recent Accounting Pronouncements

#### Share-Based Payment

-----

In December 2004, the FASB issued a revision of SFAS 123 ("SFAS 123(R)") that requires compensation costs related to share-based payment transactions to be recognized in the statement of operations. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. SFAS 123(R) replaces SFAS 123 and is effective as of January 1, 2006. Compensation cost for stock options issued on March 16, 2006 was recognized and is included in the statement of operations for the nine-month period ended September 30, 2006.

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In March 2005, the U.S. Securities and Exchange Commission, or SEC, released Staff Accounting Bulletin 107, "Share-Based Payments," ("SAB 107"). The interpretations in SAB 107 express views of the SEC staff, or staff, regarding the interaction between SFAS 123R and certain SEC rules and regulations, and provide the staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123R, the modification of employee share options prior to adoption of SFAS 123R and disclosures in Management's Discussion and Analysis subsequent to adoption

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

of SFAS 123R. SAB 107 requires stock-based compensation be classified in the same expense lines as cash compensation is reported for the same employees.

#### Nonmonetary Exchange

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets--An Amendment of Accounting Principles Board (APB) Opinion No. 29, Accounting for Nonmonetary Transactions" ("SFAS 153"). SFAS 153 eliminates the exception from fair measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity expected to change significantly as a result of the exchange. SFAS 153 is effective for fiscal periods beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have a material impact on the Company's current financial condition or results of operations.

#### Conditional Asset Retirement

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47 - "Accounting for Conditional Asset Retirement Obligations - an Interpretation of SFAS 143 (FIN No. 47). FIN No. 47 clarifies the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or method of settlement are conditional on a future event. FIN No. 47 is effective no later than December 31, 2005. FIN No. 47 did not impact the Company for the nine-month period ended September 30, 2006.

#### Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a Replacement of APB No. 20 and FASB 3 (SFAS No.154). SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB Opinion No. 20 "Accounting Changes," previously required

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that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle.

NOTE 3 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	September 30,
	----- 2006 -----
Prepaid expenses	\$ 337,238
Refundable deposits with suppliers	75,190
	-----
Prepaid expenses and other current assets	\$ 412,428 =====

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

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	September 30,
	----- 2006 -----
Office equipment	\$ 367,158
Furniture & fixture	56,083
Leasehold improvements	67,368
	-----
	490,609
Less: Accumulated depreciation	(403,538)
	-----
Property and equipment, net	\$ 87,071 =====

NOTE 5 - INTANGIBLE ASSETS, NET

During 2002, Online Vacation Center Holdings, Inc. purchased the rights to the Renaissance Cruises name and customer database. Online Vacation Center Holdings, Inc. also registered two trade names and marks for Online Vacation Center, Inc. These costs were capitalized and are being amortized over the expected 15-year useful lives of the trademarks.

During 2006, Online Vacation Center Holdings, Inc. acquired Phoenix International Publishing, LLC. A third-party company was hired to prepare a valuation to assist management of the Company in its allocation of the purchase price, primarily through the determination of the fair value and remaining useful lives of Phoenix's intangible assets. The costs related to Phoenix's intangible assets have been capitalized and are being amortized over their expected useful life, ranging from 4 to 15 years.

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The estimated aggregate amortization expense is \$135,593 per year for each of the three succeeding fiscal years, \$111,426 in the fourth succeeding fiscal year, and \$63,093 in the fifth succeeding fiscal year.

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

Intangible assets consist of the following:

	September 30, 2006
	-----
Phoenix International Publishing	\$ 959,000
Renaissance Cruises	50,000
Other trademarks	6,642
	-----
	1,015,642
Less: Accumulated amortization	(26,145)
	-----
Intangible assets, net	\$ 989,497
	=====

### NOTE 6 - DEFERRED REVENUES

Deferred revenue consists of sales commission received from vacation travel suppliers in advance of passenger cruise travel dates, net of cancellations and amounts received on publishing to be produced in the future. The advance sales commission and publishing revenue is considered unearned revenue and recorded as deferred revenue in the accompanying consolidated balance sheets. At September 30, 2006 and December 31, 2005, deferred revenues were \$569,200 and \$479,434, respectively.

