FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **2001-02-02** | Period of Report: **2000-09-30**
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FILER

FIRST NATIONAL ENTERTAINMENT CORP

CIK:**853832**| IRS No.: **931004651** | State of Incorp.:**CO** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **001-12247** | Film No.: **1524168**
SIC: **5731** Radio, tv & consumer electronics stores

Mailing Address
600 ENTERPRISE DRIVE
SUITE 109
OAK BROOK IL 60523

Business Address
6516 WEST NORTH AVE
SUITE 200
CHICAGO IL 60707
7732377460

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark one)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THE FISCAL QUARTER ENDED SEPTEMBER 30, 2000

Commission file No. 0-18866

OR

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

FIRST NATIONAL ENTERTAINMENT CORP.

(Exact name of small business issuer as specified in its charter)

COLORADO	93-1004651
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8150 WEST 111TH STREET, SUITE 9, PALOS HILLS, ILLINOIS 60465

(Address of principal executive offices)

(708)974-4688

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK $0.005 PAR VALUE

(Title of Class)

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 [X]   NO [ ]

As of September 30, 2000 the registrant had outstanding 19,437,458 shares of its $.005 par value Common Stock.

INDEX

Part I - Financial Information

Part II - Other Information and Signatures

PART 1 - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FIRST NATIONAL ENTERTAINMENT CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

September 30,	2000
ASSETS	
Current Assets	
Cash	$ 20,710
Loans Receivable, net of allowance	949,682
Other Real Estate owned, net of allowance	791,371
Notes Receivable, net of allowance	48,000
Other	2,450
Total Current Assets	1,812,213
Real Estate held for development	9,000
Property and equipment, net	7,766
Other Assets	
Film inventory	10,000
Total Other Assets	10,000
TOTAL ASSETS	$1,838,979

See accompanying notes to consolidated financial statements.

FIRST NATIONAL ENTERTAINMENT CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

September 30,	2000
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities	

Short term debt	$ 2,309,675
Accounts payable	127,606
Accrued expenses	277,475
Accrued compensation	141,146
Net Liabilities of discontinued operations	357,932
Total Current Liabilities	3,213,834
Minority interest in consolidated subsidiary	2,788,968
Shareholders' Equity	
Preferred stock, $.001 par value, authorized 10,000,000 shares, no shares issued and outstanding	--
Common stock, $.005 par value, authorized 100,000,000 shares, issued and outstanding: 2000, 19,437,458 shares 1999, 18,637,458 shares	95,190
Paid in capital	27,260,741
Accumulated deficit	(31,519,754)
Total Shareholders' Equity	(4,163,823)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,838,979

See accompanying notes to consolidated financial statements.

FIRST NATIONAL ENTERTAINMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

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For the nine months ended September 30,	2000	1999
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OPERATING REVENUES		

Interest and fees on loans	$ 14,295	$ 473,559
OPERATING EXPENSES		
Marketing, selling & royalties	--	32,571
General and administrative	498,312	827,378
	498,312	859,949
LOSS FROM OPERATIONS	(484,017)	(386,390)
OTHER INCOME (EXPENSE)		
Other	12,410	(240)
Interest Expense	(218,605)	(201,309)
	(206,195)	(201,549)
LOSS FROM CONTINUING OPERATIONS	(690,212)	(587,939)
Discontinued operations		
Gain (Loss) from operation of Prairie Business Credit, Inc.	--	(113,310)
Gain (Loss) from operations of First National Video Corp.	(23,297)	(134,571)
	(23,297)	(247,881)
Net Loss	(713,509)	(835,820)
Dividends on preferred stock of subsidiary	(229,687)	(229,687)
Net loss allocated to common shareholders	$ (943,196)	$ (1,065,507)
Net loss allocated to common shareholders per share		
Loss from continuing operations	$ (.05)	$ (.06)
Discontinued operations	--	--
Net loss allocated to common shareholder per share	$ (.05)	$ (.06)
Weighted average shares outstanding	19,037,458	18,672,458

</TABLE>

See accompanying notes to consolidated financial statements.

FIRST NATIONAL ENTERTAINMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30,	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(690,212)	$(587,939)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Other amortization, depreciation, write-offs	4,266	5,137
Provision for loan losses	26,041	61,000
Changes in operating assets and liabilities, net	200,690	353,960
Discontinued operations	517,738	(165,367)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	58,523	(333,209)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loans (repayment) from/to shareholder	(264,945)	(680,736)
Proceeds from borrowings from shareholder	345,655	665,728
Proceeds from borrowings on notes	--	454,034
Dividends paid on preferred stock of subsidiary	(178,646)	(204,167)
NET CASH (USED IN) FINANCING ACTIVITIES	(97,936)	234,859
NET DECREASE IN CASH	(39,413)	(98,350)
CASH - BEGINNING OF PERIOD	60,123	117,465
CASH - END OF PERIOD	$ 20,710	$ 19,115

See accompanying notes to consolidated financial statements.

