

INTERNATIONAL STAR INC  
Form 10-Q  
August 14, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2008

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-28861

INTERNATIONAL STAR, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

86-0876846  
(I.R.S. Employer  
Identification No.)

1818 Marshall Street, Shreveport, LA  
(Address of principal executive offices)

71101  
(Zip Code)

(318) 464-8687  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.).  
 Yes  No

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As of July 31, 2008, there were 273,762,274 shares of the registrant's Common Stock issued and outstanding.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if smaller reporting company)

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INTERNATIONAL STAR, INC.  
Form 10-Q  
For the Quarterly Period Ended June 30, 2008

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PART I

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-Q. 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, 2007. 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, 2008, and its results of operations and its cash flows for the six-month period ended June 30, 2008.

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

June 30, 2008

ASSETS	June 30, 2008	December 31, 2007
Current Assets:		
Cash	\$ 36,309	\$ 96,141
Total Current Assets	36,309	96,141
Property and Equipment (Net of accumulated depreciation)	10,836	12,535
Total Assets	\$ 47,145	\$ 108,676
<b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>		
Current Liabilities:		
Accounts payable	\$ 310,358	\$ 296,358
Accrued expenses	4,262	2,625
Total Current Liabilities	314,620	298,983
Long Term Note Payable – Related Party	500,000	225,000
Total Liabilities	814,620	523,983
Stockholders' Deficiency:		
Preferred Stock		
20,000,000 shares authorized,		
Undesignated par value – none issued	--	--
Common Stock		
780,000,000 shares authorized, at \$.001 par value;		
273,762,274 shares issued and outstanding at June 30, 2008	273,762	273,362
Capital in excess of par value	4,380,259	4,376,659
Deficit accumulated during the exploration stage	(5,421,496)	(5,065,328)
Total Stockholders' Deficiency	(767,475)	(415,307)
Total Liabilities and Stockholders' Deficiency	\$ 47,145	\$ 108,676

See accompanying notes to the financial statements.



INTERNATIONAL STAR, INC.  
AND SUBSIDIARIES  
(An Exploration Stage Company)  
STATEMENT OF OPERATIONS  
(Unaudited)

June 30, 2008

	Three months ended June 30,		Six months ended June 30,		January 1, 2004 (date of inception of exploration stage) to June 30, 2008
	2008	2007	2008	2007	
<b>Revenue:</b>					
Total Revenue	\$ --	\$ --	\$ --	\$ --	\$ --
<b>Expenses:</b>					
Mineral exploration costs	87,920	--	192,745	2,112	773,484
Professional fees	35,944	61,966	96,665	87,566	570,634
Compensation & management fees	10,490	19,500	20,188	19,500	1,400,596
Depreciation & amortization	850	850	1,700	1,700	12,972
General & administrative	13,778	953	35,338	31,285	436,754
Total Operating Expenses	(148,982)	(83,269)	(346,636)	(142,163)	(3,194,440)
Net (Loss) from Operations	\$ (148,982)	\$ (83,269)	\$ (346,636)	\$ (142,163)	\$ (3,194,440)
<b>Other Income and Expenses:</b>					
Interest income	\$ --	\$ 970	\$ 327	\$ 1,767	\$ 2,939
Interest expense	(5,655)	--	(9,858)		(64,011)
Loss on disposal of assets					(12,629)
Loss on divestiture of subsidiary					(99,472)
Total Other Income (Expense)	(5,655)	970	(9,531)	1,767	(173,173)
Net (Loss)	\$ (154,637)	\$ (82,299)	\$ (356,167)	\$ (140,396)	\$ (3,367,613)
<b>Weighted Average Shares</b>					
Common Stock Outstanding	273,762,274	273,631,013	273,562,274	272,674,974	
<b>Net Loss Per Common Share</b>					
(Basic and Fully Dilutive)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)	

See accompanying notes to the financial statements.





INTERNATIONAL STAR, INC.  
AND SUBSIDIARIES  
(An Exploration Stage Company)  
STATEMENT OF CASH FLOWS  
(Unaudited)