### NOTE 7 - CUSTOMER DEPOSITS

Deposits received from customers in advance of passenger cruise travel dates are considered unearned revenues and recorded as customer deposit liabilities in the accompanying consolidated balance sheets. Customer deposits are subsequently recognized as revenues upon completion of passenger travel. At September 30, 2006 and December 31, 2005, customer



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deposits were \$1,608,516 and \$1,575,475, respectively.

NOTE 8 - SUBORDINATE DEBENTURES

On November 16, 2000 Online Vacation Center Holdings, Inc. issued an 8% Subordinate Debenture (the "first Debenture") in the amount of \$2,000,000 to Pacific Tour Services, Inc. that was due on January 1, 2008. The first Debenture accrued interest on the unpaid principal balance at a rate of 8% per annum. On June 27, 2001 Online Vacation Center Holdings, Inc. issued an 8% Subordinate Debenture (the "second Debenture") in the amount of \$1,000,000 to Pacific Tour Services, Inc. that was due on January 1, 2008. The second Debenture accrued interest on the unpaid principal balance at a rate of 8% per annum. Immediately prior to the share exchange agreement the debentures were exchanged into shares of common stock of Online Vacation Center Holdings, Inc. and then Pacific Tour Services, Inc. subsequently exchanged the shares for shares of common stock of Online Vacation Center Holdings Corp., in accordance with the share exchange agreement.

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

NOTE 9 - INCOME TAXES

The provision (benefit) for income taxes from continued operations for the nine month period ended September 30, 2006 and 2005 consist of the following:

	September
	----- 2006 -----
Current:	
Federal	\$ (59,350)
State	\$ 4,636
	-----
	(54,714)
Deferred:	
Federal	\$ 221,736
State	36,872
	-----
	258,608
Tax (benefit) from the decrease in valuation allowance	(0)
	-----
Provision (benefit) for income taxes, net	\$ 203,894 =====

The difference between income tax expense computed by applying the federal statutory corporate tax rate and actual income tax expense is as follows:

September  
-----

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	2006
	-----
Statutory federal income tax rate	35.0%
Decrease in valuation allowance	0.0%
State income taxes	5.5%
Other	4.5%
Gain on sale of cigar assets	6.1%
	-----
Effective tax rate	51.1%
	=====

Other includes tax rate differentials and the true-up of permanent tax differences from prior periods. The gain on sale of cigar assets is the result of the transaction wherein the Company distributed the assets relating to the cigar business to Alan Rubin in exchange for 2.7 million shares of stock. The Company recognized gain on each asset distributed based upon the difference between the fair market value and the Company's

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

adjusted basis in each asset at the time of closing.

Deferred income taxes result from temporary differences in the recognition of income and expenses for the 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, 2006
	-----
Net operating loss carry- forwards and AMT tax credit	\$ 593,746
Depreciation and amortization	(16,685)
Accruals and other	280,481
	-----
Deferred income tax asset	\$ 857,542
	=====

The net deferred tax assets and liabilities are comprised of the following:

	September 30, 2006
	-----
Deferred tax assets	
Current	\$ 247,966
Non-current	609,576
	-----
Net deferred income tax asset	\$ 857,542
	=====

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### NOTE 10 - STOCK OPTION COMPENSATION

On March 16, 2006, 1,860,000 stock options were granted to management and directors under the 2005 Management and Director Equity Incentive and Compensation Plan. All options have a five-year life and an exercise price of \$1.27.

Plan Type -----	# Options Granted -----	Grant Date -----	Final Ves -----
ISO	100,000	3/16/2006	3/16/2006
ISO	100,000	3/16/2006	3/16/2007
ISO	160,000	3/16/2006	3/16/2008
Non-Qualified	200,000	3/16/2006	3/16/2006
Non-Qualified	1,300,000	3/16/2006	3/16/2008

Compensation cost recognized in the nine-month period ended September 30, 2006 was \$111,771. Compensation cost was calculated using the Black-Scholes model with the following assumptions: \$1.27 exercise price; average remaining life between 2.5 and 3.5 years, depending on the option vesting; \$0.85 stock price; 4.44% interest rate; 40% volatility; 5% forfeiture rate.

