ENTERTAINMENT INTERNATIONAL LTD
Form 10-Q
November 19, 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 September 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. 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 October 17, 2001 is 36,532,333

PART I -- FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

ENTERTAINMENT INTERNATIONAL LTD.
CONDENSED BALANCE SHEETS

	SEPTEMBER 30, 2001 (NOTE 1 and 2) (Unaudited)	DECEMBER 3 2000 (NOTE 1) (Audited
ASSETS		
Assets held for sale	$ -	$ 1,091,000
Other assets	-	4,000
	$ -	$ 1,095,000
LIABILITIES AND STOCKHOLDERS' DEFICIT		
LIABILITIES:		
Bank overdraft	$ -	$ 242,000
Accounts payable - trade	-	314,000
Customer payments on future services	-	200,000
Accrued expenses and other liabilities	-	45,000
Obligation under capital lease	-	231,000
Due to related parties	-	4,375,000
Total liabilities	-	5,407,000
STOCKHOLDERS' DEFICIT		
Common stock	696,000	696,000
Capital in excess of par value	50,987,000	50,987,000
Accumulated deficit	(51,683,000)	(55,995,000
Total stockholders' deficit	-	(4,312,000
	$ -	$ 1,095,000

See accompanying notes to condensed financial statements.

ENTERTAINMENT INTERNATIONAL LTD.
CONDENSED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30, 2001	THREE MONTHS ENDED SEPTEMBER 30, 2000	NINE MONTHS E SEPTEMBER 2001	
REVENUES	$ -	$ -	$ -	$
COSTS AND EXPENSES:				
Selling, general & administrative	115,000	129,000	279,000	
OPERATING LOSS	(115,000)	(129,000)	(279,000)	
OTHER INCOME (EXPENSE):				
Gain on from discharge of indebtedness (Note 2)	4,886,000	-	4,886,000	
Interest expense	(98,000)	(81,000)	(295,000)	
	4,788,000	(81,000)	4,591,000	
NET INCOME (LOSS)	$ 4,673,000	$ (210,000)	$ 4,312,000	$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	69,597,000	69,597,000	69,597,000	6
NET INCOME (LOSS) PER SHARE	$ 0.07	$ (0.01)	$ 0.06	$

Unaudited -- See accompanying notes to condensed financial statements.

ENTERTAINMENT INTERNATIONAL LTD.
CONDENSED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ 4,312,000	$ (606,000)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation	-	49,000
Gain from discharge of indebtedness	(4,886,000)	-
Changes in operating assets and liabilities	(69,000)	(16,000)
Net change in cash used for operating activities	(643,000)	(573,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligation	(231,000)	(300,000)
Net change in due to related parties	1,116,000	872,000
Net cash flows provided by financing activities	885,000	572,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	242,000	(1,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	(242,000)	1,000
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ -	$ -
SUPPLEMENTAL INFORMATION:		
Non-cash financing activity:		
Conversion of debt into common stock	$ -	$214,000
Cash paid for interest	$ 13,000	$ 20,000

Unaudited-See accompanying notes to condensed financial statements.

ENTERTAINMENT INTERNATIONAL LTD.
NOTES TO CONDENSED FINANCIAL STATEMENTS
[UNAUDITED]

NOTE 1-BASIS OF PRESENTATION:

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q 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-Q.

NOTE 2 - SUBSEQUENT EVENTS:

On October 17, 2001 the Company, through its wholly owned subsidiary ENTI Acquisition Corp. ("ENTI" or "Registrant"), closed a transaction (the "Transaction") providing for the acquisition of all of the issued and outstanding shares of CSTI Hi-Tech, Ltd. ("CSTI") an Israeli corporation, in exchange for approximately 31,052,483 shares of Registrant's unregistered restricted common stock on a post-split basis (simultaneously with the closing Registrant effectuated a one for twenty reverse stock split effective on October 18, 2001 of all of its issued and outstanding stock as approved by the shareholders of the company on December 28, 2000.)

