Travelstar, Inc.
Form 10QSB
May 21, 2008

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 March 31, 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.
(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 March 31, 2008: 48,933,624 shares.

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



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TRAVELSTAR, INC.
BALANCE SHEETS

| | March 31, 2008 (Unaudited) |
|---|---|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | $ 176,705 |
| Accounts receivable | 3,345,436 |
| Prepaid expenses | 54,257 |

| | |
|---|---|
| Total current assets | 3,576,398 |
| Property and equipment, net | 475,318 |
| Intangible assets, net of amortization | 34,908 |
| Other assets | 18,970 |
| Total assets | $ 4,105,594 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | |
| Current liabilities | |
| Accounts payable | $ 2,252,961 |
| Deferred Merchant Bookings | -- |
| Accrued salaries | -- |
| Accrued expenses | 128,865 |
| Accrued liabilities | 758,730 |
| Accrued rent | 36,325 |
| Loans from shareholders | 472 |
| Total current liabilities | 3,177,353 |
| 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; 48,933,624 and 48,772,430 shares issued and outstanding at March 31, 2008 and March 31, 2007 respectively | 19,714,553 |
| Stock subscribed not issued, 356,000 shares at March 31, 2008 and March 31, 2007 | 313,501 |
| Accumulated (deficit) | (19,099,813) |
| Total stockholders' equity (deficit) | 928,241 |
| Total liabilities and stockholders' equity | $ 4,105,594 |

The accompanying notes are an integral part of these financial statements



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TRAVELSTAR, INC.

STATEMENTS OF OPERATIONS

| | For the Three Months ended March 31, 2008 | March 31, 2007 (Restated) |
|---|---|---|
| Revenue | $ 1,938,449 | $ 2,472,733 |
| Operating Expenses: | | |
| Selling and marketing | 1,693,104 | 2,203,781 |
| General and administrative | 709,673 | 682,485 |
| Technology | 30,199 | 24,815 |
| Total operating expenses | 2,432,976 | 2,911,081 |
| Operating loss | (494,527) | (438,348) |
| Other income/(expense) | | |
| Interest income | -- | 18,624 |
| Gain/(Loss)on fair value of warrants and stock purchase rights | -- | 1,422,384 |
| Other income/(expense) | 312 | 1,441,008 |
| Income/(Loss) before income taxes | (494,215) | 1,002,660 |
| Income tax provision | -- | -- |
| Net Income/(loss) | $ (494,215) | $ 1,002,660 |
| Net Income/(Loss) per share | | |
| Basic | $ 0.02 | $ 0.02 |
| Diluted | $ 0.02 | $ 0.02 |
| Weighted average number of common shares- | | |
| Basic | 50,951,830 | 48,873,505 |
| Diluted | 50,951,830 | 55,107,387 |

The accompanying notes are an integral part of these financial statements



TRAVELSTAR, INC. (FORMERLY JOYSTAR, INC.)
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
For the Three Months ended March 31, 2008

COMMON STOCK

Stock

| | Number of Shares | Amount | Subscribed not Issued | Accumulated (Deficit) |
|---|---|---|---|---|
| Balance December 31, 2007 | 50,927,434 | $ 19,690,918 | $ 313,501 | $(18,605,598) |
| Stock Issued for services | 34,286 | 9,714 | -- | -- |
| Share based compensation | -- | 13,921 | -- | -- |
| Net loss | -- | -- | -- | (494,215) |
| Balance March 31, 2008 (Unaudited) | 50,961,720 | $ 19,714,553 | $ 313,501 | $(19,099,813) |

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



TRAVELSTAR, INC.
STATEMENTS OF CASH FLOW

| | For the three months end | |
|---|---|---|
| | March 31, 2008 | March 31, (Restate |
| Cash flows from operating activities | | |
| Net Income/ (loss) | $ (494,215) | $ 1,002,6 |
| Adjustments to reconcile net loss to net cash provided by operating activities | | |
| Depreciation and amortization | 44,402 | 19,8 |
| Share based compensation | 13,921 | 12,2 |
| Stock issued for services | 9,714 | 86,9 |
| Shares issued for deferred compensation | -- | 52,5 |
| Non-cash expense | -- | |
| Changes in assets and liabilities | | |
| (Increase) in prepaid expenses | -- | |
| (Increase) in receivables | 164,683 | (778,3 |
| (Decrease)Increase in accounts payable | (6,338) | 1,056,3 |
| Increase in deferred merchant bookings | 6,803 | 381,1 |
| Increase in accrued salaries/rent and payroll taxes | 88,673 | 125,0 |
| Increase/(Decrease) in accrued liability relating to warrants and other stock purchase rights | -- | (1,407,7 |
| Net cash provided by/(used in) operations | (158,437) | 550,7 |
| Cash flows from investing activities | | |
| Acquisition of property and equipment | (137,639) | (138,5 |
| Net cash used in investing activities | (137,639) | (138,5 |

