

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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LIVE ENTERTAINMENT INC

CIK: **840260** | IRS No.: **954178252** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
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SIC: **7822** Motion picture & video tape distribution

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Quarter ended March 31, 1994

Commission File No. 0-17342

LIVE ENTERTAINMENT INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4178252
(I.R.S. Employer
Identification No.)

15400 Sherman Way, Van Nuys, California
(Address of principal executive offices)

91406
(Zip Code)

Registrant's telephone number, including area code: (818) 988-5060

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 has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

As of May 6, 1994, there were 12,093,610 shares of the Registrant's Common Stock, 6,000,000 shares of the Registrant's Series B Cumulative

Convertible Preferred Stock and 15,000 shares of the Registrant's Series C Convertible Preferred Stock outstanding.

LIVE ENTERTAINMENT INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

LIVE ENTERTAINMENT INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)
 (Amounts in Thousands)

	December 31, 1993	March 31, 1994
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents, including restricted cash of \$17,173 and \$6,101	\$ 42,358	\$ 51,247
Accounts receivable, less allowances of \$25,440 in 1993.	2,432	--
Officer and employee receivables.	407	186
Inventories	10,124	9,615
Video rights.	29,839	32,121
Deferred income taxes	4,176	4,176
Other	1,136	1,562
Assets held for sale.	86,000	84,214
TOTAL CURRENT ASSETS	176,472	183,121
PROPERTY AND EQUIPMENT, net.	1,686	1,715
RECEIVABLE FROM AFFILIATE.	8,047	7,983
VIDEO RIGHTS, net of accumulated amortization of \$429,881 and \$436,173.	32,228	32,082
OTHER ASSETS	1,320	789
GOODWILL, net of accumulated amortization of \$32,193 and \$33,174	33,796	32,815
	\$ 253,549	\$ 258,505

(Continued)

LIVE ENTERTAINMENT INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Continued)

(Unaudited)

(Amounts in Thousands)

	December 31, 1993	March 31, 1994
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
12% Subordinated Secured Notes due 1994	\$ 36,707	\$ 36,810
Current maturities of long-term obligations	8,043	7,701
Current maturities of Increasing Rate Senior Subordinated Notes	3,791	3,713
Video rights obligations.	15,850	13,163
Accounts payable, deferred revenue and accrued expenses	18,343	17,282
Accrual for returns and advertising net of accounts receivable of \$5,022 in 1994	--	18,570
Liabilities related to assets held for sale	46,601	44,933
Series B Cumulative Convertible Preferred Stock (5,000,000 shares)	40,000	40,000
Dividends payable	1,340	777
TOTAL CURRENT LIABILITIES	170,675	182,949
LONG-TERM OBLIGATIONS, less current maturities	3,333	1,666
INCREASING RATE SENIOR SUBORDINATED NOTES DUE 1999, including capitalized interest of \$20,662 and \$18,740, less current maturities.	56,871	55,027
DEFERRED REVENUE AND ACCRUED EXPENSES, less current portion	1,740	1,708

DEFERRED INCOME TAXES	10,188	10,188
STOCKHOLDERS' EQUITY:		
Series B Cumulative Convertible Preferred Stock-- authorized 9,000,000 shares; \$1.00 par value; \$60,000,000 liquidation preference; 1,000,000 shares outstanding	1,000	1,000
Series C Convertible Preferred Stock-- 15,000 shares authorized and outstanding; \$1.00 par value; \$15,000,000 liquidation preference	15	15
Common Stock--authorized 120,000,000 shares; \$0.01 par value; 12,090,016 (1993) and 12,093,610 (1994) shares outstanding	121	121
Additional paid-in capital	106,507	106,507
Retained deficit	(96,901)	(100,676)
	10,742	6,967
	\$ 253,549	\$ 258,505

See notes to consolidated financial statements.
LIVE ENTERTAINMENT INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Amounts in Thousands, Except Per Share Data)

	Three Months Ended March 31,	
	1993	1994
Net Sales	\$ 29,532	\$ 18,265
Cost of goods sold	23,922	15,198
GROSS PROFIT	5,610	3,067
Operating Expenses:		
Selling, general and administrative expenses	4,046	3,716
Amortization of goodwill	981	981
	5,027	4,697
	583	(1,630)
Disposal of VCL/Carolco Communications GmbH (VCL):		
Net Sales	5,770	--
Costs and Expenses	5,516	--
	254	--

OPERATING PROFIT (LOSS)	837	(1,630)
Interest expense, net	(497)	(1,208)
INCOME (LOSS) FROM CONTINUING OPERATIONS		
BEFORE INCOME TAXES (BENEFIT).	340	(2,838)
Income tax expense (benefit).	--	--
INCOME (LOSS) FROM CONTINUING OPERATIONS.	340	(2,838)
Discontinued Operations:		
Loss from discontinued operations		
net of income taxes.	(1,068)	--
LOSS FROM DISCONTINUED OPERATIONS	(1,068)	--
NET LOSS.	(728)	(2,838)
Preferred dividends.	767	937
NET LOSS ATTRIBUTABLE TO COMMON STOCK	\$ (1,495)	\$ (3,775)
Loss per common share:		
Continuing operations	\$ (0.03)	\$ (0.31)
Discontinued operations	(0.09)	--
Net loss.	\$ (0.12)	\$ (0.31)
Weighted average number of shares outstanding.	12,087	12,094

See notes to condensed consolidated financial statements.