June 30, 2008

	Six months ended June 30,		January 1, 2004 (date of inception of exploration stage) to June 30, 2008
	2008	2007	
<b>Cash flows from operating activities:</b>			
Net (loss)	\$ (356,167)	\$ (140,396)	\$ (3,367,613)
<b>Adjustments to reconcile net loss to cash used in operating activities:</b>			
Depreciation & amortization	1,700	1,700	12,972
Loss on disposal of assets	--	--	12,629
Loss on divestiture of subsidiary	--	--	99,472
Common stock issued for services	4,000	--	211,500
<b>Changes to operating assets and liabilities:</b>			
(Increase) decrease in accounts receivable and prepaids	--	--	79,795
(Increase) decrease in inventories	--	--	63,812
(Increase) decrease in other assets	--	--	95,474
(Decrease) increase in accounts payables and accrued expenses	15,635	8,587	266,051
Net cash used in operating activities	(334,832)	(130,109)	(2,525,908)
<b>Cash flows from investing activities:</b>			
Purchase of fixed assets	--	--	(29,355)
Net cash provided by investing activities	--	--	(29,355)
<b>Cash flows from financing activities:</b>			
Proceeds from deposit	--	--	--
Repayments of long term borrowings	--	--	(25,000)
Proceeds from long term borrowings	275,000	--	525,000
Proceeds from sale of common stock	--	210,000	1,727,426
Net cash provided by financing activities	275,000	210,000	2,227,426
Net increase (decrease) in cash and cash equivalents	(59,832)	79,891	(327,837)
Cash and cash equivalents, beginning of period	96,141	3,260	364,146
Cash and cash equivalents, end of period	\$ 36,309	\$ 83,151	\$ 36,309

See accompanying notes to financial statements.



INTERNATIONAL STAR, INC.  
AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

A. BASIS OF PRESENTATION

The interim financial statements of International Star, Inc. and subsidiaries (the "Company") for the three and six months ended June 30, 2008 and 2007, 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 June 30, 2008, and the results of its operations and cash flows for the six months ended June 30, 2008.

The results of operations for the three and six months ended June 30, 2008, 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 fiscal year ended December 31, 2007. Qwik Track, Inc. has no assets and has not had any operations during the previous three years.

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 did not declare or pay any dividends during the quarters ended June 30, 2008 and 2007. There are no legal, contractual or other restrictions, which limit the Company's ability to pay dividends. Payment of future dividends, if any, on the Company's common stock, will be dependent upon the amounts of its future after-tax earnings, if any, and will be subject to the discretion of its Board of Directors. The Company's Board of Directors is not legally obligated to declare dividends, even if the Company is profitable. The Company has never paid any dividends on its common stock and has no plans to do so in the near future. Instead, the Company plans to retain any earnings to finance the development of its business and for general corporate purposes.

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 anti-dilutive and then only the basic per share amounts are shown in the report. At June 30, 2008, the Company had no common equivalent shares of stock outstanding.

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 the provisions of Statement of Financial Accounting Standards No. 123(R) – fair value reporting and related interpretations in accounting for its stock based compensation and stock option plans. Under this accounting standard, share-based awards are fair valued and the related stock compensation expense, when applicable, is reported in the current financial statements.

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 net operating losses have been fully offset by a valuation allowance.

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 accounting 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.

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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 shares 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 \$99,472 on the divestiture of Pita King Bakeries International, Inc.

D. COMMON STOCK

During the interim period ended June 30, 2008, the Company issued 400,000 shares of common stock. During the interim period ended June 30, 2007, the Company issued 15,937,721 shares of common stock for \$210,000 cash and a \$20,000 deposit that the Company had received prior to December 31, 2006. There were no outstanding stock warrants or stock options at June 30, 2008. The Company entered into an employment agreement effective April 1, 2008 whereby the Company would issue two separate option agreements to the Company president. The first option agreement would have allowed the Company president to purchase up to 5,000,000 shares of the Company common stock at \$.01 per share and the second option agreement would have allowed the Company president to purchase up to 5,000,000 shares of the Company common stock at \$.03 per share. The vesting of the option agreements were to be based upon performance incentives to be determined by the Board of Directors. The employment agreement was amended on August 13, 2008, to allow the Company to issue stock options for an aggregate of 10,000,000 shares of common stock of the Company on such dates and according to such terms as designated by the Board of Directors of the Company.

E. LONG TERM NOTE PAYABLE – RELATED PARTY

The Company entered into a loan agreement with Kilpatrick's Rose-Neath Funeral Homes, Crematorium and Cemeteries, Inc. on December 3, 2007. This company is controlled through ownership by a shareholder/director of International Star, Inc. Under terms of the agreement, the Company has an available credit line balance of \$500,000 with interest accruing at 6% per annum. The interest is due and payable on a quarterly basis (every three months). The loan is collateralized by a security interest to the above mentioned lender in the amount of 51% interest in the mineral rights of all mining claims owned by or having an interest in now or in the future in the Detrital Wash and Wikieup properties located in Mohave County, Arizona, along with any future claims acquired by the Company. At June 30, 2008, the Company had borrowed \$500,000 under the terms of this loan agreement. The principal amount borrowed, together with accrued interest, is due and payable on December 3, 2010.

F. GOING CONCERN

The Company will need additional working capital for its future planned activity and to service its debt, which raises substantial doubt about its ability to continue as a going concern. Continuation of the Company as a going concern is dependent upon obtaining sufficient working capital to be successful in that effort. The management of the Company has developed a strategy, which it believes will accomplish this objective, through additional loans, and equity

funding, which will enable the Company to operate for the coming year.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### GENERAL

#### Cautionary Note Regarding Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that reflect our management's current views with respect to future events and financial performance. Those statements include statements regarding our intent, belief or current expectations, and those of members of our management team, as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by us throughout this Quarterly Report, as well as in our other reports filed by us with the Securities and Exchange Commission ("SEC"). Important factors currently known to management could cause actual results to differ materially from those in forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results over time. We believe that our assumptions are based upon reasonable data derived from and known about our business and operations. No assurances are made that actual results of operations or the results of any future activities will not differ materially from our assumptions.