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

Gross compensation cost to be recognized over the next two years is \$313,998.

	ISOs ----	NQ --	Compensation cost, gross -----	Forfeitures -----	Compensation cost, net -----
Q1	\$ 14,069	\$ 30,620	44,689	5%	42,455
Q2	7,388	28,894	36,283	5%	34,468
Q3	7,469	33,731	36,681	5%	34,847
Q4	7,469	29,212	36,681	5%	34,847
	-----	-----	-----	--	-----
2006	\$ 36,396	\$ 117,938	154,334	5%	146,618
Q1	6,633	28,577	35,210	5%	33,450
Q2	3,556	28,894	32,451	5%	30,828
Q3	3,595	29,212	32,807	5%	31,167
Q4	3,595	29,212	32,807	5%	31,167
	-----	-----	-----	--	-----
2007	\$ 17,380	\$ 115,895	133,275	5%	126,611
Q1	2,892	23,497	26,388	5%	25,069
	-----	-----	-----	--	-----
2008	\$ 2,892	\$ 23,497	26,388	5%	25,069
Total	\$ 56,668	\$ 257,330	313,998	5%	298,298
	=====	=====	=====		=====

### NOTE 11 - RELATED PARTY TRANSACTIONS

Effective October 2005, Online Vacation Center Holdings, Inc. engaged Richard A. McKinnon to provide consulting services. In consideration for

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such services Mr. McKinnon received a monthly fee of \$10,000. Mr. McKinnon continues to serve as a consultant to the Company at the same fee rate. Mr. McKinnon is currently serving as Chairman of the Company.

### NOTE 12 - COMMITMENTS AND CONTIGENCIES

#### Lease Commitments

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Online Vacation Center Holdings, Inc. has entered into a lease for approximately 10,000 square feet of corporate office space in Plantation, Florida. Total monthly lease payments, which include a proportionate share of building operating expenses, are \$16,182 through June 2007 and increase approximately three percent each year thereafter. The current lease term is through June 30, 2008.

#### Executive Employment Agreement

-----

On March 16, 2006, the Company entered into an executive employment agreement with its President and Chief Executive Officer, Edward B. Rudner. The Company will pay an initial annual base salary of \$300,000, payable bi-weekly. The base salary is subject to annual automatic incremental

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ONLINE VACATION CENTER HOLDINGS CORP AND SUBSIDIARIES  
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(Unaudited)

increases of the greater of the percentage increase in the consumer price index or 6% of the previous year's base salary. In addition, the Company issued incentive stock options to purchase 300,000 shares of common stock and nonqualified stock options to purchase 200,000 shares of common stock which are exercisable at 150% of the fair market value of the Company's common stock as of the effective date of the share exchange (\$1.27). All of the nonqualified stock options and incentive stock options to purchase 100,000 shares vested immediately. Incentive stock options to purchase 100,000 shares of common stock vest on March 15, 2007 and the remaining 100,000 incentive stock options vest on March 15, 2008. All of the options were issued under the 2005 Management and Director Equity Incentive and Compensation Plan.

As of the effective date of the share exchange, Online Vacation Center Holdings, Inc. had an obligation under the terms of its employment agreement with Mr. Rudner for compensation and benefits in the amount of \$579,990. The obligation has been assumed by the Company. In August 2006, the Company's board of directors voted to establish the Online Vacation Center Holdings Corp. Deferred Compensation Plan in order to provide for payments to be made to Mr. Rudner for this obligation. The Company will make a series of twenty-six (26) cash payments totaling \$579,990 to Mr. Rudner, commencing on January 12, 2007.

#### Other Contract Obligations

-----

During the course of business, the Company has entered into contracts for marketing, telephone and other related expenses. At September 30, 2006, the Company has obligations under the terms of these contracts in the amount of \$91,791, \$179,467 and \$0 for the three-month period ended December 31, 2006 and the years ended December 31, 2007, and 2008, respectively.