LIVE ENTERTAINMENT INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in Thousands)

	Three Months Ended	
	March 31,	
	1993	1994
OPERATING ACTIVITIES:		
Loss from continuing operations	\$ 340	\$ (2,838)
Adjustments to reconcile net income (loss) to net cash provided by (used for) continuing operating activities:		
Depreciation and amortization of property and equipment.	309	191
Amortization of goodwill.	1,052	981
Amortization of and adjustments to video rights .	13,539	6,292

Income taxes payable and deferred income taxes	(190)	--
Utilization of pre-acquisition net operating loss carryforwards	142	--
(Increase) decrease in operating assets, net of acquisitions:		
Accounts receivable	5,400	2,432
Officer and employee receivables	48	125
Inventories	2,145	509
Assets held for sale	1,541	1,786
Receivable from stockholder	1,018	64
Other assets	(3,218)	201
Increase (decrease) in operating liabilities, net of acquisitions:		
Accounts payable and accrued expenses	(9,785)	(2,030)
Accrual for returns and advertising	--	18,570
Liabilities related to assets held for sale	(420)	(1,668)
Acquisition of and adjustment to video rights	(49,151)	(8,428)
Video rights obligations incurred	49,046	8,428
Payments on video rights obligations	(48,306)	(11,115)
Cash provided by (used for) continuing operating activities	(36,490)	13,500
Cash provided by (used for) discontinued operations	(277)	--
Cash provided by (used for) operating activities	(36,767)	13,500
INVESTING ACTIVITIES:		
Acquisition of property and equipment	(833)	(220)
Cash used for investing activities	(833)	(220)
FINANCING ACTIVITIES:		
Issuance of bank debt and long-term obligations	110,841	186
Payments on bank debt and long-term obligations	(85,637)	(4,014)
Payment of debt restructuring expenses	(987)	--
Dividends accrued but not paid	--	(563)
Issuance of Series C Preferred Stock	14,550	--
Cash provided by (used for) financing activities	38,767	(4,391)
Effect of exchange rate changes	106	--
Increase (decrease) in cash and cash equivalents	1,273	8,889
Cash and cash equivalents at beginning of period	18,847	42,358
Cash and cash equivalents at end of period	\$ 20,120	\$ 51,247

See notes to consolidated financial statements.

LIVE ENTERTAINMENT INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 1994

Note 1 - Going Concern

On January 28, 1994, the bank credit facility (the "Bank Credit Facility") between LIVE Entertainment Inc. ("LIVE" or the "Company") and LIVE Home Video Inc. ("LHV") and a group of banks headed by Chemical Bank and Credit Lyonnais Bank Nederland N.V. (the "Bank Group") was amended. The maximum credit available under the Bank Credit Facility was reduced to \$20,000,000 effective on the date of the amendment. The commitments under the Bank Credit Facility will be further reduced on a monthly basis to \$10,000,000 by June 29, 1994. Furthermore, the maximum credit amount available under the Bank Credit Facility will continue to be reduced by an amount equal to cash dividends paid on the Company's 6,000,000 shares of Series B Cumulative Convertible Preferred Stock (the "Series B Preferred Stock") and 15,000 shares of Series C Convertible Preferred Stock (the "Series C Preferred Stock"). As of May 1, 1994 the maximum credit available under the Bank Credit Facility was \$14,249,000.

The term of the Bank Credit Facility ends July 29, 1994 and earlier in the event of a default. Additionally, the Company's \$37,000,000 in 12% Subordinated Secured Notes Due September 1994 ("12% Notes") are due and payable on September 15, 1994.

The Company is in negotiations with members of the Bank Group, as well as others, to provide a replacement source of financing of up to \$40,000,000, having a term of at least one year, prior to the expiration of the Bank Credit Facility (the "New Bank Credit Facility"). A condition to obtaining the New Bank Credit Facility is the agreement of the holders of at least \$31,000,000 in principal amount of the 12% Notes to extend the maturity date for payment of the 12% Notes held by them to a date which would be not earlier than several months after the maturity date of the New Bank Credit Facility (the "12% Note Extension"). Although management believes there is a realistic possibility of obtaining both the New Bank Credit Facility and the 12% Note Extension prior to the expiration of the Bank Credit Facility, there is no assurance that management will be successful in these efforts. If the Company is unable to obtain replacement financing, it may not be in a position to pay the amounts due under the Bank Credit Facility and the 12% Notes upon the maturity thereof.