| | | |
|---|---|---|
| Cash flows from financing activities | | |
| Issuance of common stock for cash | -- | 2 |
| Net cash provided by financing activities | -- | 2 |
| Increase in cash | (309,998) | 412,3 |
| Cash at the beginning of the period | 619,666 | 2,246,9 |
| Cash at the end of the period | $ 309,668 | $ 2,659,2 |

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

| | | |
|---|---|---|
| Issuance of stock for services | $ 9,714 | $ 86,9 |
| Shares issued for deferred compensation | $ -- | $ 52,5 |
| Share based compensation | $ 13,921 | $ 12,2 |

The accompanying notes are an integral part of these financial statements

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TRAVELSTAR, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND MARCH 31, 2007

NOTE 1 -- ORGANIZATION

GENERAL DESCRIPTION OF OUR BUSINESS

Travelstar, Inc., a California corporation ("Travelstar", "we" or the "Company") sells complex leisure travel including cruises, vacations and group travel through a rapidly expanding virtual network of leisure travel agents. We empower thousands of travel agents with the tools and information they need to efficiently research, plan, book and extraordinary travel experiences. Through our Travelstar branded, co-branded and private label websites, we offer travelers real time access and booking capabilities to every major airline, lodging property, car rental company, vacation provider, and cruise line in the world. We are one of the leading host agencies in the world. Our brands include: Joystar, VacationCompare.com, and Travelstar.com.

We are uniquely positioned to capitalize on our early mover advantage and brand strength as the premier host travel agency in the travel industry. The virtual travel agency model is expanding rapidly as travel agency owners and individual agents switch from bricks & mortar models to virtual, hosted operations. The migration of the existing travel agency community which sells billions of dollars of complex travel annually, combined with the emergence of new entrants attracted to the prospect of owning and operating a home based travel business represents an especially large opportunity for Travelstar.

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 three months ended March 31, 2008 and 2007 are not necessarily indicative of the results that may be expected for any future period.

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, 2007.

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, 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.

The Company recognizes revenue for additional payments from travel suppliers that are commonly referred to as "overrides" or "co-op marketing dollars". Typically these payments are contingent upon the Company producing a certain threshold level of bookings or sales with these suppliers. The Company monitors agreements that it has with various suppliers.

Override commissions are recognized each period based upon our actual attainment of predetermined target sales levels. During the years ended December 31, 2006 and 2007, the Company recognized override revenues, based on its evaluation of the actual attainment of various supplier production goals, as of the end of each interim period. While the Company believes that its recognition of override revenue was accurate, this policy required the Company to track and measure a large number of complex agreements.

Commencing in January 2007 the Company chose to modify this policy to only recognize override revenue that had either actually been received or for which the Company was notified by a supplier that the override had been earned, and that payment was forthcoming. The Company does not believe that the change in policy would have resulted in a material difference in the revenue amounts recognized for the years ended December 31, 2006 and 2007.

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 based 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.

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 years ended December 31, 2007 and 2006 the company recognized a reserve ranging from 15-25% 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.

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

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.

ACCOUNTS RECEIVABLE

Accounts Receivable primarily consist of commissions due from travel suppliers for reservations made by the Company's travel agents. The Company recognizes revenue and books a receivable in the quarter when the reservation has been made by the travel agent. Typically travel suppliers pay commissions after the travel has been completed.

The amount reflected as of December 31, 2007 and 2006 represents the net amount that the Company believes is collectible as of that date, based on an analysis of our collection experience in 2007 and 2006 and anticipated collections in 2007 and 2006.

During the first three months of 2008 and 2007 the Company collected commissions of approximately $1,734,000 and $1,489,000 respectively, principally consisting of receivables generated during 2007 and 2006.

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 three 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.

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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 three months ended March 31, 2008 and March 31, 2007 was $4,593 and $920 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 three months ended March 31, 2008 and 2007.