Since our trading shares are classified as "penny stocks", we are not entitled to rely upon the "safe harbor" provisions adopted by the SEC under the Securities Exchange Act of 1934 (the "Exchange Act") with respect to forward-looking statements. Nevertheless, investors are urged to give serious consideration to those factors which we have identified as outside of our control, and the consequences to us and our investors if our anticipated results do not come to pass as expected as a result of material deviations which may occur from the assumptions we have relied upon in making forward-looking statements.

#### Our Business

We were organized under the laws of the State of Nevada on October 28, 1993, as Mattress Showrooms, Inc. In 1997, we changed our corporate name to International Star, Inc. and became engaged in the business of construction, sale and operation of state of the art waste management systems, specializing in turnkey systems for management of hospital, industrial, petroleum, chemical and municipal solid waste collection systems. Despite our efforts, we were unable to develop this business beyond the start-up stage. Following our unsuccessful venture in waste management, we refocused our business efforts on mineral exploration in 1998. Currently, we are primarily engaged in the acquisition and exploration of precious and base metals mineral properties. Since 1998, we have examined various mineral properties prospective for precious and base metals and minerals and have acquired interests in those we believe may contain precious and base metals and minerals. Our properties are located in Arizona. Although we have confirmed the existence of mineralization in some of our properties, we have not established that any of our properties contain reserves. A reserve is that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Further exploration will be needed before a final determination can be made whether any mineral extraction on our property is economically and legally feasible. Therefore, at present we have no reserves and no income from mineral production.

The business of mineral exploration is inherently speculative and involves a number of general risks which could materially adversely affect our results of operation and financial condition, including among others, the rarity of commercial mineral deposits, environmental and other laws and regulations, physical dangers to personnel associated

with exploration activity, and political events.

There is generally no way to recover any of the funds expended on exploration unless the company establishes the existence of mineable reserves and then exploits those reserves by either commencing mining operations, selling or leasing its interest in the property, or entering into a joint venture with a larger resource company that can develop the property to the production stage. Unless we can establish and exploit reserves before our funds are exhausted, we will have to discontinue operations, which could make our stock valueless.

Reserves, by definition, contain mineral deposits in a quantity and in a form from which the target minerals may be economically and legally extracted or produced. We have not established that such reserves exist on our properties, and unless and until we do so, we will not have any income from our mineral operations.

Our directors and executive officers lack significant experience or technical training in exploring for precious metal deposits and developing mines. Accordingly, our management may not be fully aware of many of the specific requirements related to working within this industry. Their decisions and choices may not take into account standard engineering or managerial approaches that mineral exploration companies commonly use. Consequently, our operations, earnings, and ultimate financial success could suffer irreparable harm due to our management's lack of experience in the mining industry. We have aligned our Company with reputable, knowledgeable experts in the mining industry to overcome this lack of experience and expertise.

Any changes in government policy may result in changes to laws affecting ownership of assets, land tenure, mining policies, taxation, environmental regulations, labor relations, or other factors relating to our exploration activities. Such changes could cause us to incur significant unforeseen expenses of compliance or even require us to suspend our activities altogether.

Our directors and executive officers own a significant amount of our voting capital common stock, and accordingly, exert considerable influence over us. As of June 30, 2008, our directors and executive officers beneficially owned common stock which would equal in the aggregate approximately 22.52% of the voting power of our outstanding common stock. As a result, these stockholders are potentially able to significantly influence the decision on all matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions. This concentration of ownership could also delay or prevent a change in control that may be favored by other stockholders.

#### Going Concern

We have incurred substantial operating and net losses, as well as negative operating cash flow, since our inception. Accordingly, we continued to have significant stockholder deficits and working capital deficits during the year ended December 31, 2007, as further explained in our Annual Report on Form 10-KSB for the year ended December 31, 2007. In recognition of these trends, our independent registered accountants included cautionary statements in their report on our financial statements for the year ended December 31, 2007, that expressed "substantial doubt" regarding our ability to continue as a going concern. Specifically, our independent accountants have opined that the continuation of our Company as a going concern is dependent upon obtaining sufficient working capital to be successful in that effort.

Our ability to continue as a going concern is dependent on obtaining additional working capital. Our management is in the process of developing a long-term strategy to accomplish this objective through additional equity funding and long-term financing. However, we cannot assure that we will be able to obtain such additional equity or debt financing.