As a result of the Company's operating results in 1993, as well as its decision to dispose of both (a) its "Specialty Retail Division," consisting of its wholly owned subsidiary, Strawberries Inc. ("Strawberries") and Strawberries' wholly owned subsidiary, Waxie Maxie Quality Music Co. ("Waxie Maxie"), and (b) its German video distribution subsidiary, VCL/Carolco Communications GmbH ("VCL"), the Company was not in compliance with a number of ratios under the Bank Credit Facility and the Indenture (the "12% Note Indenture") governing the 12% Notes as of December 31, 1993 and March 31, 1994. The Company is in discussions with the Bank Group

to obtain waivers of the non-compliance and management believes that those waivers will be obtained. However, there is no assurance those waivers will be obtained. If the Bank Group waives the non-compliance, such waiver automatically acts as a waiver of the corresponding non-compliance under the 12% Note Indenture. If the Company does not secure the waivers, LHV will be unable to borrow under the Bank Credit Facility. LHV's current projections show that it may not need to borrow under the Bank Credit Facility prior to the July 1994 expiration of the Bank Credit Facility. If the Company does not secure the waivers and if, and only if, the Bank Group exercises its right to terminate the Bank Credit Facility, the holders of the 12% Notes could accelerate payment of the amounts due to them. If such acceleration occurred, an event of default would exist under the Company's \$40,000,000 of Increasing Rate Senior Subordinated Notes due 1999 (the "Public Notes") allowing the holders of the Public Notes to accelerate payment thereof. In the event of any such accelerations, the Company might not be in a position to pay the amounts due.

Without either replacement facilities or an agreement for extension, the Bank Credit Facility will be due on July 29, 1994 and the 12% Notes will be due on September 15, 1994.

These conditions raise substantial doubt about LIVE's ability to continue as a going concern.

The Company's management is taking the following actions to address concerns about its ability to continue as a going concern:

- (a) The Company is in negotiations with members of the Bank Group and other potential financing sources to obtain the New Bank Credit Facility prior to the expiration of the Bank Credit Facility.
- (b) The Company has held preliminary discussions with holders of 12% Notes regarding obtaining the 12% Note Extension.

Although there is no assurance that the Company will be successful in any of these activities, management believes that there is a realistic possibility of completing all of them during 1994.

The Company's receipt of the New Bank Credit Facility is a condition to the business combination of the Company and Carolco Pictures Inc. ("Carolco").

Note 2 - Agreement in Principle on Business Combination with Carolco

In March 1994, the Company and Carolco reached agreement in principle on a business combination (the "Combination"). The

Combination will be structured as a tax free exchange whereby each Carolco stockholder will receive one share of newly issued LIVE Common Stock for each 5.5 shares of Carolco Common Stock held by them. The exchange ratio will be subject to adjustment based on the market price of Carolco Common Stock prior to the consummation of the Combination, subject to two limitations. The first limitation is that the number of Carolco shares to be exchanged for each share of LIVE will be adjusted upward, if necessary, so that the market value of Carolco shares to be exchanged is at least \$3.00, but in no event will more than 6.5 shares of Carolco be exchanged for each share of LIVE. The second limitation is similar to the first in that the number of Carolco shares to be exchanged for each share of LIVE will be adjusted downward, if necessary, so that the market value of Carolco shares to be exchanged is no more than \$4.00, but in no event will fewer than 4.5 shares of Carolco be exchanged for each share of LIVE. The market value of Carolco shares will be deemed to be the average trading price of Carolco Common Stock for the twenty (20) trading days ending no earlier than three days prior to the closing of the Combination.

As a result of the Combination, the current LIVE stockholders will own between 22% and 29% of the combined company, the name of which will be changed to Carolco Entertainment Inc.

The Combination is subject to a number of conditions, including (a) redemption of the Series B Preferred Stock, (b) amendments to the 12% Note Indenture governing the 12% Notes, the Indenture governing the \$40,000,000 in principal amount of LIVE's Increasing Rate Senior Subordinated Notes due 1999, and the terms of the Series C Preferred Stock, (c) delivery of fairness opinions by the independent financial advisors to each company, and (d) the availability of financing commitments at each company prior to the closing of the Combination. The Combination is also subject to the execution of a definitive business combination agreement by no later than May 23, 1994 (unless that date is extended by agreement between LIVE and Carolco) and the subsequent approval of the Combination by a majority of the non-affiliated common stockholders of each of Carolco and LIVE.