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At September 30, 2006, the Company had the following future minimum obligations for rental lease commitments, employment agreements and other contract obligations as follows:

Year	Amount
----	-----
2006	\$ 275,052
2007	\$ 927,797
2008	\$ 675,618
2009 and thereafter	\$ 423,477

### Benefit Plan

-----

The Company participates in a multi-employer 401 (k) Plan managed by a professional employer organization the Company retains for administering payroll and employee benefits programs. Contributions to the Plan are at the discretion of the Company's board of directors. No contributions were approved as of September 30, 2006.

### Settlement Obligation

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The Company is involved from time to time in various legal claims and

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

actions arising in the ordinary course of business. In November 2004, the Company reached a settlement agreement with a travel company whereby the Company paid \$200,000 and agreed to pay \$175,000 over twenty months commencing January 2005 with interest on the outstanding balance at 8% per annum.

The balance recorded for the Settlement obligation as of December 31, 2003 was \$636,403 and was accrued during 2003. In 2004, an additional \$4,412 was accrued for the Settlement obligation, increasing the balance recorded to \$640,815. As a result of the Settlement Agreement, the difference between the balance of \$640,815 that the Company had accrued and the Settlement Sum of \$375,000 was recorded as a gain in the accompanying statement of consolidated operations for the year ended December 31, 2004, as this was a one-time event that did not result from the Company's core operations and the settlement gain had been realized. The obligation was paid in full in 2005.

### Regulatory Matters

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The Company believes it is in compliance with all federal regulatory requirements, including the CAN-SPAM Act of 2003 which regulates commercial electronic mail on a nationwide basis. The Company adheres to the law by properly representing the nature of its commercial email messages, not tampering with source and transmission information and obtaining email addresses through lawful means.

### NOTE 13 - SUBSEQUENT EVENT

On October 3, 2006, Online Vacation Center Holdings Corp. consummated the acquisition of La Fern, Inc., a Miami Lakes, Florida travel agency,

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operating as eLeisureLink.com, that provides a one stop location for vacation values, pursuant to the terms of an Acquisition Agreement, dated October 3, 2006, by and among Online Vacation Center Holdings Corp., a Florida corporation, La Fern, Inc. d/b/a/ Leisure Link International, a Florida corporation, and Lawrence Fishkin, an individual.

Pursuant to the Acquisition Agreement, Online Vacation Center Holdings Corp. purchased and acquired all of the issued and outstanding ownership interests of La Fern, Inc. for \$ 25,000 cash and a \$ 375,000 Convertible Note, bearing interest at 6% per annum, with principal payable at maturity of October 1, 2009 and interest payable semi-annually on April 1, 2007 and on each April 1 and October 1 thereafter. The note may not be prepaid and shall be convertible at the election of Holder prior to maturity into 187,500 shares of Online Vacation Center Holdings Corp. common stock at a conversion price equal to \$2.00 per share.

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

#### General

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

The company provides vacation travel services through the following wholly owned subsidiaries:

- o Online Vacation Center, Inc.- an internet-based vacation seller focused on serving the affluent retiree market
- o Thoroughbred Travel LLC - an upscale travel agency based in Houston, Texas that operates under the Journeys Unlimited name.

Additionally, the company, through its wholly owned subsidiary Phoenix International Publishing LLC, is the U.K.'s leading publisher of consumer magazines and guides about travel to the U.S. and Canada.

The following discussion and analysis should be read in conjunction with the Company's financial statements and notes thereto included as exhibits to this report. This discussion contains certain forward-looking statements that involve risks and uncertainties. The Company's actual results and the timing of certain events could differ materially from those discussed in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth herein and elsewhere in this information statement.