#### Our Properties

We currently hold interests in two properties that we believe show potential for mineral development. Both properties are unpatented mining claims located on federal public land managed by the United States Department of Interior, Bureau of Land Management ("BLM"). We are obligated to pay a maintenance fee of \$125 per claim per year to the BLM.

Unpatented mining claims are “located” or “staked” by individuals or companies on particular parcels of federal public land upon which the individual or company asserts the right to extract and develop a mineral deposit. Mining claims may be one of two types: lode and placer. Lode claims are claims on land where mineral deposits have been discovered encased in or surrounded by hard rock, such as veins, fissures, lodes and disseminated ore bodies. Placer claims are claims upon land containing deposits of loose, unconsolidated material, such as gravel beds, or containing certain consolidated sedimentary deposits lying at the surface. Federal law limits each lode claim to no more than 1,500 feet along the length of the deposit and no more than 300 feet to either side of the center line of the deposit. A placer claim may be up to 20 acres for a single individual or corporation, and up to as many as 160 acres for an association of at least eight owners.

If the statutes and regulations for the location and maintenance of a mining claim are complied with, the locator obtains a valid possessory right to the contained minerals. Failure to pay maintenance fees may render the mining claim void or voidable. We believe we have valid claims, but, because mining claims are self-initiated and self-maintained, it is impossible to ascertain their validity solely from public real estate records. If the government challenges the validity of an unpatented mining claim, we would have the burden of proving the present economic feasibility of mining minerals located on the claims.

Property title uncertainties exist in the mining industry. We believe that we have good title to our properties; however, defects in such title could have a material adverse effect on us. We have investigated our rights to explore, exploit and develop our various properties in manners consistent with industry practice, and except as described below, to the best of our knowledge, those rights are in good standing. However, we cannot assure that the title to our properties will not be challenged or impugned by third parties or governmental agencies or that third parties have not staked claims, or will not in the future stake claims, on lands for which we believe we have good title to existing claims. In addition, we cannot assure that the properties in which we have an interest are not subject to prior unregistered agreements. Any such undetected defects could cause us to lose our rights to the property or to incur substantial expense in defending our rights.

We have reason to believe that a third party may have staked lode claims on several of our existing placer claims in our Detrital Wash property (described below). We are currently in the process of ascertaining our rights with respect to these properties.

Detrital Wash, Mohave County, Arizona Property

#### Property and Location

Our Detrital Wash property (the “Detrital Wash Property”) consists of approximately 21,000 acres of land located approximately 56 miles from Las Vegas, Nevada, and 22 miles south of the Hoover Dam on U.S. Highway 93, Mohave County, Arizona. The property is easily accessed by partially paved entry off Highway 93 and has availability to electricity and water.

The Detrital Wash Property is comprised of both placer and lode mining claims. In March 1998, we entered into a mineral lease with James R. Ardoin for eight placer claims located one mile east of mile marker 22 on Highway 93, lying in Section 36, Township 28 North, Range 21 West, Mohave County, Arizona. The lease does not require any minimum payments, and charges a royalty of 2% of net smelter returns (“NSR”). The term of the lease is for 20 years with an option to renew for an additional, successive 20-year term.

In July 2004, we entered into an exploration rights agreement with the holders, some of whom were then directors or officers of the Company, of 131 placer association claims covering approximately 20,000 acres adjacent to and surrounding our original eight claims. The agreement granted us exploration rights on the claims, and first right of refusal to enter into a mineral lease agreement in exchange for a 0.25% NSR payable to the claimholders should the Company bring the property into production. The agreement required us to expend a minimum of \$125,000 on exploration during the three-year period following the execution of the exploration agreement and to maintain the claims in good standing by paying the required maintenance fees to the BLM. We are currently exploring options to obtain clear title to these claims.

These 20,000-plus acres of placer claims cover the Detrital Wash drainage as well as areas of the surrounding Black Mountains and White Hills in northwestern Arizona. The Detrital Wash area is composed of alluvial materials eroded and deposited from the surrounding mountains as well as from upstream to the south and west. Based on the presence

of gold and silver producing mines in the Black Mountains and the White Hills, we believe placer deposits of precious metals may exist on the Detrital Wash Property. We cannot assure that we will discover such deposits or that, if such deposits are discovered, we will be able to commercially produce such mineral deposits.

Our Detrital Wash Property also consists of 430 lode claims located along the western front of the White Hills. These lode claims have been converted from our existing placer claims based on the existence of mineralization in the bedrock. The lode claims cover known and anticipated northerly extensions of veins found in the White Hills and mineralized structures to the south.

In 2007, we paid an aggregate of \$16,875 in maintenance fees to the BLM for the Detrital Wash Property.

#### Operations

We are aggressively pursuing a program to increase our land holdings in the Detrital Wash area by adding new lode claims and converting placer claims to lode claims where mineralization occurs in the bedrock. In addition, we currently have engaged consultants who have developed and implemented a program of testing geological samples from the property for mineralization and mapping the existing geology. We plan to extend this sampling and geology mapping program to any new claims added to our inventory as well as surrounding areas of interest we believe may contain valuable mineralization.