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 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.

During the year ended December 31, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which supplements SFAS No. 109, "Accounting for Income Taxes" by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. The Interpretation requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. The "more-likely-than-not" threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax is not considered "more-likely-than-not" it is to be sustained based solely on its technical merits. No benefits of the tax position are to be recognized. Moreover, the "more-likely-than-not" threshold must continue to be met in each reporting period to support continued recognition of a benefit. With the adoption of FIN 48, companies are required to adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained. Any necessary adjustment upon adoption would be reported as a change in accounting principle at December 31, 2006.

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. We incurred advertising expenses of $80,255 and $122,785 during the three month periods ended March 31, 2008 and 2007, respectively.

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, 2007 includes: a) compensation cost for all share-based payments granted prior to, but which were vested as of January 1, 2007, 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 which vest granted subsequent to January 1, 2007, based on the grant-date fair value estimated in accordance with the provisions of FAS 123R. During the three months ended March 31 2008, the Company recognized $13,921 compared to $12,252 for the three months ended March 31, 2007 in compensation expense for the issuance of stock options to employees.



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 loss per common share (basic and diluted) is based on the weighted average number of shares actually outstanding during the period. The computation of diluted earnings per share does not assume conversion, exercise, or contingent exercise of securities that would not have an anti-dilutive effect on earnings. The Company has common stock equivalents, including warrants to purchase common stock and stock options for employees which would dilute earnings per share. The Company had the following amounts of warrants and stock options for employees issued and outstanding which are excluded from the calculation of diluted loss per share:

| As of | March 31, 2008 | March 31, 2007 |
|---|---|---|
| Outstanding warrants | 5,257,302 | 13,257,302 |
| Outstanding options | 3,928,000 | 3,888,000 |

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 months ended March 31, 2007:

DISCLOSURE FOR RECONCILIATION
OF BASIC AND DILUTED
EARNINGS PER SHARE

| | For the Three Months Ended March, 31, 2007 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per-share Amount |
| Net income | 1,022,660 | | |
| BASIC EPS | $ 1,022,660 | 48,873,505 | $ 0.02 |
| Income available to common stockholders | | | ======== |
| Options | | 737,934 | |
| Warrants | | 5,495,948 | |
| DILUTED EPS | | | |
| Income available to common stockholders + assumed conversions | $ 1,022,660 | 55,107,387 | $ 0.02 |

Stock warrants to purchase 1,256,572 shares of common stock at $1.00 per share were outstanding during the quarter ended March 31, 2007 but were not included in the computation of diluted EPS because the warrants' exercise price was greater than the market price of the common shares as of March 31, 2007. The warrants were still outstanding on March 31, 2007 and expire in 2008 and 2011. No vested stock options were outstanding during the quarter for which the exercise price was greater than the market price of the common shares as of March 31, 2007.

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 $0 at March 31, 2008 and $6,873,647 at March 31, 2007.

FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE ACCOUNTING

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 were adopted January 1, 2008. In February 2008, the FASB staff issued Staff Position No. 157-2 "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-2 delayed the effective date of FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of FSP FAS 157-2 are effective for the Company's fiscal year beginning January 1, 2009.



FAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are described below:

| | |
|---|---|
| Level 1 | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities; |
| Level 2 | Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; |
| Level 3 | Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity). |

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by FAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| | FAIR VALUE AT MARCH 31, 2008 | | | |
|---|---|---|---|---|
| | TOTAL | LEVEL 1 | LEVEL 2 | LEVEL 3 |
| Cash equivalents | $ 37,992 | $ 37,992 | $ -- | $ -- |
| | $ 37,992 | $ 37,992 | $ -- | $ -- |

Liabilities:

None

The Company's cash instruments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The cash instruments that are valued based on quoted market prices in active markets are primarily money market securities and U.S. Treasury securities.

The Company had no financial assets or liabilities which were being measured at Level 2 or 3.

In February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159"). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with the objective of improving financial reporting by mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of FAS 159 were adopted January 1, 2008. The Company did not elect the Fair Value Option for any of its financial assets or liabilities, and therefore, the adoption of FAS 159 had no impact on the Company's consolidated financial position, results of operations or cash flows.

