Joystar Inc
Form 10QSB
August 14, 2006

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, 2006

( ) Transition report pursuant of Section 13 or 15(d) of the Securities Exchange Act of 1939 for the transition period _______ to _______

COMMISSION FILE NUMBER 000-25973

JOYSTAR, INC.
(Exact name of registrant as specified in its charter)

California	68-0406331
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

Former address

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

The number of shares of the registrant's common stock as of June 30, 2006: 43,212,160 shares.

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

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JOYSTAR, INC.
BALANCE SHEETS
(Unaudited)

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash	$ 691,416	$ 218,948
Other receivables	4,047,673	398,827
Prepaid expenses	68,572	48,572
Total current assets	4,807,661	666,347
Property and equipment, net	185,922	138,723
Intangible asset	52,365	54,205
Total assets	$ 5,045,948	$ 859,275
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 167,316	$ 198,814

Accounts payable-merchants	2,297,284	321,643
Accrued salaries	91,706	46,786
Accrued expenses	128,865	128,865
Accrued payroll taxes	567,684	412,258
Accrued rent	34,450	35,000
Loans from shareholder	472	472
Total current liabilities	3,287,777	1,143,838
Commitments and contingency		--
Stockholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized; none issued	--	--
Common stock, no par value, 50,000,000 shares authorized; 43,212,160 and 34,103,309 shares issued and outstanding at March 31, 2006 and December 31, 2005 respectively	10,818,904	7,952,026
Stock issued for deferred compensation	(229,000)	(356,000)
Stock subscribed not issued, shares at June 30, 2006 and 2,584,476 shares at December 31, 2005, respectively	114,800	834,800
Accumulated (deficit)	(8,946,533)	(8,715,389)
Total stockholders' equity (deficit)	1,758,171	(284,563)
Total liabilities and stockholders' equity	$ 5,045,948	$ 859,275

The accompanying notes are an integral part of these financial statements

JOYSTAR, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the six months ended June 30, 2006	For the six months ended June 30, 2005	For the three months ended June 30, 2006	For the th months end June 30, 2
Revenue	$ 4,736,251	$ 486,000	$ 2,553,579	$ 365,0
Operating expenses:				
Selling and marketing	2,899,948	803,455	1,419,710	520,9
General and administrative	1,984,524	1,151,168	1,017,684	646,9
Technology and content	82,923	--	25,832	
Total operating expenses	4,967,395	1,954,623	2,463,226	1,167,9
Operating loss	(231,144)	(1,468,623)	90,353	(802,9
Interest expense	--	9,641	--	9,6

Loss before income taxes	(231,144)	(1,478,624)	90,353	(812,5
Income tax provision	--	--	--	
Net income (loss)	$ (231,144)	$ (1,478,624)	$ 90,353	$ (812,5
Loss per share	$ (0.01)	$ (0.06)	$ (0.00)	$ (0.
Weighted average number of common shares outstanding	39,782,316	24,031,395	41,829,599	24,618,0

The accompanying notes are an integral part of these financial statements

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JOYSTAR, INC.
STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)

	COMMON STOCK		Stock issued for Deferred Compensation	Stock Subscrib not Issued
	Number of Shares	Amount		
Balance at December 31, 2005	34,103,309	7,952,026	(356,000)	834,8
Stock issued for services	3,091,730	1,137,683	--	(420,0
Cost of issueing stock included in services	--	(345,107)	--	
Stock issued for cash	6,017,121	2,074,302	--	(300,0
Deferred compensation earned	--	--	127,000	
Net loss	--	--	--	
Balance June 30, 2006 (Unaudited)	43,212,160	$ 10,818,904	$ (229,000)	$ 114,

The accompanying notes are an integral part of these financial statem

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JOYSTAR, INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the six months ended June 30, 2006	For the six months ended June 30, 2005

Cash flows from operating activities:		
Net loss	$ (231,144)	$ (1,478,264)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	26,358	6,739
Stock issued for services	499,576	531,353
Stock issued for interest	--	9,641
Non-cash expense	102	--
Changes in assets and liabilities:		
Increase in prepaid expenses	(20,000)	4,609
Increase in other receivables	(3,648,846)	(25,072)
(Decrease) increase in accounts payable	1,944,142	45,985
Increase in accrued salaries	44,920	2,061
Increase in payroll taxes	155,426	164,786
Increase in accrued rent	(550)	7,952
Net cash used by operations	(1,230,016)	(730,210)
Cash flows from investing activities:		
Acquisition of property and equipment	(71,717)	(16,081)
Net cash used by investing activities	(71,717)	(16,081
Cash flows from financing activities:		
Loans from shareholders	--	470
Issuance of common stock	1,774,302	550,270
Net cash provided by financing activities	1,774,302	550,740
Increase in cash	472,569	(195,551)
Cash at the beginning of the year	218,847	283,869
Cash at the end of the period	$ 691,416	$ 88,318
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of stock for services	$ 499,576	$ 531,353
Income taxes paid	$ --	$ --
Interest paid	$ --	$ --
Subscribed shares issued	$ 720,000	$ 590,000
Shares issued for accrued prior year compensation	$ 127,000	$ 172,038

