ENTERTAINMENT INTERNATIONAL LTD
Form 10-Q
May 21, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

[x] Quarterly Report Pursuant to Section 13 or 15(d)
Securities Exchange Act of 1934
for Quarterly Period Ended March 31, 2001

-OR-

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

for the transaction period from ___________ to _________

Commission File Number 0-14646

Entertainment International Ltd.

(Exact name of registrant as specified in its charter)

New York	06-1113228
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

7380 Sand Lake Road, Suite 350, Orlando, FL 32819

(Address of principal executive offices, Zip Code)

(407) 351-0011

(Registrant's telephone number, including area code)

Check whether the issuer (1) 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 [X] No [ ]

The number of outstanding shares of the registrant's common stock, par value $.01 as of May 15, 2001 is 69,597,282.

PART I -- FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

ENTERTAINMENT INTERNATIONAL LTD.
CONDENSED BALANCE SHEETS

	MARCH 31, 2001 (NOTE 1)	DECEMBER 31, 2000 (NOTE 1)
ASSETS		
Assets held for sale	$ 1,091,000	$ 1,091,000
Other assets	9,000	4,000
	$ 1,100,000	$ 1,095,000
LIABILITIES AND STOCKHOLDERS' DEFICIT		
LIABILITIES:		
Bank overdraft	--	242,000
Accounts payable - trade	264,000	314,000
Customer payments on future services	200,000	200,000
Accrued expenses and other liabilities	47,000	45,000
Obligation under capital lease	--	231,000
Due to related parties	5,134,000	4,375,000
Total liabilities	5,645,000	5,407,000
STOCKHOLDERS' DEFICIT		
Common stock, $.01 par value:		
Authorized - 110,000,000 shares		
Issued and outstanding - 69,597,000 and 68,097,000 shares, respectively	696,000	696,000
Capital in excess of par value	50,987,000	50,987,000
Accumulated deficit	(56,228,000)	(55,995,000)
Total stockholders' deficit	(4,545,000)	(4,312,000)
	$ 1,100,000	$ 1,095,000

Unaudited -- See accompanying notes to condensed financial statements.

2

ENTERTAINMENT INTERNATIONAL LTD.
CONDENSED STATEMENT OF OPERATIONS

	THREE MONTHS ENDED MARCH 31, 2001	2000
AIRSHIP REVENUES	$ 0	$ 0
COSTS AND EXPENSES:		
Selling, general & administrative	132,000	128,000
	132,000	128,000
OPERATING LOSS	(132,000)	(128,000)
OTHER INCOME (EXPENSE):		
Interest expense	(101,000)	(85,000)
	(101,000)	(85,000)
NET LOSS	$ (233,000)	$ (213,000)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	69,597,282	69,363,667
NET LOSS PER SHARE	$ (.00)	$ (.00)

Unaudited -- See accompanying notes to condensed financial statements.

ENTERTAINMENT INTERNATIONAL LTD.
CONDENSED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(233,000)	$(213,000)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation	--	16,000
Changes in operating assets and liabilities	(295,000)	(82,000)
Net change in cash used for operating activities	(528,000)	(115,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in due from related parties	759,000	339,000
Net cash flows provided by investing activities	759,000	339,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease and notes payable	(231,000)	(224,000)
Net cash flows provided by financing activities	(231,000)	(224,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	--	--
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	--	1,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ --	$ 1,000
SUPPLEMENTAL INFORMATION:		
Conversion of debt into common stock	$ --	$ 214,000
Interest paid	$ 13,000	$ 16,000

Unaudited-See accompanying notes to condensed financial statements.

ENTERTAINMENT INTERNATIONAL LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE 1-BASIS OF PRESENTATION:

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB and do not include all of the information and footnotes required by generally accepted accounting principles for complete statements. Management believes that all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such financial statements, have been included. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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. If such differences prove significant and material, Entertainment International Ltd. (the "Company") will file an amendment to this report on Form 10-QSB.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERALL FINANCIAL CONDITION

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate that Entertainment International, Ltd. (the "Company") will continue as a going concern. For the first three months of 2001, the Company incurred a loss of $233,000 and had negative cash flows of $528,000 from operations. The accompanying financial statements do not include any adjustments that might result from the Company's current liquidity shortage. The increase in the Company's net loss from the same period last year was $20,000. The primary reason for this increase was an increase in interest from related party borrowings incurred by the Company in the first three months of this year as compared to the first three months of 2000.

RESULTS OF OPERATIONS

The Company had no revenue from operations during the first three months of 2001 and 2000.

Selling, general and administrative costs for the three months ended March 31, 2001 were $132,000 as compared to $128,000 for the comparable period in 2000, an increase of $4,000 or 4%. This increase is primarily attributable to increased legal and travel expenses as the Company continues to pursue business combinations.

