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INTERNATIONAL STAR INC
Form 10QSB
November 15, 2004

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

[] TRANSITION REPORT UNDER SECTION 13 OR 15(D)
OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number: 000-28861

INTERNATIONAL STAR INC.

(Exact name of small business as specified in its charter)

NEVADA

86-0876846

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

2266 Chestnut Bluffs, Henderson, NV, Henderson, NV 89052

(Address of principal executive offices)

(702) 897-5338

(Issuer's telephone number)

(Former name, former address, and former fiscal year,
if changed since last report)

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter

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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 | |

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by the court. Yes [] No []

APPLICABLE ONLY TO CORPORATE ISSUERS

The Company had 59,788,741 shares of common stock outstanding at September 30, 2004.

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

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PART 1 - FINANCIAL INFORMATION

Item 1 - Financial Statements

The following unaudited financial statements of International Star Inc. have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, these financial statements may not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the audited financial statements and the notes thereto for the fiscal year ending December 31, 2003. In the opinion of management, these unaudited financial statements contain all adjustments necessary to fairly present the Company's financial position as of September 30, 2004 and its results of operations and its cash flows for the six months ended September 30, 2004.

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INTERNATIONAL STAR, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| ASSETS | September 30 2004 | December 31, 2003 |
|-----------------|----------------------|----------------------|
| | ----- | ----- |
| Current Assets: | | |
| Cash | \$ 6,370 | \$ 364,146 |

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| | | |
|--|-------------|-------------|
| Accounts Receivable | - | 23,805 |
| Inventories | - | 63,812 |
| Prepaid Legal Fees | 1,990 | 1,990 |
| | ----- | ----- |
| Total Current Assets | 8,360 | 453,753 |
| Mineral Assets: | | |
| Screened Ore | 2,600 | 2,600 |
| | ----- | ----- |
| Total Mineral Assets | 2,600 | 2,600 |
| Fixed Assets (Net of Depreciation) | 9,975 | 284,888 |
| Other Assets & Prepaid Rent | - | 28,402 |
| Goodwill | - | 64,472 |
| | ----- | ----- |
| Total Assets | \$ 20,935 | \$ 834,115 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable and accrued interest | \$ 36,156 | \$ 31,968 |
| Advances and Loans from officers with accrued interest | 49,392 | 49,392 |
| Accrued Compensation and Management Fees | 29,000 | 117,105 |
| | ----- | ----- |
| Total Current Liabilities | 114,548 | 198,465 |
| Long-term Liabilities: | | |
| Line of Credit and Accrued Interest | \$ - | \$ 84,206 |
| Note Payable | 250,000 | 250,000 |
| | ----- | ----- |
| Total Long-term Liabilities | 250,000 | 334,206 |
| Stockholders' Equity (Deficit): | | |
| Common Stock, \$.001 par value; authorized 100,000,000 shares; issued and outstanding 59,788,741 at September 30, 2004 and 60,042,227 at December 31, 2003 | \$ 59,790 | \$ 60,043 |
| Paid-In Capital | 2,242,535 | 2,295,282 |
| Accumulated Deficit | (2,645,938) | (2,053,881) |
| | ----- | ----- |
| Total Stockholders' Equity (Deficit) | (343,613) | 301,444 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity (Deficit) | \$ 20,935 | \$ 834,115 |
| | ===== | ===== |

See accompanying notes to the financial statements.

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INTERNATIONAL STAR INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