#### Results of Operations

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Nine Months Ended September 30, 2006 Compared To Nine Months Ended

-----  
September 30, 2005  
-----

Revenues. Revenues decreased \$917,712, or 15%, to \$5,083,352 for the nine month period ended September 30, 2006 from \$6,001,064 for the nine month period ended September 30, 2005. Gross profit decreased \$1,094,804, or 18%, to \$4,906,260 for the nine month period ended September 30, 2006 from \$6,001,064 for the nine month period ended September 30, 2005. The decrease was primarily due to fewer customers traveling during the second and third quarters of 2006 as compared to the same period in 2005.

Operating expenses. Operating expenses, which include sales and marketing expenses and general and administrative expenses, were \$4,512,962 for the nine month period ended September 30, 2006 as compared to \$4,683,486 for the nine month period ended September 30, 2005, a decrease of \$170,524 or 4%. The decrease was principally due to a decrease in sales and marketing expenses and management compensation which was partially offset by an increase in professional fees as described below. For the nine month period ended September 30, 2006, sales and marketing expenses were \$1,416,514 as compared to \$1,784,132 for the nine month period ended September 30, 2005, a decrease of \$367,618 or 21%. Sales and marketing expenses primarily consist of sales salaries, commissions, and marketing expenses. The decrease is primarily due to a decrease

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in co-op marketing projects in the first quarter of 2006. For the nine month period ended September 30, 2006, general and administrative expenses were \$3,096,448 as compared to \$2,899,354 for the nine month period ended September 30, 2005, an increase of \$197,094 or 7%. General and administrative expenses primarily include management compensation, professional services, and occupancy costs. For the nine month period ended September 30, 2006, management compensation expenses were \$1,788,561 as compared to \$2,150,729 for the nine month period ended September 30, 2005, a decrease of \$362,168 or 17%. This decrease was primarily due to a salary decrease related to a new employment agreement with the company's president. For the nine month period ended September 30, 2006, professional services expenses were \$747,027 as compared to \$254,879 for the nine month period ended September 30, 2005, an increase of \$492,148 or 193%. The increase was due to consulting, legal, and accounting expenses that were associated with the company's reverse merger transaction and acquisition strategy.

Income from Operations. For the nine month period ended September 30, 2006, income from operations was \$393,298 as compared to \$1,317,578 for the nine month period ended September 30, 2005, a decrease of \$924,280 or 70%. The decrease was primarily due to a decrease in revenues.

Other Income (Expense). Other income increased to \$5,366 for the nine month period ended September 30, 2006 as compared to (\$180,580) for the nine month period ended September 30, 2005. The increase in other income was due to a decrease in interest expense associated with the subordinated debenture discussed below and an increase in interest income on the company's interest-bearing cash accounts.

Earnings from Continuing Operations. For the nine month period ended September 30, 2006, earnings from continuing operations were \$398,664 as compared to \$1,136,998 for the nine month period ended September 30, 2005, a decrease of \$738,334 or 65%. The decrease was primarily due to a decrease in revenues.

Provision (Benefit) for Income Taxes. The provision for income taxes increased

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to \$203,894 for the nine month period ended September 30, 2006 as compared to (\$633,413) for the nine month period ended September 30, 2005. The increase in the provision for income taxes resulted primarily from a decrease of the valuation allowance benefit. For the nine month period ended September 30, 2006, the non-cash U.S. income tax provision, which includes a tax expense of \$24,443 related to the gain on the sale of the assets relating to the cigar business to Alan Rubin in exchange for 2.7 million shares of stock, was \$203,894 as compared to \$531,555 for the nine month period ended September 30, 2005, a decrease of \$327,661. For the nine month period ended September 30, 2006, the valuation allowance benefit was \$0 as compared to \$1,164,967 for the nine month period ended September 30, 2005. SFAS No. 109, "Accounting for Income Taxes," requires that Online Vacation Center record a valuation allowance when it is "more likely than not that some portion or all of the deferred tax assets will not be realized." The valuation allowance was decreased to \$1,164,968 or 65% of the gross deferred tax asset of \$1,792,258 in 2004 and decreased to \$0 or 0% of the gross deferred tax asset of \$1,116,148 in 2005 as described below.