Note 3 - Management Changes

On April 15, 1994, Satoshi Matsumoto resigned from the Board of Directors of the Company and Gregory R. Pierson was appointed as a Director of the Company. Mr. Matsumoto's departure from the Board of Directors was not the result of any dispute with the Company.

Rodney W. Trovinger, the Company's Acting Chief Financial Officer, unexpectedly passed away on April 17, 1994. In April 1994, Michael J. White, LIVE's Executive Vice President, Chief Administrative Officer and General Counsel, was appointed Acting Chief Financial Officer of the Company.

Note 4 - Summary of Significant Accounting Policies

Background and Operations: LIVE was formed in 1988 and its largest ongoing businesses are LHV and LEI-IVE Entertainment N.V. ("LIVE NV"), which acquire rights to theatrical motion pictures, children's films and special interest programs which they market and distribute primarily on videocassettes to wholesalers, retailers and consumers in the United States and Canada (LHV) and internationally (LIVE NV). As part of its international activities, the Company also owns an 81% interest in VCL, a home video distribution and marketing company headquartered in Munich, Germany. VCL's year-end is November 30. The Company also operates the Specialty Retail Division. The Specialty Retail Division engages in the retail sale of audio records and tapes, compact discs and video products and consists of 142 stores in the Northeastern United States and the Baltimore/Washington D.C. metropolitan area. The Specialty Retail Division has a January 31 year-end. In March 1994, the Company decided to dispose of its interests in the Specialty Retail Division and VCL. The Company expects the sales to be effected in such a manner whereby the buyers assume all liabilities. Accordingly, the Company's interests in the Specialty Retail Division and VCL have been recorded as "Assets Held For Sale" and "Liabilities Related To Assets Held For Sale." The Company's continuing operations are principally in a single business segment, the distribution and retail sale of a broad variety of entertainment software products.

Principles of Consolidation: The financial statements include the accounts of the Company and its subsidiaries - LHV, the Specialty Retail Division, LIVE NV and VCL. The financial statements reflect the Company's interests in the Specialty Retail Division and VCL as "Assets Held For Sale" and "Liabilities Related To Assets Held For Sale" and have been restated to account for the Specialty Retail Division as a discontinued operation. All significant intercompany balances and transactions have been eliminated.

Note 5 - Litigation

On January 9, 1992, a purported class action lawsuit was filed in the U.S. District Court, Central District of California, by alleged stockholders of the Company against the Company, Carolco and certain of the Company's past and present directors and executive officers. The complaint alleges, among other things, that the defendants violated Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder (a) by concealing the true value of certain of LIVE's assets, and overstating goodwill, stockholders' equity, operating profits and net income in LIVE's Form 10-K for the year ended December 31, 1990, in its 1990 Annual Report and in its Forms

10-Q for the quarters ended March 31, 1991 and June 30, 1991, and (b) by materially understating the true extent of the write off of goodwill in connection with the sale of substantially all of the assets of the Company's wholly owned subsidiary, Lieberman Enterprises Incorporated ("Lieberman"), to Handleman Company ("Handleman") in July 1991. In addition, the complaint alleges that certain of the defendants are liable as controlling persons under Section 20 of the Exchange Act and alleges that certain other defendants are liable for aiding and abetting the primary violations. Subsequently, two additional lawsuits were filed in the U.S. District Court, Central District of California, by alleged stockholders of the Company against the same persons and entities who were defendants in the original actions, making substantially the same allegations as were made in the first lawsuit. On March 30, 1992, these lawsuits were consolidated. Further, in April 1992, an amended complaint was filed in the consolidated action, lengthening the alleged class period and adding as defendants certain additional officers, directors and affiliates of the Company and Carolco, including Pioneer LDCA, Inc. ("Pioneer"), as well as a lender to LHV and Carolco. On June 17, 1992, the U.S. District Court, Central District of California, entered an order conditionally certifying the class, subject to possible decertification after discovery is completed. On January 27, 1993, a second amended complaint was filed in the consolidated class action making additional and modified allegations against certain of the defendants claiming they are liable as controlling persons under Section 20 of the Exchange Act and claiming that certain other defendants are liable for aiding and abetting the primary violations. On April 19, 1993, the court issued a ruling dismissing Pioneer from this lawsuit.

In February 1992, a purported class action lawsuit was filed in the U.S. District Court, District of Delaware, by an alleged holder of Carolco's public debt, against the Company, Carolco and certain directors and executive officers of Carolco. The Delaware complaint alleges, among other things, that the defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by concealing the true value of certain of the Company's assets, and overstating goodwill, stockholders' equity, operating profits and net income in the Company's Form 10-K for the year ended December 31, 1990 and in its Forms 10-Q for the quarters ended March 31, 1991 and June 30, 1991. In April of 1992 this lawsuit was transferred to the U.S. District Court, Central District of California. The proceedings are being coordinated with the consolidated action described in the preceding paragraph. On July 17, 1992, the U.S. District Court, Central District of California, entered an order conditionally certifying the class, subject to possible decertification after discovery is completed.