Supplemental schedule of non cash finance activities:
Note Receivable exchanged in satisfaction of shareholder debt $ 889,987

FIRST NATIONAL ENTERTAINMENT CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2000 and 1999

NOTE 1 GENERAL

In the opinion of the Company, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of September 30, 2000 (unaudited) and the unaudited results of operations and cash flows for the periods ended September 30, 2000 and 1999. The financial statements have been prepared in accordance with the requirements of Form 10-QSB and consequently do not include all the disclosures normally made in an Annual Report on Form 10-KSB. Accordingly, the consolidated financial statements included herein should be reviewed in conjunction with the financial statements and the footnotes thereto included in the Company's December 31, 1999 Annual Report on Form 10-KSB.

The results of operations for the nine months ended September 30, 2000 and 1999 are not necessarily indicative of the results to be expected for the full year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of First National Entertainment Corp. (a Colorado corporation) and its subsidiaries, Equator Entertainment, First National Finance Corp., and First National Video Corp. (collectively referred to as the "Company"). Effective January 1, 1999, First National Finance Corp. has a wholly owned subsidiary, Prairie Business Credit, Inc., which is also included within the consolidated financial statements. The transaction was accounted for as a purchase. On December 17, 1999 management decided to sell or otherwise dispose of this segment of the business. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles. 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 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.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the Company considers all investments with maturities of three months or less, when purchased, to be cash equivalents.

Loans Receivable: Loans are stated net of the allowance for loan losses and unearned discount. Interest on loans is included in operating revenues over the term of the loan based upon the principal balance outstanding. Where serious doubt exists as to the collectibility of a loan, the accrual of interest in discontinued. Loan fees and direct loan origination costs are deferred and amortized over the term of the loan as a yield adjustment.

The Company has a reserve for unfunded restoration costs which it holds in escrow. Payments are made from time to time as work is completed and documentation is presented to a title company for approval. Funds are disbursed upon a directive from the title company.

Allowance for Loan Losses: An allowance for loan losses has been established to provide for those loans which may not be repaid in their entirety. The allowance is increased by provisions for loan losses charged to expense and decreased by charge-offs, net of recoveries. Although a loan is charged off by management when deemed uncollectible, collection efforts may continue and future recoveries may occur.

The allowance is maintained by management at a level considered adequate to cover losses that are currently anticipated based on past loss experience, general economic conditions, information about specific borrower situations (including their financial position and collateral values) and other factors and estimates which are subject to change over time. Estimating the risk of loss and the amount of loss on any loan is necessarily subjective and ultimate losses may vary from current estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Loans are considered impaired if full principal or interest payments are not anticipated. Each impaired loan is carried at the present value of expected cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to an impaired loan if the present value of cash flows or collateral value indicate the need for an allowance.

For impaired loans and other loans, accrual of interest is discontinued on a loan when management believes, after considering collection efforts and other factors, that the borrower's financial condition is such that collection of interest is doubtful. Cash collections on impaired loans are credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected.

Other Real Estate Owned: Real estate acquired in settlement of a loan is carried at the lower of the recorded investment in the property or its fair value. Prior to foreclosure, the value of the underlying loan is written down to the fair value of the real estate to be acquired by a charge to the allowance for loan losses, if necessary. At the time of foreclosure, an allowance is established for estimated selling costs. Any subsequent write-downs required by changes in estimated fair value or disposal expenses are provided through this allowance and the provision is charged to operating expense. Carrying costs of such properties, net of related income, and gains and losses on their disposition are charged or credited to operating expense as incurred.

Property, Plant, and Equipment: Property, plant, and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 7 years.

Financial Instruments: The Company's financial instruments consist principally of loans receivable and notes payable and are carried at amounts which approximate fair value.

Stock-Based Compensation: On October 23, 1995, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 123, "Accounting for Stock-Based

Compensation." SFAS No. 123 encourages, but does not require, the recognition of compensation expense for grants of stock, stock options, and other equity instruments to employees based on a fair value method of accounting. Companies are permitted to continue to apply the existing accounting rules contained in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APBO No. 25"); however, companies that choose to retain this method of accounting are required to provide expanded disclosures of pro forma net income and earnings per share in the notes to financial statements as if the new fair value method of accounting had been adopted. The Company has elected to continue to apply the accounting principles contained in APBO No. 25.

Income Taxes: The Company accounts for income taxes using the deferred asset and liability method as required by SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes are provided as temporary differences arise between the basis of asset and liabilities for financial reporting and income tax reporting.

