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INTERNATIONAL STAR INC
Form 10QSB
November 04, 2005

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2005

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, 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)

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 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

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

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State the number of shares outstanding of each of the issuer's
classes of common equity, as of the latest practicable date:

The Company had 205,885,210 shares of common stock
outstanding at September 30, 2005.

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

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, 2004. 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, 2005 and its results of operations and its cash flows for the three months and nine months ended September 30, 2005.

INTERNATIONAL STAR, INC.
AND SUBSIDIARIES
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | September 30, 2005 | December 31, 2004 |
|---|-----------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 70,466 | \$ 200,266 |
| Prepaid expenses | -- | 54,000 |
| Total Current Assets | 70,466 | 254,266 |
| Fixed Assets (Net of Depreciation) | 28,736 | 33,578 |
| Total Assets | \$ 99,202 | \$ 287,844 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current Liabilities: | | |
| Accounts payable and accrued interest | \$ 49,429 | \$ 1,275 |
| Accrued expenses | 16,239 | -- |
| Total Current Liabilities | 65,668 | 1,275 |
| Long-term Liabilities: | | |
| Note Payable | 250,000 | 250,000 |
| Total Long-term Liabilities | 250,000 | 250,000 |
| Stockholders' Equity (Deficit): | | |
| Preferred stock, undesignated par value; authorized | | |
| 20,000,000 shares, no shares issued and outstanding | | |
| Common Stock, \$.001 par value; authorized | | |

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| | | |
|--|-------------|-------------|
| 780,000,000 shares; issued and outstanding 207,337,104 and 193,286,223 at September 30, 2005 and December 31, 2004, respectively | \$ 207,338 | \$ 193,286 |
| Paid-In Capital | 3,379,800 | 2,886,931 |
| Accumulated Deficit | (3,803,604) | (3,043,648) |
| Total Stockholders' Equity (Deficit) | (216,466) | 36,569 |
| Total Liabilities and Stockholders' Equity | \$ 99,202 | \$ 287,844 |

See accompanying notes to the financial statements.

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

| | Nine Months Ended September 30, 2005 | Nine Months Ended September 30, 2005 | Three Months Ended September 30, 2005 | Three Sept |
|---|---|---|--|---------------|
| | ----- | ----- | ----- | ----- |
| Revenue: | \$ -- | \$ -- | \$ -- | \$ |
| Total Revenue | -- | -- | -- | |
| Gross Profit | \$ -- | \$ -- | \$ -- | \$ |
| Expenses: | | | | |
| Mineral exploration costs | 323,516 | 189,979 | 48,804 | |
| Interest expense | 11,250 | 11,363 | 3,750 | |
| Professional fees | 18,735 | 43,462 | 2,662 | |
| Compensation & management fees | 305,369 | 246,500 | 88,793 | |
| Depreciation & amortization | 4,842 | 1,197 | 1,614 | |
| General & administrative | 96,244 | 56,186 | 23,785 | |
| Total Expenses | 759,956 | 548,687 | 169,408 | |
| Net (loss) from operations | \$ (759,956) | \$ (548,687) | \$ (169,408) | \$ |
| Other Income (Expense): | | | | |
| Loss on divestiture of subsidiary | -- | (43,370) | -- | |
| Net (loss) | (759,956) | (592,057) | (169,408) | |
| Weighted Average Shares | | | | |
| Common Stock Outstanding | 197,618,615 | 173,198,694 | 204,681,548 | 17 |
| Net Loss Per Common Share (Basic and Fully Dilutive) | (0.00) | (0.00) | (0.00) | |

See accompanying notes to financial statements.

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INTERNATIONAL STAR INC. AND SUBSIDIARIES (An Exploration Stage Company)