On March 24, 1994, the same day as the Company and Carolco announced that they had reached agreement in principle on the

Combination, a purported class action lawsuit was filed in the Delaware Chancery Court by an alleged stockholder of the Company against the Company, Carolco, Pioneer, Cinepole Productions B.V. and certain past and present directors of the Company and Carolco. The complaint alleges, among other things, that the defendants breached their fiduciary duties in agreeing in principle to the Combination. The complaint seeks an injunction prohibiting the Company and Carolco from proceeding with the Combination, as well as unspecified monetary damages. In April 1994 two former directors of the Company were dismissed from this action without prejudice.

Management and counsel to the Company are unable to predict the ultimate outcome of the above-described actions at this time. However, the Company and the other defendants believe that all these lawsuits are without merit and intend to defend them vigorously. Accordingly, no provision for any liability which may result has been made in the Company's consolidated financial statements. In the opinion of management, these actions, when finally concluded and determined, will not have a material adverse effect upon the Company's financial position or results of operations.

Other than as described above, there are no material legal proceedings to which LIVE or any of its subsidiaries are a party other than ordinary routine litigation in the ordinary course of business. In the opinion of management (which is based in part on the advice of outside counsel), resolution of these matters will not have a material adverse impact on the Company's financial position or results of operations.

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

Results of Operations

Three Months Ended March 31, 1994 Compared to Three Months Ended March 31, 1993

Continuing Operations

Net sales of LHV decreased to \$18,265,000 during 1994 compared to \$29,532,000 during 1993. The decrease of \$11,267,000, or 38.2%, is primarily attributable to a weaker release schedule in the first quarter of 1994 compared to the first quarter of 1993. LHV released only four rental titles during the three months ended March 31, 1994 compared to eight rental titles during the comparable period in 1993. This is primarily due to the change in management in LHV that occurred in January and February 1994. The new management determined that they would be better able to maximize sales and profits of LHV's titles after they had become

familiar with LHV and its operations. The release of four LHV rental titles originally scheduled for initial release in the first quarter of 1994 will occur until later in 1994.

Gross profits of LHV decreased \$2,453,000, or 45.3%, to \$3,067,000 during 1994 compared to \$5,610,000 during 1993. The decrease in gross profit dollars was primarily related to the decrease in sales. As a percentage of sales, gross profit decreased from 19.0% during 1993 to 16.8% during 1994, primarily due to the decrease in rental sales, which usually generate higher margins.

Selling, general and administrative expenses of LHV decreased \$330,000, or 8.2%, to \$3,716,000 during 1994 compared to \$4,046,000 during 1993. As a percentage of sales, the amount increased from 13.7% during 1993 to 20.4% during 1994. The dollar decrease is primarily a result of the Company's efforts to reduce overhead. The percentage increase is primarily due to the decrease in sales.

Net interest expenses of LHV increased \$711,000, or 143%, to \$1,208,000 during 1994 compared to \$497,000 during 1993. Interest expense increased as a result of the issuance of \$37,000,000 of 12% Notes during March and April of 1993. The entire balance was outstanding during the entire first quarter of 1994.

Preferred dividends of \$937,000 in 1994 and \$767,000 in 1993 represents the 5% cash dividend accrued on both the Series B Preferred Stock and the Series C Preferred Stock.

Discontinued Operations

As a result of the Board of Directors' decision to dispose of the Company's interests in the Specialty Retail Division and VCL, the Division's results of operations for the three months ended March 31, 1993 have been restated and accounted for as a discontinued operation. VCL's operating results for the same period have been restated and accounted for as a disposal of a portion of a line of business. Accordingly, the provision for losses during the phase-out period totaling \$2,024,000 for the Specialty Retail Division and \$3,885,000 for VCL have been accrued and accounted for at December 31, 1993 and are not included in the results of operations for the three months ended March 31, 1994. Losses of \$856,000 and \$930,000 have been charged against the respective provisions during the three months ended March 31, 1994.

Liquidity and Capital Resources

The Series B Preferred Stock is mandatorily redeemable from the net proceeds of any sale of the Specialty Retail Division. As a result of the Company's decision to dispose of its interest in the Specialty Retail Division, a total of \$40,000,000 of the Series B

Preferred Stock has been re-classified from equity to current liabilities at December 31, 1993 and March 31, 1994 reflecting the Company's expectation to sell the Division for no less than \$40,000,000.

At March 31, 1994, the Company had total current assets of \$183,121,000 and total current liabilities of \$182,949,000, resulting in working capital of \$172,000, a decrease of \$5,625,000 over the working capital at December 31, 1993.