The initial assay results of this program support historical records obtained by the Company of significant copper and molybdenum mineralization in both the Black Mountains and Northern White Hills areas of the Detrital region. Based on these results, we are currently working with our consultants to plan and implement the next phase of our exploration program to further assess under industry standards the mineral potential of our properties. See “GENERAL – Plan of Operation.”

#### Wikieup, Arizona Property

##### Property and Location

Our Wikieup property (the “Wikieup Property”) consists of 42 lode claims located approximately three miles west of U.S. Highway 93 in Section 36, Township 16N, Range 14W in the Hualapai Mountain Range at Wikieup, Arizona. These claims comprise approximately 840 acres of mountainous terrain. The property is easily accessible by paved and dirt roads west of Wikieup, Arizona, from U.S. Highway 93 and has nearby access to electricity and water.

The Hualapai Mountain Range consists of pre-cambrian gneiss and schist that has locally been intruded by quartz monzonite and granitic rocks of probable Laramide age. Laramide age intrusives are traditionally one of the primary host rocks for Arizona porphyry copper deposits. Notable ore deposits and mines nearby are the Oatman Mining District to the northwest and the Bagdad open pit copper mine to the southeast of this area.

We purchased the Wikieup claims from Gold Standard Mines, Inc. in March 2001 in exchange for which we issued 1,000,000 shares of our restricted common stock having an aggregate value of \$400,000 as of the date of the acquisition. We received from Gold Standard Mines a notarized quitclaim deed granting us all rights, interest and title to 51 lode mining claims. The deed was subsequently recorded at the United States Bureau of Land Management office in Phoenix, Arizona, and at Mohave County in Kingman, Arizona.

In 2007, we paid an aggregate of \$5,250 in maintenance fees to the BLM for the Wikieup Property.

#### Operations

Due to our limited financial resources, we do not currently have plans to engage in development activities on the Wikieup Property during 2008. However, should adequate financing become available, management may implement

an aggressive campaign to identify through accepted geological processes any mineralization occurring on our Wikeiup claims.



## Financial Condition and Results of Operations

We have incurred substantial net losses since our inception as an exploration stage company. Our ability to generate revenue is dependent on our ability to establish the existence of mineral reserves on our properties. We have not generated any revenue during any period since the date of our inception, and unless and until we establish that such reserves exist, we will not have any revenue from our mineral operations. Our current management has engaged consultants who have developed an exploration plan involving various methods of geochemical and geophysical testing, in compliance with industry standards, to determine whether mineral reserves exist on our properties. We have implemented an initial mapping and sampling phase of this plan that included assaying of collected geological samples. We believe the assay results from this initial phase justify implementation of further phases of this exploration plan. See “– GENERAL – Plan of Operation.” However, further implementation of this plan is dependent on our obtaining additional debt or equity financing. We cannot guarantee that we will obtain such financing on terms that will be favorable to us or at all, or, even if such financing is obtained, that we will determine that mineral reserves exist or that we will be able to commercially exploit any reserves found on our properties.

As of June 30, 2008, our total assets are \$47,145, consisting of \$36,309 in cash and \$10,836 in property and equipment, net of depreciation. Our total assets at December 31, 2007, were \$108,676, consisting of \$96,141 in cash and \$12,535 in property and equipment, net of depreciation. The \$61,531 decrease in our total assets during the six months ended June 30, 2008, is primarily due to a reduction in our cash resulting from our operating and compliance expenses during the interim period. These expenses have been largely comprised of costs associated with the development and implementation of our current mineral exploration program for our Detrital Wash claims.

Our total liabilities as of June 30, 2008, are \$814,620, an increase of \$290,637 over total liabilities at December 31, 2007, of \$523,983. This increase is attributable to our borrowing an additional \$275,000 on our existing line of credit to fund our exploration activities and general operating and compliance costs during the period, along with a \$14,000 increase in our accounts payable. See “– GENERAL – Financing” for a discussion of our line of credit.

Our net loss for the six months ended June 30, 2008, was \$356,167, compared to a net loss of \$140,396 during the six-month period ended June 30, 2007, an increase of 253.69%. The substantial increase in our net loss for the six months ended June 30, 2008, over the same period for 2007 was due primarily to costs associated with the development and implementation of our current mineral exploration program for our Detrital Wash mining claims. Mineral exploration costs expense for the six-month period ended June 30, 2008, which included expenses related to geological sampling and mapping activities and assays performed on the samples taken from our properties, was \$192,745, compared to \$2,112 for the same period of 2007.