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| | Nine Months Ended Sept 30, 2004 | Nine Months Ended Sept 30, 2003 | Nine Months Ended Sept 30, 2004 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|
| Revenue: | \$ - | \$ 253,829 | \$ - |
| Total Revenue | - | 253,829 | - |
| Cost of Goods Sold: | | | |
| Materials & packaging | - | 91,538 | - |
| Total Cost of Goods Sold: | \$ - | \$ 91,538 | \$ - |
| Gross Profit | \$ - | \$ 162,291 | \$ - |
| Expenses: | | | |
| Mineral exploration & development costs | 189,979 | - | 28,379 |
| Interest expense | 11,363 | 7,392 | 2,794 |
| Professional fees | 43,462 | - | 22,520 |
| Management fees | 157,500 | 90,000 | 31,000 |
| Compensation | 89,000 | 99,320 | 89,000 |
| Depreciation & amortization | 1,197 | 15,378 | 399 |
| General & administrative | 56,186 | 162,971 | 13,556 |
| Total Expenses | 548,687 | 375,061 | 187,648 |
| Other Income (Expense) | | | |
| Loss on divestiture of subsidiary | (43,370) | - | - |
| Net Loss | \$ (592,057) | \$ (212,770) | \$ (187,648) |
| Weighted Average Shares Common Stock Outstanding | 57,732,798 | 31,836,237 | 59,122,074 |
| Net Loss Per Common Share (Basic and Fully Dilutive) | \$ (0.01) | \$ (0.01) | \$ (0.00) |

See accompanying notes to the financial statements.

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| | Nine Months Ended September 30, 2004 | Nine Months Ended September 30, 2003 |
|--|--|--|
| Cash Flows Used in Operating Activities: | | |
| Net Loss | \$ (592,057) | \$ (212,770) |
| Expenses Not Requiring an Outlay of Cash | | |
| Depreciation & Amortization | 1,197 | 15,378 |
| Loss on divestiture of subsidiary | 43,370 | - |
| Common stock issued for services | 60,000 | - |
| Net Cash used in Operations | (487,490) | (197,392) |
| Changes to Operating Assets and Liabilities: | | |
| (Increase) decrease in Accounts Receivable and Prepaids | 5,450 | 12,820 |
| (Increase) decrease in Inventories | - | (12,869) |
| Increase (decrease) in accounts payables and accrued interest | 4,189 | (66,936) |
| Increase (decrease) in accrued management fees / compensation | (2,300) | 151,800 |
| Cash Flows Used in Operating Activities | (480,151) | (112,577) |
| Cash Flows from Financing Activities: | | |
| Proceeds from sale of common stock | 122,375 | 76,600 |
| Repayment of line of credit | - | (15,410) |
| Increase in advances and loans from officers/affiliates | - | 15,000 |
| Cash Flows from Financing Activities | 122,375 | 76,190 |
| Net Increase (Decrease) in Cash | (357,776) | (36,387) |
| Cash at Beginning of Period | (364,146) | 39,684 |
| Cash at End of Period | 6,370 | 3,297 |
| Interest Paid | - | 8,259 |
| Income Taxes Paid | - | - |
| Supplemental Non-cash Financing Activities: | | |
| Cancellation of 4,000,000 shares originally issued to acquire Pita King Bakeries, Int'l | (236,000) | |
| Capital contributed for payment of interest | 7,500 | |

See accompanying notes to the financial statements.

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AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

A. BASIS OF PRESENTATION

The Interim financial statements of International Star, Inc. and Subsidiaries (the Company) for the nine months ended September 30, 2004 and 2003 are not audited. The financial statements are prepared in accordance with the requirements for unaudited interim periods, and consequently do not include all disclosures required to be in conformity with accounting principles generally accepted in the United States of America.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the Company's financial position as of September 30, 2004 and the results of operations and cash flows for the nine months ended September 30, 2004 and 2003.

The results of operations for the nine months ended September 30, 2004 and 2003 are not necessarily indicative of the results for a full year period.

B. SIGNIFICANT ACCOUNTING POLICIES

1. Principles of Consolidation and Accounting Methods

These consolidated financial statements include the accounts of International Star, Inc., and Qwik Track, Inc. (a wholly owned subsidiary) for the nine months ended September 30, 2004 and includes the accounts of International Star, Inc., Pita King, Bakeries International, Inc., and Qwik Trak, Inc. for the nine months ended September 30, 2003.

2. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Dividend Policy

The Company has not adopted a policy regarding the payment of dividends.

4. Mineral Properties and Equipment

The Company has expensed the costs of acquiring and exploring its properties during the periods in which they were incurred, and will continue to do so until it is able to determine that commercially

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recoverable ore reserves are present on the properties. If it determines that such reserves exist, it will capitalize further costs.