Following the closing of the transaction, the former shareholders of CSTI controlled approximately 85 percent of ENTI's outstanding share capital (36,532,333 shares). Mr. Jacob Lustgarten, the president of CSTI became the Chairman and Chief Executive Officer of the Registrant. Mr. Louis J. Pearlman, resigned as Chairman and Chief Executive Officer of Registrant, and will remain on the Board of Directors. Meir Elazar, General Counsel for CSTI, will fill the remaining vacancy on the Registrant's Board of Directors. Effective immediately the activities of CSTI are to be conducted through Registrant. CSTI is headquartered in Israel, 4 Ashlagan St., P.O. Box 8624, Kiryat Gat 82021, Israel (011 972 8 660 2108).

CSTI has offices in Germany and Italy and is engaged in the business of the planning, production and installation of ultra-high purity systems for transporting highly pure gases and chemicals. These highly pure products are used in the production of products ranging from micro-electronics, optical fibers and metal blades to pharmaceutical and bio-technology items. CSTI currently has 140 employees and its customers include Sapio Gas Company (Italy), Hydrogas (Scandanavia), Pirelli Optic Fibres (Italy), Teva (Israel) and Intel (Israel) among others.

Summary information with regard to CSTI as of September 30, 2001 is as follows:

	September 30, 2001 (Unaudited) (in 000's)
Cash and Cash Equivalents	$ 102
Trade Receivables	1,973
Other Receivables	823
Inventory	1,664
Total Current Assets	4,562
Property, Plant and Equipment (Net of Accumulated Depreciation of $805)	1,656
Deferred Taxes	17
Total Assets	$ 6,235
Current Liabilities:	
Short-Term Credit	$ 2,001
Trade Payables	1,666
Other Payables	1,125
	4,792
Long-Term Liabilities:	
Shareholders' loans	14
Severance liability, net of amount funded	71
	85
Contingencies and Commitments	

Shareholders' Equity:	
Share capital	1
Additional paid in capital	738
Retained earnings	619

	1,358
	$ 6,235

	For the Period ended September 30, 2001 (unaudited)
Sales	$ 10,123
Cost of Sales	6,347
Gross Profit	3,776
General Expenses and Administrative	1,786
Operating Income	1,990
Interest Income - net	67
Other Income	6
Income Before Income Taxes	2,063
Income Taxes	83
Net Income	$ 1,980

As a part of the Transaction, Louis Pearlman, TransCon Airlines and TransCon Records (Transcon Airlines and Transcon Records collectively referred to as "TransCon") entered into a separate cancellation and discharge agreement with CSTI whereby, Pearlman and TransCon agreed to cancel and discharge all indebtedness of the Company owed to Pearlman and TransCon. Pearlman and TransCon also jointly and severally assumed all remaining debts and liabilities owned by the Company. The Company also transferred, to Pearlman and TransCon all of the remaining airship assets owned by the Company. The financial statements as of and for the period ended September 30, 2001, reflect this agreement. As a result, such financial statements disclose a gain from discharge from indebtedness of $4,886,000.

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 nine months of 2001, the Company had net income of $4,312,000 and had negative cash flows of $643,000 from operations. The accompanying financial statements do not include any adjustments that might result from the Company's current liquidity shortage. The Company experienced a net loss of $606,000 from the same period last year. This change is due to a $4.9 million gain on disposal of discontinued operations occurring in the third quarter of this year.

RESULTS OF OPERATIONS

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

Selling, general and administrative costs for the nine months and three months ended September 30, 2001 were $279,000 and $115,000, respectively as compared to $360,000 and $129,000, respectively, for the comparable periods in 2000. These amounts represent decreases of $ 81,000 and $14,000, respectively. This decrease is primarily attributable to decreased officer and administrative salaries, and legal expense.

Interest expense increased $51,000 or 20.7% to $297,000 for the nine months ended September 30, 2001 from $246,000 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 $643,000 in the nine-month period ended September 30, 2001. Proceeds of $1.1 million primarily from Trans Continental Records ("TCR") had a positive impact on cash flow, however, this was offset by debt reduction under the Company's capital lease obligation. As a result of the transactions described in Note 2 to the financial statements, the Company had no assets or liabilities at September 30, 2001 compared with negative working capital of $5,407,000 at December 31, 2000.

Other

The Company has approximately $42,548,000 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.

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:

None

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: November 19, 2001

By: /s/ Jacob Lustgarten

Jacob Lustgarten
Chairman of the Board of
Directors, and Chief
Executive Officer