Historically, the Company has funded its operations through a combination of cash generated from operations, bank borrowings, advances from distributors under distribution agreements and the proceeds from the issuance of the 12% Notes. For the three months ending March 31, 1994, the Company generated positive cash flow from continuing operations of \$13,500,000.

On May 11, 1992, LHV entered into a three-year distribution agreement with WEA that became effective on June 1, 1992. Under the terms of the agreement, WEA advanced \$20,000,000 to LHV, recoupable from distribution revenues during the three-year term of the agreement at the rate of \$555,555 per month plus interest at LIBOR (3.68% at March 31, 1994) plus 0.2%, not to exceed the prime rate. The advance is secured by a first priority security interest in certain of LHV's FHE catalog titles. The amount of the advance outstanding as of March 31, 1994 was \$8,333,000.

In 1993, the Company received a total of \$37,000,000 upon issuance of the 12% Notes and as of May 1, 1994 was able to borrow up to \$14,249,000 under the Bank Credit Facility for new video rights acquisitions. The total borrowings and borrowing availability under the Bank Credit Facility and the 12% Notes (\$51,249,000 as of May 1, 1994) will provide sufficient funds to permit LHV to acquire additional films for distribution.

Investing activities generated a negative cash flow during the first quarter of 1994 of \$220,000, primarily as a result of the acquisition of property and equipment at LHV.

On January 28, 1994, the Bank Credit Facility was amended. The maximum credit available under the Bank Credit Facility was reduced to \$20,000,000 effective on the date of the amendment. The commitments under the Bank Credit Facility will be further reduced on a monthly basis to \$10,000,000 by June 29, 1994. The term of the Bank Credit Facility ends July 29, 1994 and earlier in the event of a default. Furthermore, the maximum credit amount under the Bank Credit Facility will continue to be further reduced by an amount equal to cash dividends paid on the Series B Preferred Stock and Series C Preferred Stock. On April 1, 1994, cash dividends totaling \$750,000 were paid on the Series B Preferred Stock, thereby reducing the maximum credit currently available under the

Bank Credit Facility to \$15,916,000 as of that date.

As a result of the Company's operating results in 1993, as well as its decision to dispose of the Specialty Retail Division and VCL, the Company was not in compliance with a number of ratios under the Bank Credit Facility and the 12% Note Indenture as of December 31, 1993 and March 31, 1994. The Company is in discussions with the Bank Group to obtain waivers of the non-compliance and management believes that those waivers will be obtained. However, there is no assurance those waivers will be obtained. If the Bank Group waives the non-compliance, such waiver automatically acts as a waiver of the corresponding non-compliance under the 12% Note Indenture. If the Company does not secure the waivers, LHV will be unable to borrow under the Bank Credit Facility. LHV's current projections show that it may not need to borrow under the Bank Credit Facility prior to the July 1994 expiration of the Bank Credit Facility. If the Company does not secure the waivers and if, and only if, the Bank Group exercises its right to terminate the Bank Credit Facility, the holders of the 12% Notes could accelerate payment of the amounts due to them. If such acceleration occurred, an event of default would exist under the Public Notes, allowing the holders of the Public Notes to accelerate payment thereof. In the event of any such accelerations, the Company might not be in a position to pay the amounts due.

Without either replacement facilities or an agreement for extension, the Bank Credit Facility will be due on July 29, 1994 and the 12% Notes will be due on September 15, 1994.

The Company is in negotiations with members of the Bank Group, as well as others, to provide the New Bank Credit Facility prior to the expiration of the Bank Credit Facility. The Company also is in negotiations with holders of \$31,000,000 in principal amount of the 12% Notes to obtain the 12% Note Extension. A condition to obtaining the New Bank Credit Facility is obtaining the 12% Note Extension. Although management believes there is a realistic possibility of obtaining both the New Bank Credit Facility and the 12% Note Extension prior to the expiration of the Bank Credit Facility, there is no assurance that management will be successful in these efforts. If the Company is unable to obtain replacement financing, it may not be in a position to pay the amounts due under the Bank Credit Facility and the 12% Notes upon the maturity thereof and might not be able to continue as a going concern.

The 12% Notes were issued on March 26, 1993. Repayment of the 12% Notes has been guaranteed by the same subsidiaries of LIVE that are borrowers under the Bank Credit Facility. The 12% Notes bear interest at the rate of 12% per annum, with interest payable monthly, and are currently due and payable on September 15, 1994. The 12% Note Indenture includes warranties, financial ratios,

covenants and restrictions which generally mirror the terms of the Bank Credit Facility. Repayment of the 12% Notes is subordinated to repayment of the Bank Credit Facility, and until payment in full and termination of the Bank Credit Facility, the rights of holders of the 12% Notes to accelerate payment thereunder are limited to payment defaults and/or acceleration of the Bank Credit Facility. Repayment of the 12% Notes is secured by a lien on all of the assets of LIVE and LHV, subordinate to the lien under the Bank Credit Facility and other pre-existing liens.