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. 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.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | MARCH 31, 2008 | DECEMBER 31, 2007 |
|---|---|---|
| Office furniture/computers | $ 342,179 | $ 301,920 |
| Booking engine software | 67,265 | 67,265 |
| Web sites | 307,170 | 119,344 |
| | 716,614 | 488,529 |
| Less: accumulated depreciation | (241,296) | (101,878) |
| | $ 475,318 | $ 386,651 |

5. CAPITAL STOCK

COMMON STOCK

During the three months ended March 31, 2008, the Company issued 34,286 common shares for services for a total of $9,714.

At March 31, 2008 the Company has 5,257,302 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 17, 2007, the plan was further amended to provide for grants of options and stock based awards up to an aggregate of 5,000,000 shares of common stock.

The following table summarizes activity for all stock options for the period ended March 31, 2008:

| | 2008 | |
|---|---|---|
| | NUMBER OF SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
| Outstanding, beginning of period | 4,670,600 | $ 0.53 |
| Granted | | -- |
| Exercised | -- | -- |
| Forfeited and expired | (294,000) | $ 1.41 |
| Outstanding, end of period | 4,376,600 | $ 0.48 |

| | | |
|---|---|---|
| Options exercisable, end of period | 1,598,800 | $ 0.53 |
| Weighted average fair value of options granted during the year | $ 0.00 | |

The fair value of the stock options granted during the three months ended March 31, 2008 was approximately $0.00 or $0.00 per stock option, and was determined using the Black Scholes option pricing model. Since no options were granted during the three months ended March 31, 2008, it was not necessary to value any stock options. The factors used for the three months ended March 31, 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.

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The following table summarizes information about stock options outstanding at March 31, 2008, with exercise prices equal to the fair market value on the date of grant with no restrictions on exercisability after vesting:

| | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|---|---|---|---|---|---|
| RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING | WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS) | WEIGHTED-AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE | WEIGHTED AVERAGE EXERCISE PRICE |
| $0.50 to $1.50 | 4,376,600 | 3.75 | $ 0.48 | 1,598,800 | $ 0.53 |

As of March 31, 2008, there was approximately $411,000 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.

7. INCOME TAXES

The components of the deferred tax asset are as follows:

| | MARCH 31, 2008 | DECEMBER 31, 2007 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carry-forward | $4,815,000 | $ 4,815,000 |
| Less: valuation allowance | (4,815,000) | (4,815,000) |

| | | |
|---|---|---|
| Net deferred tax assets | $ -- | $ -- |

The Company's operations are headquartered in the State of California and are subject to California state income taxes. The Company had available approximately $9,712,157 and $9,712,157 and of unused Federal and State net operating loss carry-forwards at December 31, 2007 and December 31, 2006, respectively that may be applied against future taxable income. These net operating loss carry-forwards expire through 2024 for Federal purposes. There is no assurance that the Company will realize the benefit of the net operating loss carry-forwards.

SFAS No. 109 requires a valuation allowance to be recorded when it is more likely that some or all of the deferred tax assets will not be realized. At December 31, 2006 and 2005, valuations for the full amount of the net deferred tax asset were established due to the uncertainties as to the amount of the taxable income that would be generated in future years.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

| | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
|---|---|---|
| Statutory federal tax (benefit) rate | (34.00)% | (34.00)% |
| Statutory state tax (benefit) rate | (5.83)% | (5.83)% |
| Effective tax rate | (39.83)% | (39.83)% |
| Valuation allowance | 39.83% | 39.83% |
| Effective income tax rate | 0.00% | 0.00% |

8. COMMITMENTS

LEASE COMMITMENTS

The Company acquired office space in California in February 2005. The lease was 36 months with an option to renew for 36 months. In February 2008, the Company reduced its California office space by 2,345 rentable square feet entering into a 37 month lease with one month free of charge and an option to renew for a period of three years.

The Company entered into a lease for its office in Florida in October 2005. The lease is for 36 months and there is no renewal option on the lease.

Rental expense was $48,597 and $21,586 for the quarters ended March 31, 2008 and 2007, respectively.



9. RESTATEMENT OF FINANCIAL STATEMENTS

In connection with the preparation of audit of the December 31, 2006 audit of the Company's financial statements and letters of comment received from the Securities and Exchange Commission, we determined that there were errors in the accounting treatment and reported amounts in our previously filed financial statements. As a result, we determined to restate our financial statements for the year ended December 31, 2006.

In connection with the restatement, we are designing internal procedures and controls for purposes of the preparation and certification of our financial statements going forward. In this process, we identified certain errors in accounting determinations and judgments, which have been reflected in the restated financial statements.

