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INTERNATIONAL STAR INC
Form 10QSB
July 22, 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 June 30, 2003

[] 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 [] No [X]

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 57,788,741 shares of common stock outstanding at July 6, 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, 2002. In the opinion of management, these unaudited financial statements contain all adjustments necessary to fairly present the Company's financial position as of June 30, 2003 and its results of operations and its cash flows for the three months ended June 30, 2003.

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

	June 30, 2003	December 31, 2002
ASSETS	-----	-----
Current Assets:		
Cash	\$ 17	\$ 39,684

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Accounts Receivable	14,856	27,423
Inventories	57,658	48,250
Prepaid Legal Fees	1,990	1,990
	-----	-----
Total Current Assets	74,521	117,347
Mineral Assets:		
Screened Ore	2,600	2,600
	-----	-----
Total Mineral Assets	2,600	2,600
Fixed Assets (Net of Depreciation)	288,141	297,837
Other Assets & Prepaid Rent	28,958	29,514
Goodwill	64,472	64,472
	-----	-----
Total Assets	\$ 458,692	\$ 511,770
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued interest	\$ 69,065	\$ 83,009
Advances and Loans from officers with accrued interest	163,637	148,637
Accrued Compensation and Management Fees	345,631	242,431
	-----	-----
Total Current Liabilities	578,333	474,077
Long-term Liabilities:		
Line of Credit and Accrued Interest	\$ 92,065	\$ 101,487
	-----	-----
Total Long-term Liabilities	92,065	101,487
Stockholders' Equity:		
Common Stock, \$.001 par value; authorized 100,000,000 shares; issued and outstanding 36,050,737 at June 30, 2003 and December 31, 2002	\$ 36,051	\$ 36,051
Paid-In Capital	1,494,501	1,494,501
Accumulated Deficit	(1,742,258)	(1,594,346)
	-----	-----
Total Stockholders' Equity	(211,706)	(63,794)
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 458,692	\$ 511,770
	=====	=====

See accompanying notes to the financial statements.

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INTERNATIONAL STAR, INC.
(an Exploration Stage Company)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

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	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002	Three Months Ended June 30, 2003	J
Revenue:	\$ 152,892	\$ -	\$ 83,619	\$
Total Revenue	152,892	-	83,619	
Cost of Goods Sold:				
Materials & packaging	54,555	-	27,649	
Total Cost of Goods Sold:	\$ 54,555	\$ -	\$ 27,649	\$
Gross Profit	\$ 98,337	\$ -	\$ 55,970	\$
Expenses:				
Mineral exploration costs	-	1,158	-	
Interest expense	5,377	193	2,130	
Professional fees	-	12,081	-	
Management fees	60,000	45,000	30,000	
Compensation	65,008	-	29,652	
Depreciation & amortization	10,252	-	5,126	
General & administrative	105,612	27,035	50,411	
Total Expenses	246,249	85,467	117,319	
Net Loss	\$ (147,912)	\$ (85,467)	\$ (61,349)	\$
Weighted Average Shares Common Stock Outstanding	31,836,237	31,836,237	36,050,737	
Net Loss Per Common Share (Basic and Fully Dilutive)	\$ (0.00)	\$ (0.00)	\$ (0.00)	

See accompanying notes to the financial statements.

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INTERNATIONAL STAR, INC.
AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Cash Flows Used in Operating Activities:		

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	Net Loss	\$ (147,912)	\$ (85,467)
Expenses Not Requiring an Outlay of Cash			
	Depreciation & Amortization	10,252	-
	Net Cash used in Operations	\$ (137,660)	\$ (85,467)
Changes to Operating Assets and Liabilities:			
	(Increase) decrease in Accounts Receivable and Prepaids	12,568	(20)
	(Increase) decrease in Inventories	(9,408)	-
	Increase (decrease) in accounts payables and accrued interest	(13,945)	(3,632)
	Increase in accrued management fees / compensation	103,200	45,000
	Cash Flows Used in Operating Activities	(45,245)	(44,079)
Cash Flows from Financing Activities:			
	Repayment of line of credit	(9,422)	-
	Increase in advances and loans from officers/affiliates	15,000	44,896
	Cash Flows from Financing Activities	5,578	44,896
	Net Increase (Decrease) in Cash	(39,667)	817
	Cash at Beginning of Period	39,684	(837)
	Cash at End of Period	\$ 17	\$ (20)
	Interest Paid	\$ 6,244	\$ -
	Income Taxes Paid	\$ -	\$ -

See accompanying notes to the financial statements.

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INTERNATIONAL STAR, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

A. BASIS OF PRESENTATION

The Interim financial statements of International Star, Inc. and Subsidiaries (the Company) for the six months ended June 30, 2003 and 2002 are not audited. The financial statements are prepared in accordance with the requirements for

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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 March 31, 2003 and the results of operations and cash flows for the six months ended June 30, 2003 and 2002.

The results of operations for the six months ended June 30, 2003 and 2002 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., Pita King Bakeries International, Inc. (a wholly owned subsidiary) and Qwik Track, Inc. (a wholly owned subsidiary) for the six months ended June 30, 2003 and 2002.

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.

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

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

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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.

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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.

10. Recent Accounting Pronouncements

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 three months or less to be cash equivalents.

13. Financial and Concentration Risk

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

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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. We intend to focus on raising the funding necessary for further exploration on the Detrital Wash property. We believe the results of the limited sampling conducted in 1998 by AuRIC Metallurgical Laboratories warrant further investigation of the mineral potential of that property, but we currently lack financial resources to conduct adequate exploration to determine whether precious metals exist on the property in commercial quantities.

We have no credit lines or other sources of cash. From time to time we have met operating expenses by borrowing from our executive officers and accruing their expenses and management fees. We are currently out of cash and will have to obtain cash from borrowing, a sale of our common stock, or other means if we are to continue in business over the next twelve months, and we will need a substantial infusion of cash in order to conduct meaningful exploration activities on our properties. 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.

If we raise capital by selling our equity stock, the proportionate ownership of existing shareholders will be diminished (i.e., "diluted").

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Results from Discontinued Operations

Our operating results for the six months ended June 30, 2003 revenues of \$152,892 versus \$0 for the corresponding period in 2002. All of the increase is attributable to sales by our Pita King Bakeries International subsidiary, which we acquired in the fourth quarter of 2002. Inasmuch as we sold the Pita King subsidiary as of December 31, 2003 the results have no impact on our continuing operations.

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.

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.

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PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

None.

Item 2 - Changes in Securities

None.

Item 3 - Defaults Upon Senior Securities

None.

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

None.

Item 5 - Other Information

None.

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Item 6 - Exhibits and Reports on Form 8-K

We filed no Current Reports on Form 8-K during the period:

The following exhibits are filed herewith:

- 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.

July 22, 2004

Dated

/s/ Robert L. Hawkins

President, Chief Executive
Officer