On June 11, 1992, the Specialty Retail Division entered into a two-year \$10,000,000 line of credit with Foothill Capital Corporation (the "Strawberries Credit Facility") to provide working capital as well as funds for expansion for the Specialty Retail Division. Borrowings under the Strawberries Credit Facility are secured by substantially all of the assets of the Specialty Retail Division. Outstanding borrowings under the Strawberries Credit Facility bear interest at the rate of 3.5% per annum above the higher of the Bank of America reference rate or the greater of the Citibank or Mellon Bank prime rate. In no event will interest under the loan be less than 9% per annum or \$25,000 per month. As of the end of the Specialty Retail Division's first fiscal quarter of 1994, \$6,010,000 was outstanding under the Strawberries Credit Facility. In May 1994, the Specialty Retail Division and Foothill Capital Corporation agreed to extend the term of the Strawberries Credit Facility until September 30, 1994 and to increase the maximum credit available thereunder from \$10,000,000 to \$15,000,000. The Specialty Retail Division is currently in the process of attempting to secure a new line of credit. Management of the Specialty Retail Division believes that if a new line of credit cannot be obtained, the Strawberries Credit Facility can be further extended through the end of 1994. Management expects that the Strawberries Credit Facility or a new line of credit, together with funds generated from the operations of the Specialty Retail Division, will be sufficient to provide the Division with all needed capital resources through 1994.

The Specialty Retail Division owns the building housing its corporate headquarters and distribution center in Milford, Massachusetts. In 1988, the Division entered into a \$4,000,000 mortgage loan on this building, bearing interest at the prime rate plus 0.5%, with interest payable monthly, annual principal reduction payments of \$40,000 and a balloon payment of all unpaid principal and interest on August 20, 1993. In July 1993, the Division agreed with the holder of the mortgage loan to change the interest rate to a fixed rate of 9% per annum, to continue annual principal reduction payments of \$40,000 and to extend the balloon payment date to August 20, 1995. The amount outstanding under the mortgage loan as of April 30, 1994 was \$3,800,000.

The Company experienced negative cash flows from financing

activities of \$4,391,000 during the first quarter of 1994 primarily due to payments of bank debt and long term obligations.

The Company's management is taking the following actions to address the liquidity and capital resources issues facing it:

- (a) The Company is in negotiations with members of the Bank Group and other potential financing sources to obtain the New Bank Credit Facility prior to the expiration of the Bank Credit Facility.
- (b) The Company has held preliminary discussions with holders of the 12% Notes regarding obtaining the 12% Note Extension.

Although there is no assurance that the Company will be successful in any of these activities, management believes that there is a realistic possibility of completing all of them during 1994.

If management is successful in its financing efforts, it believes that the Company will have sufficient capital resources to continue to finance its activities, including the continued acquisition of additional film titles.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 9, 1992, a purported class action lawsuit was filed in the U.S. District Court, Central District of California, by alleged stockholders of the Company against the Company, Carolco and certain of the Company's past and present directors and executive officers. The complaint alleges, among other things, that the defendants violated Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder (a) by concealing the true value of certain of LIVE's assets, and overstating goodwill, stockholders' equity, operating profits and net income in LIVE's Form 10-K for the year ended December 31, 1990, in its 1990 Annual Report and in its Forms 10-Q for the quarters ended March 31, 1991 and June 30, 1991, and (b) by materially understating the true extent of the write off of goodwill in connection with the sale of substantially all of the assets of the Company's wholly owned subsidiary, Lieberman Enterprises Incorporated ("Lieberman"), to Handleman Company ("Handleman") in July 1991. In addition, the complaint alleges that certain of the defendants are liable as controlling persons under Section 20 of the Exchange Act and alleges that certain other defendants are liable for aiding and abetting the primary violations. Subsequently, two additional lawsuits were filed in the U.S. District Court, Central District of California, by alleged

stockholders of the Company against the same persons and entities who were defendants in the original actions, making substantially the same allegations as were made in the first lawsuit. On March 30, 1992, these lawsuits were consolidated. Further, in April 1992, an amended complaint was filed in the consolidated action, lengthening the alleged class period and adding as defendants certain additional officers, directors and affiliates of the Company and Carolco, including Pioneer LDCA, Inc. ("Pioneer"), as well as a lender to LHV and Carolco. On June 17, 1992, the U.S. District Court, Central District of California, entered an order conditionally certifying the class, subject to possible decertification after discovery is completed. On January 27, 1993, a second amended complaint was filed in the consolidated class action making additional and modified allegations against certain of the defendants claiming they are liable as controlling persons under Section 20 of the Exchange Act and claiming that certain other defendants are liable for aiding and abetting the primary violations. On April 19, 1993, the court issued a ruling dismissing Pioneer from this lawsuit.