Interest expense increased $16,000 or 19% to $101,000 for the three months ended March 31, 2001 from $85,000 during the same period in 2000. The increase in interest expense was directly attributable to the increase in loans from related parties.

LIQUIDITY AND CAPITAL RESOURCES

The Company experienced negative cash flows from operations of $528,000 in the three-month period ended March 31 2001. Proceeds of $759,000 from Trans Continental Records and Trans Continental Airlines had a positive impact on cash flow, however, this was offset by debt reduction of $231,000 under the Company's capital lease obligation. The Company also had negative working capital of $5,645,000 at March 31, 2001 compared with $5,407,000 at December 31, 2000. Because of the continued negative cash flow, working capital and existing encumbrances on assets, the Company has relied on loans, cash advances, and guarantees from Louis Pearlman, the Company's president and principal stockholder, TransContinental Airlines ("TCA"), a related party, TransContinental Records, ("TCR"), a related party, and other affiliated companies of which Mr. Pearlman is the Chairman, President, and shareholder. There can be no assurance that Mr. Pearlman, TCA, TCR and affiliates will make additional loans, cash advances, and guarantees on an ongoing basis. At March 31, 2001, the Company owed $5,134,000 to related parties. Repayment of such amounts has been deferred for an indefinite period. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

Management's plans to improve the financial position of the Company, with the goal of sustaining the Company's operations for the current year and beyond include: (1) establishing continued arrangements with TCA and TCR, companies related through common directorship and ownership, to provide funding on a monthly basis, and (2) establishing goals for the acquisition of assets and operations of one or more entities, with the expectation that such business combinations, if completed, would provide additional cash flow and net income. The Company is negotiating the acquisition of WeBeCD.com, Inc. ("WeBeCD"), and has entered into a letter of intent to acquire 100% of the capital stock, including options and warrants of WeBeCD. If all agreement terms are met, shares of the Company's common stock will be issued in exchange for shares of WeBeCD's common stock. On January 12, 2001 the Company also signed a stock purchase agreement to purchase all the outstanding shares of European Multimedia Group AB ("EMG"), including options and warrants convertible into common stock, for a negotiated number of shares of the Company's common stock for each one share of EMG stock owned. The agreement called for the issuance of up to 4,000,000 shares of the Company's common stock based on achieving certain levels of revenue of up to $23.5 million for the fiscal year ended December 31, 2001. On March 16, 2001, the Company terminated its proposed acquisition of EMG due to EMG's failure to meet in a timely fashion in accordance with the terms of the stock purchase agreement various conditions of closing, including among others, to provide the required financial statements, opinions of counsel, good standing certificates and agreements with various third parties, all as specified in the stock purchase agreement.

Other

The Company has approximately $47,093,000 in losses for income tax purposes available to reduce future taxable income which will begin to expire in 2005. We have no commitments for capital expenditures of a material nature in the near future.

Inflation

The Company believes that there has not been a significant impact from inflation on the Company's operations during the past three fiscal years.

Additional Factors That May Affect Future Results

Future Operating Results - Future operating results may be impacted by a number of factors that could cause actual results to differ materially from those stated herein, which reflect management's current expectations. These factors include worldwide economic and political conditions, industry specific factors, the Company's ability to maintain access to external financing sources and its financial liquidity, the acceptance of the Company by small and mid-sized businesses, and the Company's ability to manage expense levels.

Stock Price Fluctuations - The Company's participation in a highly competitive industry often results in significant volatility in the Company's common stock price. This volatility in the stock price is a significant risk investors should consider.

Forward Looking Statements - This report contains certain forward-looking statements that are based on current expectations. In light of the important factors that can materially affect results, including those set forth above and elsewhere in this report, the inclusion of forward-looking information herein should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved. The Company may encounter competitive, technological, financial and business challenges making it more difficult than expected to continue to market its products and services; competitive conditions within the industry may change adversely; the Company may be unable to retain existing key management personnel; the Company's forecasts may not accurately anticipate market demand; and there may be other material adverse changes in the Company's operations or business. Certain important factors affecting the forward looking statements made herein include, but are not limited to (i) accurately forecasting capital expenditures and (ii) obtaining new sources of external financing. Assumptions relating to budgeting, marketing, product development and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause the Company to alter its capital expenditure or other budgets, which may in turn affect the Company's financial position and results of operations.

Part II

ITEM 1 - LEGAL PROCEEDINGS

Not applicable.

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5 - OTHER INFORMATION

Not applicable

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

Not applicable.

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.

ENTERTAINMENT INTERNATIONAL LTD.

Dated: May 21, 2001 By: /s/ Louis J. Pearlman

Louis J. Pearlman
Chairman of the Board of Directors, President and Treasurer (duly authorized officer of the registrant and principal financial officer of the registrant)

9