These restated financial statements include adjustments related to the following:

Cash and Accrued expenses: During the year ended December 31, 2006, the Company issued cash disbursements totaling $144,068. These cash disbursements were reconciling items for an extended period of time and management determined that the disbursements should have been voided and reissued. Accordingly, the balances for cash and accrued expenses have been increased by $144,068 at March 31, 2007. The March 31, 2007, financial statements, have been restated to reflect these adjustments. The above adjustment did not affect previously reported cash balances as of December 31, 2005.

Accrued liability related to warrants and stock purchase rights and loss on fair value of warrants and stock purchase rights: During 2006, the Company had issued more shares of its common stock and other common stock equivalents including warrants and stock options which exceeded the authorized shares of common stock that the Company could issue. The Company excluded its issued and outstanding stock options from the calculation of the accrued liability. Management later determined that the issued and outstanding stock options should included in the calculation of the liability. Accordingly, $14,880 was added to the accrued liability and the loss on fair value of warrants and stock purchase rights was recognized as of and for the three months ended March 31, 2007. The March 31, 2007, financial statements, have been revised to reflect these adjustments. The above adjustment did not affect previously reported cash balances as of December 31, 2005.

The following financial statement line items were corrected for the three months ended March 31, 2007:

| | As originally presented | Restated |
|---|---|---|
| Gain on fair value of warrants And stock purchase rights | $1,437,264 | $1,422,384 |
| Earnings before income taxes | $1,017,540 | $1,002,660 |
| Net Earnings | $1,017,540 | $1,002,660 |
| Earnings per Share | $ 0.02 | $ 0.02 |



## 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".

CAUTIONARY AND FORWARD LOOKING STATEMENTS

In addition to statements of historical fact, this prospectus contains forward-looking statements. The presentation of aspect of our future found herein is subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Without limiting the generality of the foregoing, words such as "may", "will", "expect", "believe", "anticipate", "intend", or "could" or the negative variations thereof or comparable terminology are intended to identify forward-looking statements.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by us in those statements. Important facts that could prevent us from achieving any stated goals include, but are not limited to, the following:

(a) volatility or decline of the our stock price;

(b) potential fluctuation in quarterly results;

(c) our failure to earn revenues or profits;

(d) inadequate capital to continue or expand its business, inability to raise additional capital or financing to implement our business plans;

(e) failure to commercialize our technology or to make sales;

(f) rapid and significant changes in markets;

(g) litigation with or legal claims and allegations by outside parties

(h) insufficient revenues to cover operating costs.

There is no assurance that we will be profitable, and we may not be able to successfully develop, manage or market our products and services. We may not be able to attract or retain qualified executives and technology personnel and our products and services may become obsolete. Government regulation may hinder our business. Additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, or the exercise of warrants and stock options, and other risks inherent in our businesses.

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OVERVIEW

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

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. For additional information about our brands, see the disclosure set forth in Part I, Item 1, Business, under the caption "Management Overview."

TRENDS

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 an estimated 35,000 professional, home-based agents. This number is expected to grow to approximately 50,000 agents by 2010, however, no assurances can be made that such expectations will be met.

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.

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 travelers, suppliers and 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.

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.



Accounting estimates are an integral part of the financial statements prepared by management are based on management's current judgments. These judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. 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.

Commission revenue for reservations is paid to the Company by 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 year ended December 31, 2007, the Company recognized a reserve equal to 25% of the gross commissions earned. The Company will be monitoring receivables and adjusting the reserve levels on a regular basis, as required.

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 travel bookings represent the total dollar 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. 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.

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.



RESULTS OF OPERATIONS THREE MONTHS ENDED MARCH 31, 2008 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2007

GROSS TRAVEL BOOKINGS

Gross travel bookings for the three months ended March 31, 2008 increased to $20,801,585 compared to adjusted gross bookings of $19,521,292 for the three months ended March 31, 2007. 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 three months ended March 31, 2008 were $1,938,449 compared to $2,472,733 for the three months ended March 31, 2007. During the three months ended March 31, 2008, the Company took a reserve against revenues of 15%.

Offsetting the decrease is the fact that the Company no longer recognizes advertising revenue, supplier overrides, tour conductor revenue from group sales and membership revenue until payment is received.
Therefore, these revenues were not included in the results for the three months ended March 31, 2008. Based on these changes, the revenue for the three months ended March 31, 2007 would have been approximately $1,834,644.