Professional fees expense increased by \$9,099, or 10.40%, from \$87,566 during the first six months of 2007, to \$96,665 during the first six months of 2008. We also incurred a \$4,053, or 12.96%, increase in general and administrative costs to \$35,338 during the six months ended June 30, 2008, compared to \$31,285 during the six months ended June 30, 2007. The increases in professional fees expense and general and administrative expense are attributable primarily to the development and implementation of our current exploration program and regulatory compliance costs. There was no material change in compensation and management fees expense or in depreciation and amortization expense during the six-month period ended June 30, 2008, as compared to June 30, 2007.

During the first six months of 2008, we incurred interest expense of \$9,858 as a result of interest accruing on our line of credit obtained from Kilpatrick’s Rose-Neath Funeral Homes, Crematorium and Cemeteries, Inc. in December 2007. See “– GENERAL – Financing.” We had no interest expense during the same period in 2007. Our interest income during the first six months of 2008 was \$327, compared to interest income of \$1,767 during the first six months of 2007.

## Plan of Operation

Over the next twelve months, we intend to focus on obtaining financing necessary to add additional claims that may hold commercial mining value for further exploration of both the Detrital Wash Property and, should funding be available, the Wikieup Property, and to continue our efforts to assess the commercial viability of mineral extraction from potential deposits on these properties and the establishment of precious and base metal reserves.

With respect to our Detrital Wash Property, we are aggressively seeking to add new lode claims and convert placer claims to lode claims where mineralization occurs in the bedrock. We have currently engaged consultants who are conducting a program of testing geological samples for the existence of minerals and mapping the existing geology. We intend to extend this sampling and geology program to any new claims added to our inventory and to surrounding areas of interest anticipated to contain valuable mineralization.

During the quarter ended June 30, 2008, we obtained historical records created in connection with substantial exploration conducted in the Northern Black Mountains, where a portion of our Detrital mining claims are located, by various mining companies from the 1960's through the 1980's. Work completed by these companies included soil sampling, stream sampling, rock sampling and drilling, bouguer gravity surveys, and resistivity and IP surveys.

The historical soil, sediment and rock sampling data obtain by the Company indicated copper and molybdenum mineralization on the property in the form of projected and drilled areas of chalcocite mineralization. Our geologist and engineering consultants have developed an exploration program designed to re-evaluate this historical data under National Instrument 43-101 industry standards. We have implemented and obtained results from an initial phase of this program, and we are currently working on preparations to implement the next phase of the program.

As part of the initial phase of our current exploration program, 252 assays were performed by Mountain States R&D International, Inc., an Arizona registered and licensed lab, on samples taken from our Detrital Wash claims. Results of these assays support the historical data indicating significant copper (Cu) and molybdenum (Mo) mineralization in both the Black Mountains and Northern White Hills areas of the Detrital region.

The assays report that copper values of the rock samples collected range from 25 ppm to 6.10% Cu. There were thirteen samples above 1.0% Cu, seventeen samples with values between 0.10% Cu and 0.99% Cu, and one soil sample at 0.081% Cu. The remainder of the rock and soil samples ranged from 25 ppm Cu to 599 ppm Cu. The molybdenum values from rock and soil samples range from nine samples below detection limit of 1 ppm Mo to 906 ppm Mo. Anomalous silver, lead and arsenic are also present in samples from the property.

Due to budget constraints, we did not assay the samples for gold mineralization. However, our existing claim block consists of several former gold mines, and the historical data we have obtained indicates mineralization of gold in the area. We intend to test for gold mineralization in future assays of samples taken from this area. We cannot provide assurance, however, that mineralization of gold will be confirmed by future assays or that any mineralization determined by the recent or future assays will be sufficient to establish the existence of precious or base mineral reserves on our properties.

Based on these initial assay results, we are working with our geologist and engineering consultants on planning and implementation of our next phase of geological testing to determine the mineral potential of these properties and the viability of extracting any mineral reserves discovered. This phase will include assaying over 200 additional samples, which were collected during our initial sampling phase, for the existence of copper, molybdenum, silver and gold mineralization. This next phase will also involve conducting geophysical probing and scanning of areas where mineralization is shown to exist by our recent assay results. If these activities further indicate the potential existence of significant mineralization on our properties, we intend to conduct subsequent testing to determine whether such mineralization is of sufficient quantity to establish mineral reserves. If our subsequent exploration activities indicate the existence of mineral reserves on our properties, management intends to pursue a means to exploit those reserves by either commencing mining operations, selling or leasing our interest in the property, or entering into a joint venture with a larger resource company to develop the property to the production stage.

Implementation and completion of our planned second phase of our exploration program and our additional exploration activities are dependent on our obtaining funding through additional debt or equity financing. We are actively pursuing means to secure additional capital through debt or equity financing to fund our future operations. We cannot guarantee that we will obtain such financing on terms that will be favorable to us or at all. We also cannot assure, even if such financing is obtained, that we will determine that mineral reserves exist on our properties or that we will be able to commercially exploit any such reserves. Our ability to establish and exploit any reserves of precious or base minerals found on our properties will depend, in part, on factors beyond our control,

including technological capabilities in the mining industry and the current market price of any minerals discovered.