Loss Per Share: Earnings per common share (EPS) is computed under the provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Basic loss per common share is computed by dividing net loss

available to common shareholders by the weighted average number of common shares outstanding during the period. Net loss available to common shareholders is calculated by deducting dividends on preferred stock of subsidiary from net loss. Since the Company has experienced net operating losses, the outstanding options and warrants to purchase common stock have an anti-dilutive effect. Therefore, options and warrants were not included in computing dilutive loss per share.

NOTE 3 NOTE RECEIVABLE

	September 30, 2000
10% note due August 15, 2000. Note is secured by second mortgages and other property	$ 48,000
	$ 48,000

NOTE 4 AMORTIZATION OF FILM INVENTORY

Amortization of capitalized film property costs is computed using the individual-film-forecast computation method as promulgated under SFAS No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films". At June 30, 1996, the Company intended to amortize the remaining unamortized film costs for its Happily Ever After property over the next five years, subject to future market conditions altering this accounting estimate.

NOTE 5 LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Leasehold improvements and equipment consisted of the following at September 30, 2000

	2000
Office equipment	24,524
Furniture and fixtures	3,941
	28,465
Less accumulated depreciation	(20,699)
Net property and equipment	$ 7,766

NOTE 6 SHAREHOLDERS' EQUITY

Preferred Stock: The Company has authorized the issuance of 10,000,000 shares of $.0001 par value preferred stock. At September 30, 2000, the Company had not issued any preferred shares.

Common Stock: During the periods ended September 30, 2000 and 1999, respectively, the Company issued 500,000 and 600,000 shares for employee compensation and professional fees valued at $4,000 and $6,000.

In the second quarter of 1996, the Company initiated an equity restructuring program in which the Company issued 1,260,000 shares of its common stock (par value $.005) along with warrants to purchase an additional 1,260,000 shares of its common stock (par value $.005) at $1 share. Total proceeds from the offering amounted to $830,000. On October 6, 1996, the Company's Board of Directors approved and issued an Extension and Optional New Pricing Offer to the holders of these warrants. These 1,260,000 warrants originally entitled the holders to purchase an additional share each of the Company's common stock at a price of $1 through an expiration date of December 15, 1997. The Extension and Optional New

Pricing Offer allows an extension until December 31, 1999, at a share price of $.15 for additional consideration of $.05 per warrant or an extension until December 31, 2000, at a share price of $.05 for additional consideration of $.10 per warrant. During the year ended June 30, 1997, warrants for 800,000 shares were extended to December 31, 1999 and warrants for 200,000 shares were extended to December 31, 2000. Additional paid-in capital of $60,000 was received from these transactions for the period ended June 30, 1997. During 1998, certain warrants previously issued in the six-month period ended December 31, 1998 were canceled and cash of $20,000 was returned. During the quarters ended March 31, 2000 and 1999 no warrants were issued as part of an executive compensation agreement The warrants are convertible to common stock at twenty-five cents a share. There were 29,325,000 warrants outstanding at March 31, 2000.

Stock Options: On May 21, 1993, shareholders approved an incentive stock plan which reserved 3,500,000 shares of the Company's common stock for issuance under the 1993 Incentive Stock Option Plan ("ISO") and the 1993 Non-Qualified Stock Option Plan ("NQSO") (collectively referred to as the "1993 Plan"). The 1993 Plan provides incentives to officers, directors, employees, consultants, and advisors in the form of stock options, subject to certain restrictions. The Company's Board of Directors determines the granting of options under the 1993 Plan, including the exercise period, contingencies, vesting periods, and employee qualifications. Options to be issued under the ISO are intended to qualify as "incentive stock options" under Section 422 of the 1986 Internal Revenue Code (the "Code"), as amended. Options granted under the NQSO are subject to fewer restrictions than the ISO and are considered "Non-Statutory Stock Options" as defined in the Code. As of December 31, 1997, 25,000 options had been issued under the 1993 Plan. These options were issued in August 1993 at the exercise price of $1.53 per share. All of the outstanding options were exercisable at March 31, 2000. No options were exercised during the quarters ended March 31, 2000 and 1999.

Employee Stock Purchase Plan: The Company implemented an Employee Stock Purchase Plan in 1994 which permits substantially all employees to acquire Company common stock. Participating employees may acquire stock at the end of each six-month period (June 30 and December 31 of each year) at a purchase price of 85% of the lower of fair market value at the beginning or end of the period. Employees may designate up to 10% of their base compensation for the purchase of stock under this plan. There are no charges to income in connection with this plan.

ITEM 2.