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STATEMENTS OF CASH FLOWS
(Unaudited)

| | Nine Months Ended September 30, 2005 | Nine Months Ended September 30, 2005 | Three Months Ended September 30, 2005 |
|--|---|---|--|
| | ----- | ----- | ----- |
| Cash Flows Used in Operating Activities: | | | |
| Net Loss | \$ (759,956) | \$ (592,057) | \$ (169,408) |
| Adjustments to reconcile net (loss) to net cash provided by operating activities: | | | |
| Depreciation & Amortization | 4,842 | 1,197 | 1,614 |
| Loss in divestiture of subsidiary | -- | 43,370 | -- |
| Common stock issued for services | -- | 60,000 | -- |
| Changes to Operating Assets and Liabilities: | | | |
| (Increase) decrease in Accounts Receivable and Prepays | 54,000 | 5,450 | -- |
| (Increase) decrease in inventories | -- | -- | -- |
| (Increase) decrease in other assets | -- | -- | -- |
| (Decrease) increase in accounts payables and accrued interest | 48,154 | 4,189 | 15,541 |
| (Decrease) increase in accrued liability | 16,239 | (2,300) | 16,239 |
| Cash Flows Used in Operating Activities | (636,721) | (480,151) | (136,014) |
| Cash Flows from Investing Activities: | | | |
| Purchase of fixed assets | -- | -- | -- |
| Cash Flows from Investing Activities | -- | -- | -- |
| Cash Flows from Financing Activities: | | | |
| Proceeds from sale of common stock | 506,921 | 122,375 | 176,000 |
| Cash Flows from Financing Activities | 506,921 | 122,375 | 176,000 |
| Net Increase (Decrease) in Cash | (129,800) | (357,776) | 39,986 |
| Cash at Beginning of Period | 200,266 | 364,146 | 30,480 |
| Cash at End of Period | \$ 70,466 | \$ 6,370 | \$ 70,466 |
| Supplemental non-cash financing activities: | | | |
| Cancellation of 4,000,000 shares originally issued to acquire Pita King Bakery International | | (236,000) | |
| Capital contributed for payment of interest | | 7,500 | |

See accompanying notes to financial statements.

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INTERNATIONAL STAR, INC.
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

A. BASIS OF PRESENTATION

The interim financial statements of International Star, Inc. and Subsidiaries

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("we", "us", or the "Company") for the nine and three months ended September 30, 2005 and 2004 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, 2005 and the results of operations and cash flows for the nine and three months ended September 30, 2005 and 2004.

The results of operations for the nine and three months ended September 30, 2005 and 2004 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 and three months ended September 30, 2005 and 2004.

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 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

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C. Common Stock

On February 18, 2005, our Board of Directors approved a 3:1 forward split of its common stock. As a result of this plan, the shareholders of record of the Company as of February 22, 2005 received three shares of the Company's common stock in exchange for one share. The Company increased its authorized common shares to 780,000,000 at \$0.001 par value. The Company also authorized 20,000,000 shares of undesignated preferred stock. The weighted average shares outstanding and net loss per common share have been compiled as if the forward split had occurred at inception of the Company. The total outstanding shares of common stock prior to the forward split were 64,428,741 and after the 3:1 forward split the total number of shares outstanding were 193,286,223.

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

We are an exploration stage company with no reserves or mining operations. Since 1998 we have been embarked on the acquisition of mineral claims, principally in Mohave County, Arizona. We are currently focusing on raising the funding necessary for further exploration on our Detrital Wash property, located near Marker 22 in Mohave County. We believe the results of the limited sampling conducted in 1998 by AuRic Metallurgical Laboratories and completion of surface sampling program conducted by Kokanee Placer Ltd. warrant further investigation of the mineral potential of that property. In April of 2005, Zereko Nevada conducted a surface drilling program yielding sixty-eight samples on the Detrital Wash property from April 3, 2005 through April 7, 2005. Results of the sampling drilling program were consistent with previous samplings and indicated the need for further testing. During September, 2005, International Star entered into a drilling and sample testing contract with RMC, Ltd. for six holes to be drilled to a depth of 100 feet, and samples taken every 10 foot. Permits for the drilling program were issued, and the Surety Bond was paid to the BLM. Results of this testing were revealed in a press release on October 4, 2005. Those results will determine whether more testing is required (i.e., developing an inferred reserve), or if the property is viable for going directly into production. We cannot at this time state or guarantee what, if anything, these results might yield.

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Despite our history as a mineral exploration company, we have attempted other business ventures in our recent past. In October 2002, we acquired Pita King Bakeries International, Inc. ("PKBI"). On February 4, 2004 we announced a reorganization of the business and management of our company, and on June 1, 2004, we divested our interest in the PKBI subsidiary by selling the company back to its original shareholders, who mutually agreed with us to terminate our business relationship. Under terms of this dissolution, the original shareholders of PKBI returned 4,000,000 shares of our common stock, and we agreed to forgive a \$35,000 loan made to PKBI. The original shareholders of PKBI were further allowed to retain 139,500 share of our common stock which they had received as part of our original purchase of that subsidiary. We recognized a loss of \$99,472 on the divestiture of PKIB, but the reorganization helped us focus on our core business of the acquisition and exploration of mineral claims.