At December 31, 2002, Online Vacation Center recorded a valuation allowance of \$2,217,158 or 80% of the gross deferred tax asset of \$2,771,447. Online Vacation Center decreased the valuation allowance in 2003, 2004, and March 31, 2005. At June 30, 2005, Online Vacation Center had its most profitable quarter to date. Net income before taxes and future revenue increased as compared to the same three month period ending June 30, 2004. Historically, the second quarter of the year is the time that most bookings travel, therefore it would be expected that advanced bookings would significantly decrease. Instead, advanced bookings increased 40% as compared to the same period in 2004. Based on this information,

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management concluded at that time that it was no longer more likely than not that a portion of the deferred tax asset would not be realized and consequently, the company removed the valuation allowance. Accordingly, Online Vacation Center recorded a net non-cash tax benefit in the quarter ended June 30, 2005 of \$644,163, resulting primarily from the effect of a \$1,007,748 reversal of the valuation allowance on Online Vacation Center's deferred tax assets, partly offset by a \$363,585 non-cash U.S. income tax provision (prior to the impact of the valuation allowance).

Net Income. For the nine month period ended September 30, 2006, net income was \$194,770 as compared to \$1,770,411 for the nine month period ended September 30, 2005, a decrease of \$1,575,641 or 89%. The decrease was primarily due to an increase in the provision for income taxes and a decrease in revenues.

Three Months Ended September 30, 2006 Compared To Three Months Ended

September 30, 2005

Revenues. Revenues decreased \$352,709, or 22%, to \$1,260,148 for the three month period ended September 30, 2006 from \$1,612,857 for the three month period ended September 30, 2005. Gross profit decreased \$529,801, or 33%, to \$1,083,056 for the three month period ended September 30, 2006 from \$1,612,857 for the three month period ended September 30, 2005. The decrease was due to fewer customers traveling during the third quarter of 2006 as compared to the same period in 2005.

Operating expenses. Operating expenses include sales and marketing expenses and general and administrative expenses. For the three month period ended September 30, 2006, sales and marketing expenses were \$489,972 as compared to \$519,758 for the three month period ended September 30, 2005, a decrease of \$29,786 or 6%. Sales and marketing expenses primarily consist of sales salaries, commissions, and marketing expenses. The decrease was primarily due to a slight decrease in



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co-op marketing projects. For the three month period ended September 30, 2006, general and administrative expenses were \$939,786 as compared to \$936,410 for the three month period ended September 30, 2005, an increase of \$3,376 or 0.4%. General and administrative expenses primarily include management compensation, professional services, and occupancy costs. For the three month period ended September 30, 2006, management compensation expenses were \$602,133 as compared to \$668,692 for the three month period ended September 30, 2005, a decrease of \$66,559 or 10%. This decrease was primarily due to a salary decrease due to a new employment agreement with the company's president. For the three month period ended September 30, 2006, professional services expenses were \$139,972 as compared to \$120,011 for the three month period ended September 30, 2005, an increase of \$19,961 or 16%. The increase was due to the cost of board of director fees, which were not incurred when the company was private.

Income (Loss) from Operations. For the three month period ended September 30, 2006, income from operations was (\$346,702) as compared to \$156,689 for the three month period ended September 30, 2005, a decrease of \$503,391 or 321%. The decrease was primarily due to a decrease in revenues.

Other Income (Expense). Other income increased to \$27,152 for the three month period ended September 30, 2006 as compared to (\$59,387) for the three month period ended September 30, 2005. The decrease in other expenses was due to a decrease in interest expense associated with the subordinated debenture discussed below and an increase in interest income on the company's interest-bearing cash accounts.

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Earnings (Loss) from Continuing Operations. For the three month period ended September 30, 2006, earnings from continuing operations were (\$319,550) as compared to \$97,302 for the three month period ended September 30, 2005, a decrease of \$416,852 or 428%. The decrease was primarily due to a decrease in revenues.

Provision (Benefit) for Income Taxes. The provision for income taxes decreased to (\$155,823) for the three month period ended September 30, 2006 as compared to \$39,407 for the three month period ended September 30, 2005. The decrease in the provision for income taxes resulted from a decrease in earnings from continuing operations.