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5. Basic and Dilutive Net Income (Loss) Per Share

Basic net income (loss) per share amounts are computed based on the weighted average number of shares actively outstanding in accordance with SFAS NO. 128 "Earnings Per Share." Diluted net income (loss) per share amounts are computed using the weighted average number of common shares and common equivalent shares outstanding as if shares had been issued on the exercise of any common share rights unless the exercise becomes antidilutive and then only the basic per share amounts are shown in the report.

6. Comprehensive Income

The Company adopted SFAS No. 130, "Reporting Comprehensive Income", which requires inclusion of foreign currency translation adjustments, reported separately in its Statement of Stockholders' Equity, in other comprehensive income. Such amounts are immaterial and have not been reported separately. The Company had no other forms of comprehensive income since inception.

7. Stock Based Compensation

The Company has elected to follow Accounting Principles Board Opinion No.25 (APB 25) and related interpretations in accounting for its employee stock options. Under APB25, when the exercise price of employee stock options is equal to the estimated market price of the stock on the date of grant, no compensation expense is recorded. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (SFAS 123) with respect to employee stock options.

8. Income Taxes

The Company has adopted SFAS No. 109 "Accounting for Income Taxes". The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, all expected future events, other than enactment of changes in the tax laws or rates, are considered.

Due to the uncertainty regarding the Company's future profitability, the future tax benefits of its losses have been fully reserved and no net tax benefit has been recorded in these financial statements.

9. Fair Value of Financial Instruments

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, tax credit recoverable, reclamation bond, accounts payable and accrued liabilities, amount due to a director and loan payable.

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10. Recent Accounting Pronouncements

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The Company does not expect that the adoption of other recent account pronouncements will have a material effect on its financial statements.

11. Revenue Recognition

Revenue will be recognized on the sale and delivery of a product or the completion of a service provided.

12. Statement of Cash Flows

For the purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of nine months or less to be cash equivalents.

13. Financial and Concentration Risk

The Company does not have any concentration or related financial credit risk

C. DIVESTITURE OF PITA KING BAKERIES INTERNATIONAL, INC.

Effective January 1, 2004, the original shareholders of Pita King Bakeries, International Inc. and the management of International Star, Inc. (the Company) mutually agreed to dissolve their business relationship. Under terms of this dissolution, the original shareholders of Pita King Bakeries International, Inc. returned 4,000,000 shares of common stock to the Company and the Company agreed to forgive a \$35,000 loan made to Pita King Bakeries International, Inc. The original shareholders of Pita King Bakeries International, Inc. were allowed to retain 139,500 share of the Company's common stock which they had received as part of the original purchase of Pita King Bakeries International, Inc. by the Company. The Company has recognized a loss of \$43,370 on the divestiture of Pita King Bakeries International, Inc.

Item 2 - Management's Discussion and Analysis or Plan of Operation

Plan of Operation

We are an exploration stage company with no reserves or mining operations. The funding raised in November 2003 allowed us the opportunity to initiate the first significant exploration efforts on our properties since the limited sampling conducted in 1998 by AuRIC Metallurgical Laboratories which we believe warranted further investigation of the mineral potential of that property.

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Planning was finalized January 9, 2004 and Kokanee Placer, Inc. of White Rock, BC, a geological exploration company, began to execute the initial phase of an exploration program on our 1,280 acre Detrital Wash property, the results of which will dictate subsequent exploration phases, if found to be practical.

This initial work effort called for surface sampling of the property in a grid pattern at intervals of every 500 feet (in excess of 200 samples). We are currently evaluating the sample analysis along with Kokanee to determine the

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practicality of a second phase of exploration, what that plan would entail, if warranted, and the associated costs. When the evaluation process is complete, we intend to review the findings with Kokanee's lead geologist, announce the findings of our evaluation and either plan the second phase of exploration or direct our efforts elsewhere.

In July of 2004 we reached an agreement in principle with the holders of 131 placer association claims covering approximately 20,000 acres adjacent to and surrounding our Detrital Wash property. The agreement will grant us exclusive exploration rights on the claims, and first right of refusal for exclusive development rights in exchange for a 0.25% net smelter return payable to the claimholders. The agreement will require the company to expend a minimum of \$125,000 on exploration during a three-year period.