As of the date of this Quarterly Report, we do not plan to conduct development activities on the Wikieup Property during 2008. However, should adequate financial resources become available, we may aggressively pursue a program to identify any mineralization occurring on the Wikieup Property. See “– GENERAL – Our Properties.”

Due to our limited financial resources, we do not anticipate any purchase or sale of property, plant, or other significant equipment, and we do not expect any significant changes in the number of our employees. However, employees, consultants and expertise will be added to the Company as management deems necessary and when financing permits.

#### Financing

We do not have any revenues and continue to be dependent on debt and equity financing to meet our immediate cash needs. We continue to pursue means to expand our exploration activities, either by seeking additional capital through loans or private placements of our securities, or by entering into joint venture or similar arrangements with one or more other, more substantial companies.

On December 3, 2007, we obtained a \$500,000 revolving line of credit from Kilpatrick's Rose-Neath Funeral Homes, Crematorium and Cemeteries, Inc. ("KRFH"). The line of credit carries simple interest at the rate of 6% per annum. All unpaid principal and accrued interest is due on December 2, 2010 (the "Maturity Date"). Until the Maturity Date, we are only required to pay interest, with the first such payment due in arrears on June 3, 2007, and then with additional payments every 90 days thereafter. At any time, KRFH can demand immediate repayment of the outstanding balance on the line of credit with ten days notice. Any payments due from us that are not paid within ten days of the due date are subject to late fee of 5%. We have the right to prepay any amounts due KRFH at any time without penalty.

We have used the line of credit to fund our operating and compliance costs during the first and second quarters of 2008 and plan to continue using proceeds from the line of credit to fund our operating and compliance costs during the third quarter of 2008. In the event we are unable to achieve sufficient revenues to fund our operating and compliance costs beyond the remaining proceeds of our line of credit or to fund our repayment of the line of credit, we will need to raise such funds through debt and equity financings. We can provide no assurance that we will be able to raise the funds necessary on terms favorable to us or at all. If we raise capital by selling our equity stock, the proportionate ownership of existing shareholders will be diluted.

The line of credit is secured by a 51% interest in our Detrital Wash Property and Wikieup Property and in any future claims acquired by us, as well as all proceeds and products from such properties (collectively, the "Collateral"). In the event we default, KRFH may institute legal action against us and foreclose against the Collateral. In such event, KRFH would be entitled to its collection costs, including attorney fees and courts costs.

Our Chairman of the Board, Ms. Virginia Shehee, may be deemed the beneficial owner of over 50% of the outstanding shares of KRFH due to the voting power she has obtained pursuant to a voting agreement. Due to the voting power she has obtained pursuant to a similar voting agreement, Ms. Shehee may also be deemed the beneficial owner of over 50% of the outstanding shares of Kilpatrick Life Insurance Company, one of our major shareholders. The Kilpatrick Life Insurance Company employs Ms. Shehee as its President and Chief Executive Officer and Ms. Jacquelyn Wine as its Assistant Secretary/Treasurer. Ms. Wine is our Secretary, Treasurer/Chief Financial Officer and one of our directors.

During our fiscal year ended December 31, 2007, we secured additional funding through the private placement of our restricted common stock shares at prices ranging from \$0.012 to \$0.035 per share. In the aggregate, we sold 15,668,982 restricted common stock shares during our fiscal year 2007 for a net purchase price of \$210,000. We believe the issuances were exempt from registration under Section 4(2) of the Securities Act. During the three months ended June 30, 2008, we did not secure any additional funding through the issuance of our common stock.

In addition, certain of our directors have from time to time advanced funds to our Company for the payment of operating expenses. These advances have been repaid in cash and through the issuance of restricted shares of our common stock. There were no amounts owing to the Company's directors at December 31, 2007 or 2006, or at June

30, 2008. During the three- and six- month periods ended June 30, 2008, our directors did not advance any funds to the Company.

## LIQUIDITY

## Liquidity and Capital Resources

	Six months ended June 30,	
	2008	2007
Net cash used in operating activities	\$ (334,832)	\$ (130,109)
Net cash provided by investing activities	—	—
Net cash provided by financing activities	275,000	210,000

## General

Overall, we had negative cash flows of \$59,832 for the six months ended June 30, 2008, resulting from \$334,832 used in our operating activities and \$275,000 provided by our financing activities. No cash was provided by our investing activities during the six months ended June 30, 2008. For the six months ended June 30, 2007, we had positive cash flows of \$79,891. The decrease in cash flows for the six-month period ended June 30, 2008, over the same period in 2007 reflects a \$215,771 increase in our net loss for the interim period in 2008 over the interim period in 2007 primarily as a result of costs associated with the development and implementation of the initial phase of our current mineral exploration program.

## Cash Used in Our Operating Activities

For the six-month period ended June 30, 2008, net cash used in our operating activities of \$334,832, an increase of \$204,723 from the same period in 2007, was due primarily to expenses associated with our increased mineral exploration activities, and to a lesser degree, expenses for professional services and general and administrative expenses.