FIRST NATIONAL ENTERTAINMENT CORP. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF
OPERATIONS AND FINANCIAL CONDITION

OVERVIEW

The Corporation has been consolidating its operations in Corporate and its wholly owned subsidiaries. Despite continued problems in operating cash, the corporation's long term commitment remains intact. Key shareholders have provided additional funding to continuing operating on a severely pared down operating budget. The Corporation will focus on First National Finance and continue to pursue acquisitions which offer shared Federal tax savings.

FIRST NATIONAL FINANCE CORP. ("FNFC") which maintains a portfolio of short term investments in properties for rehab and resale. Also direct company owned projects are rehabbed for sale. These properties are located in the Chicagoland area.

Through nine months, FNFC has continued to sell seized properties which have been completed and positioned itself to undertake direct projects with a cadie of contractors and vendors. Remaining seized properties continue to be completed for sale.

In addition, FNFC continues to fund projects with a significant amount invested in condominium conversions. These are longer term projects, and due to poor cash flow, have effectively been in suspension for months. Currently, key shareholders have supplied new funding to assist in allowing time for the Corporation to obtain funding to complete these projects. Interest revenues are recognized as properties are sold according to generally accepted accounting principles.

The company continues to maintain a position that this type of business can be profitable and needs to convert existing projects into cash which can fund new projects using bank funding to increase the portfolio substantially.

EQUATOR ENTERTAINMENT, INC.("EEI") Although Mr. Peter Keefe, President, has developed significant relationships and potential projects, Equator continues its relationship with Egmonth Imagination - a leading European conglomerate.

Since the parent has funded approximately $650,000 of start up costs to date without generating any revenue, the Board of Directors will decide in the fourth quarter as to whether additional funding is available.

FIRST NATIONAL VIDEO CORP.("FNVC") d/b/a Windy City Video. Despite extraordinary efforts by its employees and management the stores continued to experience significant losses. At this time all stores have been closed. The Corporation is attempting to avoid Bankruptcy by meeting with all creditors and vendors to explain the financial position. Liabilities are significantly in excess of $1,000,000 above assets.

LIQUIDITY AND CAPITAL RESOURCES

During the period the LaSalle Bank has indicated they want the loan repaid at the earliest possible time. During October, 2000 key shareholders, through personal loans, paid off the existing bank loans. The Corporation will make monthly payments to the shareholders to retire this debt in three years.

OTHER IMPORTANT FINANCIAL INFORMATION

Due to unforeseen circumstances the company has moved to 8150 W. 111th St., Palos Hills, Illinois 60465.

The Business Plan established to acquire profitable companies with synergy to utilize significant tax losses continues in force. The Corporation will explore merging the Colorado Corporation into a Delaware Corporation.

Crowe Chizek has resigned as the company's auditors. The company is determining its next course of action regarding this situation.

RESULTS OF OPERATIONS - Nine months Ended September 30, 2000 compared to Nine Months Ended September 30, 1999.

Consolidated Balance Sheet The significant decrease in Loans Receivable is attributable to an erosion of the portfolio due to performance, additional reserves and a reclassification of a portion of the portfolio to Real Estate Owned for Sale. Also, no factored receivables are outstanding as Prairie Business Credit, Inc. was sold in January, 2000. This amount is offset by a equal reduction in liabilities.

Consolidated Statement of Operations

Revenues fell to $14,295 from $473,559 due to closing or sale of the Video stores, sale of PBCI and reduction in interest income on short term loans.

Total operating costs were reduced by $361,637 from the same period last year.

Net loss of ($713,509) compared to $(835,820) is due to reduced revenue in FNFC, certain video store shut down costs and continued support of the Equator Entertainment start-up.

TAXES ON INCOME

Taxes on income are zero due to the cumulative net operating loss carryforwards of approximately $30.6 million at September 30, 2000, for federal tax purposes. The net operating loss carryforwards expire in varying amounts beginning in 2000.

"Forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995 may be included in this report. A variety of factors could cause the Corporation's actual results to differ from the reported results expressed in such forward looking statements. Investors are referred to the Corporations' most recent 10K.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

NONE

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

NONE

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

NONE

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

NONE

ITEM 5 - OTHER INFORMATION

NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

(27) Financial Data Schedule

(b) Reports on Form 8-K

See Form 8-K filed

SIGNATURE

Pursuant to the requirements 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.

First National Entertainment Corp.

Dated: February 1, 2001

/s/ Charles E. Nootens

Charles E. Nootens
President

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FIRST
NATIONAL ENTERTAINMENT CORP'S., BALANCE SHEET AT SEPTEMBER 30, 2000 AND
STATEMENTS OF OPERATIONS FOR NINE MONTHS ENDED SEPTEMBER 30, 2000.
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