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 three months ended March 31, 2008 were $1,693,104 compared to $2,203,781 for the three months ended March 31, 2007. The decrease of $510,677 was primarily due to a decrease in payments to our travel agents. 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 March 31, 2008 increased to $695,752 from $682,482 for three months ended March 31, 2007. The increase of $13,267 was due to expenses for professional fees. 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 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 2007 we began outsourcing the development of certain large scale projects 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 March 31, 2008 were $30,199 compared to $24,815 for the three months ended March 31, 2007. 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. The accrued liability has a balance of $14,880 as of March 31, 2007. The balance at March 31, 2008 was reduced to $0 due to the approval of the increase in the authorized shares of the company.

Net other income for the three months ended March 31, 2008 was $312 Compared to $1,441,008 in the three months ended March 31, 2007 which primarily reflected the additional income as a result of the reversal of the Accrued Liability Related to Warrants and Stock Purchase Rights when the increase in the amount of authorized shares of the Company was approved.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash balance decreased to $202,393 at March 31, 2008 compared to

$2,659,276 at March 31, 2007. The Company has recovered cash from trade accounts receivable. The Accounts Receivable had a balance of $3,345,436 at the end of the period. During the three months ended March 31, 2008 the Company issued $9,714 in shares for services.

PROFITABILITY/LOSS

Net loss for the three months ended March 31, 2008 was $494,215 compared to net income of $1,002,660 for the three months ended March 31, 2007.

The increase in net income during the three months ended March 31, 2007 was due to a reduction in the provision of the accrued liability of related to warrants and stock purchase rights. The Company's operating loss for the three months ended March 31, 2008 was $494,527 compared to an operating loss of $438,348 for the three months ended March 31, 2007.

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 three months ended March 31, 2008. The company will be monitoring receivables and adjusting the reserve levels on a regular basis, as required.

Item 3. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

A system of disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended [the "Exchange Act"]) are controls and other procedures that are designed to provide reasonable assurance that the information that the Company is required to disclose 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 SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Moreover, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a control system, misstatements due to error or fraud may occur and not be detected.

Notwithstanding the issues described below, the current management has concluded that the consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-QSB are fairly stated in all material respects in accordance with generally accepted accounting principles in the United States for each of the periods presented herein.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Section 404 of the Sarbanes-Oxley Act of 2002 requires that management document and test the Company's internal control over financial reporting and include in this Annual Report on Form 10-KSB a report on management's assessment of the effectiveness of our internal control over financial reporting.

The Company's management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States of America generally accepted accounting principles. A Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company and (iii) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our consolidated financial statements.

In connection with the preparation of this Report on Form 10QSB, to evaluate the effectiveness of the design and operation of our disclosure controls and procedures, the Company's management completed its assessment of the effectiveness of the Company's internal control over financial reporting, guided by the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in "Internal Control-Integrated Framework". Management has concluded as a result that its disclosure controls and procedures are considered sufficient and effective at the reasonable assurance level as of March 31, 2008.

The Company plans to hire a Chief Financial Officer and is utilizing several full time accounting contractors serving in senior and staff level accounting positions. The Company is actively recruiting high-level competent accounting personnel.

While we are taking immediate steps and dedicating substantial resources to implement the internal controls based on the criteria established in Internal Control - Integrated Framework issued by the COSO, they will not be considered fully implemented until the new and improved internal controls operate for a period of time, are tested and are found to be operating effectively.

The Company's registered public accountant has not conducted an audit of the Company's controls and procedures regarding internal control over financial Reporting since it is not yet required pursuant to the timetable set up by the SEC.

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 March 31, 2008, 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.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the quarter ended March 31, 2008, 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.

PART II. OTHER INFORMATION

Item 1. Legal proceedings NONE

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended March 31, 2008, the Company issued 20,000 shares of common stock valued at $0.25 per share and 14,286 shares of common stock valued at $0.33 per share for services rendered. No shares were issued for cash.

The shares of the Company's common stock were issued and sold in reliance upon the exemption provided by Section 4(2) and/or Regulation D of the Securities Act of 1933.



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 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: NONE



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.

TRAVELSTAR, INC.

Date: May 20, 2008

By: /s/ William Alverson
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Chief Executive Officer

By: /s/ Katherine West
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Chief Financial Officer