## Cash Provided by Our Financing Activities

Net cash provided by our financing activities of \$275,000 during the six-month period ended June 30, 2008, was comprised of cash provided by proceeds from a line of credit we obtained in December 2007. This reflects an increase of \$65,000 as compared to net cash provided by financing activities during the six months ended June 30, 2007. Net cash provided by financing activities during the first six months of 2007 resulted from proceeds from the sale of our common stock.

## Internal Sources of Liquidity

For the six-month period ended June 30, 2008, the funds generated from our operations were insufficient to fund our daily operations. We can provide no assurance that funds from our operations will meet the requirements of our daily operations in the future. In the event that funds from our operations are insufficient to meet our operating requirements, we will need to seek other sources of financing to maintain liquidity.

## External Sources of Liquidity

We continue to pursue all potential financing options as we look to secure additional funds to both stabilize and grow our business operations. Our management will review any financing options at their disposal, and will judge each potential source of funds on its individual merits.

On December 3, 2007, we obtained a \$500,000 revolving line of credit from Kilpatrick's Rose-Neath Funeral Homes, Crematorium and Cemeteries, Inc. ("KRFH"). During the six-month period ended June 30, 2008, we have used the line of credit to fund our operating and compliance costs. We plan to continue using proceeds from the line of credit to fund our operating and compliance costs during the third quarter of 2008. In the event we are unable to achieve sufficient revenues to fund our operating and compliance costs beyond the remaining proceeds of our line of credit or to fund our repayment of the line of credit, we will need to raise such funds through debt and equity financings. We can provide no assurance that we will be able to raise the funds necessary on terms favorable to us or at all. See "GENERAL – Financing" for additional discussion of the Company's line of credit and other financing.



## Inflation

Management believes that inflation has not had a material effect on our results of operations, and does not expect that it will in fiscal year 2008, except that rising oil and gas, food and other commodity prices may materially and adversely impact the economy generally.

## Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

## ITEM 4. CONTROLS AND PROCEDURES

### (a) Disclosure Controls and Procedures.

Our management evaluated, with the participation of our President and our Treasurer/Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, June 30, 2008. Based on this evaluation, our President and our Treasurer/Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report were effective in timely alerting management to material information relating to us and required to be included in our periodic filings with the SEC.

Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our periodic reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

### (b) Internal Control over Financial Reporting

#### Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-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 generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.



Because of its inherent limitations, our controls and procedures may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the controls system are met. Because of the inherent limitations in all controls systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Our management has assessed the effectiveness of our internal control over financial reporting based on the criteria in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the criteria in Internal Control — Integrated Framework, we concluded that our internal control over financial reporting was effective as of December 31, 2007.

Under the temporary rules of the SEC, the effectiveness of our internal control over financial reporting as of December 31, 2007, was not required to be attested to by an Independent Registered Public Accounting Firm. The attestation requirement currently does not become applicable to smaller reporting companies, such as the Company, until fiscal year 2008.

#### Changes in Internal Control Over Financial Reporting

There was no change in our internal controls that occurred during the three month period ended June 30, 2008, that has materially affected, or is reasonably likely to affect, the Company's internal controls over financial reporting.

## PART II

### OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

From time to time we are involved in legal proceedings relating to claims arising out of operations in the normal course of business, as well as claims arising from our status as an issuer of securities and/or a publicly reporting company. At June 30, 2008, we know of no current or threatened legal proceedings involving us or our properties reportable under this Item 1.

#### ITEM 1A. RISK FACTORS

Not applicable.

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On April 30, 2008, we issued 400,000 shares of our common stock to our President, Sterling M. Redfern, as compensation for his services as President of the Company from December 2007 through March 2008. We believe the issuance of these shares was exempt from registration under Section 4(2) of the Securities Act. We did not make any other sales of unregistered equity securities during the three- and six-month periods ended June 30, 2008.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our annual meeting of shareholders on May 19, 2008. The holders of a total of approximately 41% of our outstanding shares of common stock as of March 31, 2008, were represented in person or by proxy at the meeting. Our bylaws require that a majority of our outstanding shares of common stock entitled to vote at the meeting must be present, in person or by proxy, for a quorum to exist. Because a quorum was not present, no matters were voted upon at the annual meeting and the meeting was adjourned. As of this filing, no subsequent meeting of the shareholders has been called or held.

ITEM 5.

OTHER INFORMATION

None.

ITEM 6.

EXHIBITS

Exhibit Index

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
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
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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\* Filed herewith

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.

Date: August 14, 2008

By: /s/ Sterling M. Redfern  
Sterling M. Redfern  
President and Director

Date: August 14, 2008

By: /s/ Jacquelyn B. Wine  
Jacquelyn B. Wine  
Secretary, Treasurer/Chief  
Financial Officer and Director