The accompanying notes are an integral part of these financial statements

JOYSTAR, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED)

1. BASIS OF PRESENTATION

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

All adjustments (consisting only of normal recurring adjustments) have been made which, in the opinion of management, are necessary for a fair presentation. The Company has re-classified certain accounts of June 30, 2005 to be consistent with June 30, 2006 classifications.

Results of operations for the six months ended June 30, 2006 and 2005 are not necessarily indicative of the results that may be expected for any future period. The balance sheet at December 31, 2005 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, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

The Company passes reservations booked by customers to the relevant travel supplier and receives a commission or ticketing fee from the travel supplier for its services. The supplier sets the price to be paid by the consumer and the travel supplier appears as merchant of record for the transactions. The revenues are typically recognized at the time the reservation is booked.

PROPERTY AND EQUIPMENT

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

INTANGIBLE ASSET

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, 2006.

USE OF ESTIMATES

The preparation of financial statements in accordance 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, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INCOME TAXES

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

NET LOSS PER SHARE

In February 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128 "Earnings Per Share" which requires the Company to present basic and diluted earnings per share, for all periods presented. The computation of loss per common share (basic and diluted) is based on the weighted average number of shares actually outstanding during the period. The Company has no common stock equivalents, which would dilute earnings per share.

RECLASSIFICATIONS

The Company has reclassified certain amounts relating to prior period June 30, 2005 results to conform to our June 30, 2006 results. The reclassifications did not affect our financial position, cash flows, revenue, operating loss or net loss of the prior period.

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. Continuation of the Company as a going concern is contingent upon establishing and achieving profitable operations. Such operations will require management to secure additional financing for the Company in the form of debt or equity.

4. COMMON STOCK

During the six months ended the Company issued 3,091,730 shares of common stock for services for $1,137,683 of which $420,000 shares had been subscribed and 6,017,121 shares of common stock for cash for $2,074,302 of which $300,000 shares had been subscribed.

At June 30, 2006 the Company has 9,714,288 warrants outstanding to purchase shares of common stock at $0.50 per share and 2,763,873 warrants outstanding to purchase shares of common stock at $0.35 per share.

During the six months ended June 30, 2006, two officers earned $127,000 in deferred stock compensation.

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.

General

Joystar specializes in selling complex travel products including cruises, vacation packages and group travel through its national sales force of independent travel agents. The effect of having such a large and growing network of independent and home-based travel retailers all booking under the Joystar agency umbrella is significantly increasing our sales and revenue, and building strong brand recognition.

We have been very successful in attracting profession travel agents and at the same time, eroding our competitors' market share. Since going to market with our hosting programs in August 2004, Joystar has signed up over 3,000 travel agents making us one of the fastest growing and largest leisure travel network in the industry.

Throughout the first six months of 2006, Joystar's membership revenue and commission levels with our preferred suppliers increased substantially. As we continue to add travel agents into our network, commissions and overrides increase with higher bookings with our preferred suppliers, we believe this will have a positive impact on the increased profitability of the Company.

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According to a report issued by Credit Suisse/First Boston, there are currently 20,000 professional travel agents working from their homes. This number is expected to grow to approximately 50,000 agents by 2010. In the management's opinion, Joystar is on track to have an approximate twenty percent market share by the end of 2006 and aims to increase that to thirty percent market share by the end of 2007.

In 2005, we engaged an NASD member firm to provide investment banking services. The Company raised approximately 3.5 million dollars in the last two quarters of 2005 and the first six months of 2006. We intend to raise an additional 5 million dollars in the next twelve months and apply for a listing on either the American Stock Exchange or NASDAQ in the fourth quarter. There are no assurances that this will occur.

