ENTERTAINMENT INTERNATIONAL LTD
Form 10-Q
August 20, 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 June 30, 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. EmployerIdentification 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 June 30, 2001 is 69,597,000

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PART I -- FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

ENTERTAINMENT INTERNATIONAL LTD.
CONDENSED BALANCE SHEETS

	JUNE 30, 2001 (NOTE 1) (Unaudited)	D
ASSETS		
Assets held for sale	$ 1,091,000	$ 1,
Other assets	12,000	
	$ 1,103,000	$ 1,
LIABILITIES AND STOCKHOLDERS' DEFICIT		
LIABILITIES:		
Bank overdraft	$ 2,000	$
Accounts payable - trade	250,000	
Customer payments on future services	200,000	
Accrued expenses and other liabilities	38,000	
Obligation under capital lease	-	
Due to related parties	5,286,000	4,
Total liabilities	5,776,000	5,
STOCKHOLDERS' DEFICIT		
Common stock	696,000	
Capital in excess of par value	50,987,000	50,
Accumulated deficit	(56,356,000)	(55,
Total stockholders' deficit	(4,673,000)	(4,
	$ 1,103,000	$ 1,

See accompanying notes to condensed financial statements.

ENTERTAINMENT INTERNATIONAL LTD.
CONDENSED STATEMENT OF OPERATIONS

	THREE MONTHS ENDED JUNE 30,		SIX MO J
	2001	2000	2001
REVENUES	$ -	$ -	$ -
COSTS AND EXPENSES:			
Selling, general & administrative	32,000	103,000	164,000
OPERATING LOSS	(32,000)	(103,000)	(164,000)
OTHER INCOME (EXPENSE):			
Interest expense	(96,000)	(80,000)	(197,000)
NET LOSS	$ (128,000)	$ (183,000)	$ (361,000)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	69,597,000	69,597,000	69,597,000
NET LOSS PER SHARE	$ -	$ -	$ (0.01)

Unaudited -- See accompanying notes to condensed financial statements.

ENTERTAINMENT INTERNATIONAL LTD.
CONDENSED STATEMENTS OF CASH FLOWS

	SIX MONT JUN
	2001
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (361,000)
Adjustments to reconcile net loss to net cash flows used in operating activities:	
Depreciation	-
Changes in operating assets and liabilities	(79,000)
Net change in cash used for operating activities	(440,000)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on capital lease obligation	(231,000)
Net change in due to related parties	911,000
Net cash flows provided by financing activities	680,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	240,000
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	(242,000)
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ (2,000)
SUPPLEMENTAL INFORMATION:	
Non-cash financing activity:	
Conversion of debt into common stock	$ -
Cash paid for interest	$ 13,000

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.

NOTE 2 - PROPOSED ACQUISITIONS (ACQUISITION):

The Company has discontinued its pursuit of the acquisition of WeBeCD.com Inc. The Company is negotiating the acquisition of CS Technologies, Ltd. ("CS Technologies"), and has entered into a letter of intent on June 28th to acquire 100% of the capital stock. The proposed agreement is contemplating that such number of shares of the Company's common stock will be issued in exchange for shares of CS Technologies' common stock so that CS Technologies will have acquired complete control of the Company. At the closing of such transaction, the Company will effect a "one-for-twenty" reverse stock split previously authorized by shareholders of the Company in December 2000. It is intended that the Stock Purchase Agreement will be signed in August 2001. As part of the transaction, Trans Continental Records, Trans Continental Airlines, and Mr. Pearlman will waive all debt that is owed to them (approximately $5,286,000 in the aggregate) and assume all the remaining liabilities on the balance sheet (approximately $490,000) in exchange for the remaining assets (approximately $1,103,000).

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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 six months of 2001, the Company incurred a loss of $361,000 and had negative cash flows of $440,000 from operations. The accompanying financial statements do not include any adjustments that might result from the Company's current liquidity shortage. The decrease in the Company's net loss from the same period last year was $35,000. The primary reason for this decrease was a reduction in operating expenses incurred by the Company in the first six months of this year as compared to the first six months of 2000. The Company is also experiencing a liquidity shortage.

RESULTS OF OPERATIONS

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

Selling, general and administrative costs for the six months and three months ended June 30, 2001 were $164,000 and $32,000, respectively, as compared to $231,000 and $103,000, respectively, for the comparable periods in 2000. These amounts represent decreases of $67,000 and $71,000, respectively. This decrease is primarily attributable to decreased officer salary and legal expense.

Interest expense increased $32,000 or 19% to $197,000 for the six months ended June 30, 2001 from $165,000 during the same period during 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 flow from operations of $440,000 in the six-month period ended June 30, 2001. Proceeds of $911,000 primarily from TCR had a positive impact on cash flow, however, this was offset by debt reduction under the Company's capital lease obligation. The Company also had negative working capital of $5,776,000 at June 30, 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 TCR, a related party, TCA, a related party, Louis Pearlman, the Company's president and principal stockholder, and other affiliated companies of which Mr. Pearlman is the Chairman, President, and shareholder. There can be no assurance that TCR, TCA, Mr. Pearlman, and affiliates will make additional loans, cash advances, and guarantees on an ongoing basis. At June 30, 2001, the Company owed $5,286,000 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: (i) continued arrangements with companies related through common directorship and ownership, to provide funding on a monthly basis; and (ii) 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 CS Technologies, and has entered into a letter of intent on June 28th to acquire 100% of the capital stock. The proposed agreement is contemplating that such number of shares of the Company's common stock will be issued in exchange for shares of CS Technologies' common stock so that CS Technologies will have acquired complete control of the Company. At the closing of such transaction, the Company will effect a "one-for-twenty" reverse stock split previously authorized by shareholders of the Company in December 2000. It is intended that the Stock Purchase Agreement will be signed in August 2001. As part of the transaction, TCR, TCA, and Mr. Pearlman will waive all debt that is owed to them (approximately $5,286,000 in the aggregate) and assume all the remaining liabilities on the balance sheet (approximately $490,000) in exchange for the remaining assets (approximately $1,103,000).

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Other

The Company has approximately $47,197,000 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 fiscal year.

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 in this report are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company wished to advise readers that actual results may differ substantially from such forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed on or implied by the statements, including, but not limited to, the following: the ability of the Company to successfully meet its cash and working capital needs, the ability of the Company to successfully market its product, and other risks detailed in the Company's periodic report filings with the Securities and Exchange Commission.

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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

(a) The following exhibit is filed herewith:

Exhibit 27.1 Financial Data Schedule

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENTERTAINMENT INTERNATIONAL LTD.

Dated: August 17, 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)