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INTERNATIONAL STAR INC
Form 10QSB
July 26, 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, 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 September 30, 2003 and its results of operations and its cash flows for the nine months ended September 30, 2003.

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

| | September 30, 2003 | December 31, 2002 |
|-----------------|-----------------------|----------------------|
| ASSETS | ----- | ----- |
| Current Assets: | | |

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| | | | | |
|--|----|-------------|----|-------------|
| Cash | \$ | 3,297 | \$ | 39,684 |
| Accounts Receivable | | 14,604 | | 27,423 |
| Inventories | | 61,119 | | 48,250 |
| Prepaid Legal Fees | | 1,990 | | 1,990 |
| | | ----- | | ----- |
| Total Current Assets | | 81,010 | | 117,347 |
| Mineral Assets: | | | | |
| Screened Ore | | 2,600 | | 2,600 |
| | | ----- | | ----- |
| Total Mineral Assets | | 2,600 | | 2,600 |
| Fixed Assets (Net of Depreciation) | | 283,293 | | 297,837 |
| Other Assets & Prepaid Rent | | 28,680 | | 29,514 |
| Goodwill | | 64,472 | | 64,472 |
| | | ----- | | ----- |
| Total Assets | \$ | 460,055 | \$ | 511,770 |
| | | ===== | | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current Liabilities: | | | | |
| Accounts payable and accrued interest | \$ | 15,981 | \$ | 83,009 |
| Advances and Loans from officers with accrued interest | | 163,637 | | 148,637 |
| Accrued Compensation and Management Fees | | 394,231 | | 242,431 |
| | | ----- | | ----- |
| Total Current Liabilities | | 573,849 | | 474,077 |
| Long-term Liabilities: | | | | |
| Line of Credit and Accrued Interest | \$ | 86,077 | \$ | 101,487 |
| | | ----- | | ----- |
| Total Long-term Liabilities | | 86,077 | | 101,487 |
| Stockholders' Equity: | | | | |
| Common Stock, \$.001 par value; authorized 100,000,000 shares; issued and outstanding 37,520,737 and 36,050,737 at September 30, 2003 and December 31, 2002, respectively | \$ | 37,521 | \$ | 36,051 |
| Paid-In Capital | | 1,569,631 | | 1,494,501 |
| Accumulated Deficit | | (1,807,116) | | (1,594,346) |
| | | ----- | | ----- |
| Total Stockholders' Equity | | (199,964) | | (63,794) |
| | | ----- | | ----- |
| Total Liabilities and Stockholders' Equity | \$ | 459,962 | \$ | 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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| | Nine Months Ended Sept. 30, 2003 | Nine Months Ended Sept. 30, 2002 | Three Months Ended Sept. 30, 2003 |
|---|--|--|---|
| Revenue: | \$ 253,829 | \$ - | \$ 100,937 |
| Total Revenue | 253,829 | - | 100,937 |
| Cost of Goods Sold: | | | |
| Materials & packaging | 91,538 | - | 36,983 |
| Total Cost of Goods Sold: | \$ 91,538 | \$ - | \$ 36,983 |
| Gross Profit | \$ 162,291 | \$ - | \$ 63,954 |
| Expenses: | | | |
| Mineral exploration costs | - | 7,059 | - |
| Impairment of mineral lease | - | 400,000 | - |
| Interest expense | 7,392 | 193 | 2,015 |
| Professional fees | - | 12,081 | - |
| Management fees | 90,000 | 60,000 | 30,000 |
| Compensation | 99,320 | - | 34,312 |
| Research & development | - | 2,000 | - |
| Depreciation & amortization | 15,378 | - | 5,126 |
| General & administrative | 162,971 | 29,510 | 57,359 |
| Total Expenses | 375,061 | 510,843 | 128,812 |
| Net Loss | \$ (212,770) | \$ (510,843) | \$ (64,858) |
| Weighted Average Shares Common Stock Outstanding | 31,836,237 | 31,836,237 | 31,836,237 |
| 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.
(an Exploration Stage Company)
AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(Unaudited)