Net Income (Loss). For the three month period ended September 30, 2006, net income was (\$163,727) as compared to \$57,895 for the three month period ended September 30, 2005, a decrease of \$221,622 or 383%. The decrease was primarily due to a decrease in revenues.

### Liquidity and Capital Resources

Cash as of September 30, 2006 was \$2,915,387 as compared to \$2,213,182 as of December 31, 2005, an increase of \$702,206. As of September 30, 2006, the Company had a working capital surplus of \$320,549 as compared to \$66,702 as of December 31, 2005, an increase of \$253,847. Total liabilities as of September 30, 2006 were \$3,706,267 as compared to \$5,949,096 as of December 31, 2005, a decrease of \$2,242,829. Shareholders' equity as of September 30, 2006 was \$3,597,005 as compared to a deficit of \$1,346,736 as of December 31, 2005, an increase of \$4,943,740. The decrease in liabilities and increase in shareholders' equity resulted primarily from the conversion of all outstanding subordinated debentures to shares of Online Vacation Center Holdings, Inc.'s common stock prior to the share exchange agreement, as discussed below, as well as the increase in capital related to the Phoenix International Publication LLC acquisition.

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On November 16, 2000 Online Vacation Center Holdings, Inc. issued an 8% Subordinate Debenture (the "first Debenture") in the amount of \$2,000,000 to Pacific Tour Services, Inc. that was due on January 1, 2008. The first Debenture accrued interest on the unpaid principal balance at a rate of 8% per annum. On June 27, 2001 Online Vacation Center Holdings, Inc. issued an 8% Subordinate Debenture (the "second Debenture") in the amount of \$1,000,000 to Pacific Tour Services, Inc. that was due on January 1, 2008. The second Debenture accrued interest on the unpaid principal balance at a rate of 8% per annum. Immediately prior to the share exchange agreement the debentures were exchanged into shares of common stock of Online Vacation Center Holdings, Inc. and then Pacific Tour Services, Inc. subsequently exchanged the shares for shares of common stock of Online Vacation Center Holdings Corp., in accordance with the share exchange agreement.

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 liquidity needs of its operations. The Company may choose to seek to sell equity or debt securities or obtain credit lines from financial institutions to meet its longer-term liquidity and capital requirements, which includes strategic growth through mergers and acquisitions. There is no assurance that the Company will be able to obtain additional capital or financing in amounts or on terms acceptable to the Company, if at all or on a timely basis.

The Company has historically been dependent on its relationships with four major cruise lines: Celebrity Cruises, Princess Cruises, Norwegian Cruise Line and

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Royal Caribbean Cruise Line. The Company also depends on third party service providers for processing certain fulfillment services.

The domestic and international leisure travel industry is seasonal and is sensitive to global events that are out of its control. The results of the Company have been subject to fluctuations caused by the seasonal variations in the travel industry and by global events. The company expects these variations to continue in the future.

### ITEM 3. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's

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disclosure controls and procedures as of the end of the period covered by this report, the Company's principal executive officer and principal financial officer concluded that, as of such date, the Company's disclosure controls and procedures were effective.

### Changes in Internal Controls

No change in the Company's internal control over financial reporting occurred during the last fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II: OTHER INFORMATION

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### ITEM 1: Legal Proceedings

None.

### ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds

None.

### ITEM 3: Defaults upon Senior Securities

None.

### ITEM 4: Submission of Matters to a vote of Securities Holders

None.

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### ITEM 5: Other Information

None.

### ITEM 6: Exhibits

31.1 302 Certification (CEO)

31.2 302 Certification (Principal Financial Officer)

32.1 906 Certification (CEO)

32.2 906 Certification (Principal Financial Officer)

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SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned.

ONLINE VACATION CENTER  
HOLDINGS CORP

By: /s/ Edward B. Rudner

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Edward B. Rudner, Principal Executive Officer  
and Principal Financial Officer

DATED: November 13, 2006