Our business is dependent on the health and growth of the travel industry. Travel is highly sensitive to traveler safety concerns, and thus declines after acts of terrorism that affect the safety of travelers. The terrorist attacks of September 11, 2001, resulted in a decrease in new travel bookings worldwide and may reduce our revenues in future quarters. The long-term effects of these events could include, among other things, a protracted decrease in demand for air travel due to fears regarding additional acts of terrorism, military responses to acts of terrorism and increased costs and reduced operations by airlines due, in part, to new security directives adopted by the Federal Aviation Administration. These effects, depending on their scope and directives, which we cannot predict at this time, together with any future terrorist attacks, could significantly impact our long-term results of operations or financial condition.

RESULTS OF OPERATIONS

Gross travel bookings for the six months ended June 30 2006 increased 712% to $33,056,000 Compared to $4,644,000 for the six months ended June, 30 2005. Revenues for the six months increased 974% to $4,736,000 compared to $486,000 for the six months ended June 30, 2005. The increase of $4,250,000 is due to the substantial increase in professional agent membership and commission levels and overrides from our preferred suppliers.

Revenues increased sequentially 17% to $2,553,579 compared to $2,182,672 for the quarter ended March 31, 2006. This represents the seventh sequential quarter of double-digit revenue growth

Revenue margins (defined as net revenue as a percentage of gross bookings) for the six months ended June 30,2006 increased to 14% compared to 10.5% for the six months ended June30, 2005. The 33% increase is due to substantial increases in commissions, overrides, and membership fees. We believe revenue margins will continue to increase as our paid membership continues to grow and as we negotiate better commissions and overrides with more and more travel suppliers.

Net income for the three months ended June30, 2006 was $90,353 compared to a net loss of $812,298 for the three months ended June 30,2005. This represents the first profitable quarter in the Company's history. Net losses for the six months ended June 30, 2006 decreased 640% to $231,144 compared to $1,478,624 for the six months ended June 30,2005.

Selling and Marketing

Selling and marketing expenses relate to primarily to agent commissions and 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, 2006 were $2,900,000 compared to $803,000 for the six months ended June 30, 2005. The increase was due entirely to commissions paid to our travel agent network on the increased revenues generated.

General and Administrative

General and Administrative expenses for the six months ended June 30, 2006 were $1,985,000 compared to $1,151,000 for the six months ended June 30, 2005. The increase of $834,000 was due primarily to increased headcount and payrolls ($580,000)in our new Miami office, increased accounting and legal (17,000), increase rent ($61,000)due to new office in Miami, and an increase in travel expenses ($31,000).

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Technology and Content

Technology and content expense includes product development expenses such as payroll and related expenses and depreciation of website development costs.

Technology and content expenses for the six months ended June 30, 2006 were $82,000 as we increased our software development and engineering teams, and increased our level of site innovation. 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.

LIQUIDITY AND SOURCES OF CAPITAL

During the six months ended June 30, 2006 the Company issued 6,017,121 shares of common stock for cash $2,074,302 of which $300,000 had been received in the prior year as subscribed stock. The Company intends to raise an additional 5 million dollars during the next twelve months. The Company expects to finance the capital needed with additional issuances of its securities. In order to fund the Company's growth, the Company has engaged an NASD member firm to provide investment banking services. There is no assurance that the Company will be able to secure such financing.

At June 30, 2006 the Company had a cash balance of $691,416 as compared to a cash balance of $218,948 at December 31, 2005.

Item 3. Controls and Procedures

Our President and Treasurer/Chief Financial Officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures and internal controls and procedures for financial reporting for the Company. The Certifying Officers have designed such disclosure controls and procedures and internal controls and procedures for financial reporting to ensure that material information are made known to them, particularly during the period in which this report was prepared. The Certifying Officers have evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls and procedures for financial reporting as of June 30, 2006 and believes that the Company's disclosure controls and procedures and internal controls and procedures for financial reporting are effective based on the required evaluation. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 1. Legal proceedings NONE

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	NONE
Item 3. Defaults on Senior Securities	NONE
Item 4. Submission of Items to a Vote	NONE
Item 5. Other Information	NONE

Item 6.

(a) Exhibits

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

Exhibit No.	Description
* Exhibit 10.1	Subscription Agreement
* 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 Joystar, Inc. dated August 11, 2005.
* Exhibit 10.6	Employment Agreement with William M. Alverson.
Exhibit 31	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the

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

b) Reports on 8K during the quarter:

Forms 8-K filed on January 25, 2006 and January 30, 2006.

* Previously filed with the Securities and Exchange Commission.

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.

JOYSTAR, INC.

Date: August 14, 2006

By: /s/ William Alverson
Chief Executive Officer and Chief Financial Officer