During 2005 we secured additional funding through private placements of our common stock. Kilpatrick Life Insurance Co. and associated individuals from Shreveport, Louisiana purchased 6,466,667 shares of our common stock for \$146,000. Additionally, we secured funding through private placements in the amount of \$360,922 for 5,084,478 shares of our common stock, for an aggregate raise of \$506,922 in consideration for 11,551,145 shares of our common stock.

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We have no credit lines or other sources of cash. We believe our current cash is sufficient to sustain our administrative overhead over the next several months, and to commence some limited exploration operations on our Detrital Wash and Wikieup properties. However, in order for us to significantly increase our exploration and acquisition activities, or to commence any type of production work, we will need to attract substantial additional capital through investment or other means. We currently plan to continue to pursue capital to expand our existing exploration activities, either through loans or private placements of our securities, or possibly entering joint venture arrangements with one or more substantial companies. However, there are no arrangements now in place to further fund our activities by any of these means, and the outcome of the discussions with other entities cannot be predicted. If we raise capital by selling our capital stock, the proportionate ownership of existing shareholders will be diluted, potentially substantially.

Item 3 - Controls And Procedures

Evaluation of Disclosure Controls and Procedures

Our Principal Executive Officer and Principal Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer have concluded that the company's current disclosure controls and procedures are effective to ensure that information required to be disclosed by the company in reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There was no change in the company's internal controls that occurred during the fourth quarter of the period covered by this report that has materially affected, or is reasonably likely to affect, the company's internal controls over financial reporting.

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PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

None.

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

During the three months ending on September 30, 2005, 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

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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;
- 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.

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 |
|-----------------|--------------|-----------|------------|----------------------|
| August 8, 2005 | Common Stock | 6,065,000 | \$0.02 (1) | 6 |
| August 10, 2005 | Common Stock | 235,000 | \$0.02 (1) | 1 |
| August 11, 2005 | Common Stock | 1,666,667 | \$0.03 (1) | 1 |

(1) Issued for cash

Item 3 - Defaults Upon Senior Securities

None.

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

None.

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Item 5 - Other Information

On July 21, 2005, International Star, Inc., announced the return to OTCBB listing status. In May of 2003, International Star (listed as ISRI on the OTCBB) was D-listed for failure to file timely reports with the SEC (Securities Exchange Commission). Since that time, International Star was listed for trading on the Pink Sheets as ISRI.PK until receiving a symbol change in February of 2005 to ILST.PK. Following the reorganization of the management team for International Star in January of 2004, STAR returned to a status of current filing with the SEC in July of 2004. In April of 2005, Propalo Enterprises started the due diligence process necessary to complete the Form 211 application which was filed in June of 2005. International Star is currently listed on the OTCBB as ILST.OB.

On September 1, 2005, the Board of Directors initiated a certified proxy vote for members of the Board of Directors for 2005 - 2006. The voting was facilitated by STALT, Inc. the duly authorized transfer agent and registrar for

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International Star, Inc., with the assistance of ADP Investor Communications Services. Results of the election were submitted to International Star on October 19, 2005, and promptly recorded with the Nevada Secretary of State. As a result of the election, the Board of Directors of International Star, Inc. consist of; Virginia K. Shehee, Denny Cashatt, Kamal Alawas, and Joe Therrell, Jr.

Item 6 - Exhibits

Exhibit

| No. | Description |
|------|--|
| 31.1 | Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith) |
| 31.2 | Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith) |
| 32.1 | Certification of Chief Executive Officer pursuant to pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith) |
| 32.2 | Certification of Chief Financial Officer pursuant to pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith) |

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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.

Dated: November 3, 2005

/s/ Denny Cashatt

President and Chief Executive Officer
(PRINCIPAL EXECUTIVE OFFICER)

Dated: November 3, 2005

/s/ Dottie Wommack McNeely

Acting Chief Financial Officer
(PRINCIPAL ACCOUNTING OFFICER)

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