In February 1992, a purported class action lawsuit was filed in the U.S. District Court, District of Delaware, by an alleged holder of Carolco's public debt, against the Company, Carolco and certain directors and executive officers of Carolco. The Delaware complaint alleges, among other things, that the defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by concealing the true value of certain of the Company's assets, and overstating goodwill, stockholders' equity, operating profits and net income in the Company's Form 10-K for the year ended December 31, 1990 and in its Forms 10-Q for the quarters ended March 31, 1991 and June 30, 1991. In April of 1992 this lawsuit was transferred to the U.S. District Court, Central District of California. The proceedings are being coordinated with the consolidated action described in the preceding paragraph. On July 17, 1992, the U.S. District Court, Central District of California, entered an order conditionally certifying the class, subject to possible decertification after discovery is completed.

On March 24, 1994, the same day as the Company and Carolco announced that they had reached agreement in principle on the Combination, a purported class action lawsuit was filed in the Delaware Chancery Court by an alleged stockholder of the Company against the Company, Carolco, Pioneer, Cinepole Productions B.V. and certain past and present directors of the Company and Carolco. The complaint alleges, among other things, that the defendants breached their fiduciary duties in agreeing in principle to the Combination. The complaint seeks an injunction prohibiting the Company and Carolco from proceeding with the Combination, as well as unspecified monetary damages. In April 1994 two former directors of the Company were dismissed from this action without prejudice.

Management and counsel to the Company are unable to predict the ultimate outcome of the above-described actions at this time. However, the Company and the other defendants believe that all these lawsuits are without merit and intend to defend them vigorously. Accordingly, no provision for any liability which may result has been made in the Company's consolidated financial statements. In the opinion of management, these actions, when finally concluded and determined, will not have a material adverse effect upon the Company's financial position or results of operations.

Other than as described above, there are no material legal proceedings to which LIVE or any of its subsidiaries are a party other than ordinary routine litigation in the ordinary course of business. In the opinion of management (which is based in part on the advice of outside counsel), resolution of these matters will not have a material adverse impact on the Company's financial position or results of operations.

ITEM 3(b). DEFAULTS UPON SENIOR SECURITIES - DIVIDEND ARREARAGE ON PREFERRED STOCK

Dividends under the Series C Preferred Stock, at the rate of 5% per annum on the unreturned \$15,000,000 liquidation value of the Series C Preferred Stock, are due on June 30 and December 31 of each year. Although the \$188,000 dividend scheduled to be paid on June 30, 1993 and the \$375,000 dividend scheduled to be paid on December 31, 1993 both were accrued by the Company, those dividends were not paid due to restrictions imposed on the Company by the terms of the Series B Preferred Stock, which prohibit the payment of dividends on the Series C Preferred Stock unless the aggregate amount of such dividends, together with all cash dividends paid on the Series B Preferred Stock, does not exceed the net income of the Company (adding back specified net worth exclusions) since the March 23, 1993 date of issuance of the Series C Preferred Stock and the Series B Preferred Stock. The Company has had a consolidated net loss since March 23, 1993. Thus, pursuant to the terms of the Series B Preferred Stock, the Company was prohibited from paying the June 30, 1993 and December 31, 1993 cash dividends on the Series C Preferred Stock.

The unpaid dividends themselves bear a dividend of 5%, and are due on the next regularly scheduled dividend payment date for the Series C Preferred Stock. The Company intends to pay the unpaid dividends, plus the additional dividends thereon, as soon as it has generated sufficient net income to permit such payment to occur or as soon as the Series B Preferred Stock has been redeemed, provided that such payment does not impair the capital of LIVE and is permitted under the Delaware General Corporation Law.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits: 11 - Computation of Income (Loss) Per
Common Share (Unaudited).

Reports on Form 8-K: None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIVE ENTERTAINMENT INC.

Dated: May ____, 1994

By: /s/ MICHAEL J. WHITE
Michael J. White
Acting Chief Financial Officer

EXHIBIT 11

LIVE ENTERTAINMENT INC. AND SUBSIDIARIES
COMPUTATION OF INCOME (LOSS) PER COMMON SHARE
(Unaudited)
(Amounts in Thousands, Except Per Share Data)

	Three months ended March 31,	
	1993	1994
PRIMARY AND FULLY DILUTED		
Weighted average shares outstanding	12,087	12,094
Net income (loss) from continuing operations.	\$ 340	\$ (2,838)
Net loss from discontinued operations	(1,068)	--
Less preferred dividends.	767	937
Net loss attributable to common stock	\$ (1,495)	\$ (3,775)
Net income (loss) per common share		
Continuing operations.	\$ (0.03)	\$ (0.31)
Discontinued operations.	(0.09)	--
Net loss.	\$ (0.12)	\$ (0.31)