Nine Months

Nine Months

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| | Ended Sept. 30, 2003 ----- | Ended Sept. 30, 2002 ----- |
|--|----------------------------------|----------------------------------|
| Cash Flows Used in Operating Activities: | | |
| Net Loss | \$ (212,770) | \$ (510,843) |
| Expenses Not Requiring an Outlay of Cash | | |
| Mineral properties written off | | 400,000 |
| Depreciation & Amortization | 15,378 | - |
| | ----- | ----- |
| Net Cash used in Operations | \$ (197,392) | \$ (110,843) |
| Changes to Operating Assets and Liabilities: | | |
| (Increase) decrease in Accounts Receivable and Prepaids | 12,820 | (20) |
| (Increase) decrease in Inventories | (12,869) | - |
| Increase (decrease) in accounts payables and accrued interest | (66,936) | (3,857) |
| Increase in accrued management fees / compensation | 151,800 | 60,000 |
| | ----- | ----- |
| Cash Flows Used in Operating Activities | (112,577) | (54,680) |
| Cash Flows from Financing Activities: | | |
| Common stock issued for cash | 76,600 | - |
| Repayment of line of credit | (15,410) | - |
| Increase in advances and loans from officers/affiliates | 15,000 | 55,497 |
| | ----- | ----- |
| Cash Flows from Financing Activities | 76,190 | 55,497 |
| | ----- | ----- |
| Net Increase (Decrease) in Cash | (36,387) | 817 |
| Cash at Beginning of Period | 39,684 | (837) |
| | ----- | ----- |
| Cash at End of Period | \$ 3,297 | \$ (20) |
| | ===== | ===== |
| Interest Paid | \$ 8,259 | \$ - |
| | ===== | ===== |
| Income Taxes Paid | \$ - | \$ - |
| | ===== | ===== |

See accompanying notes to the financial statements.

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INTERNATIONAL STAR, INC.
(an Exploration Stage Company)
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

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SEPTEMBER 30, 2003

A. BASIS OF PRESENTATION

The Interim financial statements of International Star, Inc. and Subsidiaries (the Company) for the nine months ended September 30, 2003 and 2002 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 March 31, 2003 and the results of operations and cash flows for the nine months ended September 30, 2003 and 2002.

The results of operations for the nine months ended September 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 nine months ended September 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.

3. Dividend Policy

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

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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

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common equivalent shares outstanding as if shares had been issued on the exercise of any common share rights unless the exercise becomes antidultive 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.

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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

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cash equivalents.

13. Financial and Concentration Risk

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

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.

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

Results from Discontinued Operations

Our operating results for the nine months ended September 30, 2003 include revenues of \$253,829 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.

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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

Recent Sales of Unregistered Securities

During the fiscal quarter ending on September 30, 2003, 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. All of the shares sold were at prices, which reflected a discount from the then prevailing market prices. The discount reflected the restricted status of the shares. 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.

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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. 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;
- b. Accredited investors, as defined in Rule 501 under Regulation D of the Securities Act;
- c. Purchasers in bona fide overseas transactions, as defined in Rule 902 of Regulation S under the Securities Act; and
- d. 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 or Regulation S under the Securities Act of 1933, as amended, and may not be sold or transferred without registration except in accordance with the applicable rule. Certificates representing the securities bear a legend to that effect.

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| Date Issued | Class | Amount | Price | Number of Purchasers |
|----------------|--------------|-----------|--------|----------------------|
| Aug. 13, 2003 | Common Stock | 185,000 | \$0.10 | 2 |
| Aug. 13, 2003 | Common Stock | 1,000,000 | \$0.05 | 1 |
| Sept. 25, 2003 | Common Stock | 255,000 | \$0.02 | 2 |
| Sept. 25, 2003 | Common Stock | 30,000 | \$0.10 | 1 |

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

None.

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 23, 2004

Dated

/s/ Robert L. Hawkins

President, Chief
Exexutive Officer