As previously announced, we have transitioned from one accounting firm to another, suspended further development of our Qwik Track subsidiary, dissolved our business relationship with the Pita King subsidiary and now believe we are positioned to focus all the Company's resources on the further development of our mineral interest in the Detrital Wash and Wikieup properties.

We have no credit lines or other sources of cash since we divested our Pita King subsidiary. Our cash balance at September 30, 2004 was \$6,370. However, In October, subsequent to the period covered by this quarterly report, we received a commitment for an additional \$225,000 in equity financing, of which we received \$75,000 on October 5th and expect to receive the balance in two installments during November and December, respectively. The funds will be used for exploration costs and for general and administrative expenses. The funds should sustain our current level of exploration activity through most of the next twelve months, after which we will need to obtain additional funding to continue our exploration activities. We will continue our efforts to obtain cash from borrowing, a sale of our common stock, or other means. We may consider a joint venture arrangement with an established resource company as well, although we currently have no specific prospects for such an arrangement.

Loss On Sale of Pita King Subsidiary

In June of 2004 we sold our Pita King Bakeries International, Inc. subsidiary back to its founding shareholders, giving effect to the sale as of January 1, 2004. 4,000,000 shares of our common stock were returned to us and cancelled, and we forgave \$35,000 in loans to the subsidiary. Our financial statements for the nine month period ended September 30, 2004 reflect a loss of \$43,370 recognized on the sale.

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Item 3 - Controls And Procedures

Evaluation of Disclosure Controls and Procedures

Within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. This evaluation was done under the supervision and with the participation of the Company's principal executive officer and principal financial officer. Based upon that evaluation, they concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

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Changes in Internal Controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls since the most recent evaluation of such controls.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

None.

Item 2 - Changes in Securities

During the three months ending on June 30, 2004, we issued and/or sold the securities listed in the table below without registration under the Securities Act of 1933.

No underwriters were involved in these transactions. Selling prices for the shares may have been discounted from then prevailing market prices to reflect the restricted status of the shares or the urgency of our need for capital. When shares were issued for property or services, in each instance the valuation of the property or services was based on the board of director's determination of the value received for the shares.

The securities were sold by our officers without the use of an underwriter. In effecting the sales, we relied on the exemption authority provided by Section 4(2) of the Securities Act of 1933, as amended, relating to sales not involving any public offering, and Regulation S, relating to securities sold in bona fide offshore transactions. We believe that all such sales were made by our executive officers in private, negotiated transactions without any advertising, public announcements or general solicitation. The purchasers of the shares represented themselves in writing to be, and we believe them to be, members of one or more of the following classes of purchaser:

- a. Officers, directors, promoters or control persons of the issuer;
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- b. Accredited investors, as defined in Rule 501 under Regulation D of the Securities Act;
 - c. Individuals who:
 - i. Are knowledgeable and sophisticated in investment matters;
 - ii. Are able to assess the risks of an investment such as in our securities;
 - iii. Are financially able to bear the risk of a loss of their entire investment; and
 - iv. Have access to pertinent information regarding the issuer and its operations.

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The shares are subject to the resale provisions of Rule 144 under the Securities Act of 1933, as amended, and may not be sold or transferred without registration except in accordance with that rule. Certificates representing the securities bear a legend to that effect.

| Date Issued | Class | Amount | Price | Number of Purchasers |
|-----------------|--------------|---------|-----------|----------------------|
| October 5, 2004 | Common Stock | 750,000 | \$0.10(1) | 2 |

(1) Issued for cash

Item 3 - Defaults Upon Senior Securities

None.

Item 4 - Submission of Matters to a Vote of Security Holders

None.

Item 5 - Other Information

None.

Item 6 - Exhibits and Reports on Form 8-K

We filed the following Current Reports on Form 8-K during the period:

| Date | Item(s) |
|----------|----------------|
| 09-15-04 | Item 7, Item 9 |

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The following exhibits are filed with this annual report:

Ex. 31.1 Certification of CEO
Ex. 31.2 Certification of CFO
Ex. 32.1 Certification of CEO
Ex. 32.2 Certification of CFO

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.

INTERNATIONAL STAR INC.

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November 15, 2004

Dated

/s/ Robert L. Hawkins

President

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