Seven Arts Pictures PLC
Form 20-F/A
March 30, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F/A

(Amendment Number 2)

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2009

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to __________

OR

[ ] SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report ………………………………

Seven Arts Pictures PLC
(Exact name of Registrant as specified in its charter)

__________England_____________
(Jurisdiction of incorporation or organization)

38 Hertford Street,London UK W1J 7SG
(Address of principal executive offices)

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

Securities registered pursuant to Section 12(g) of the Act:
Ordinary Shares, £0.25 par value
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the Company's classes of capital or ordinary stock as of the close of the period:

6,927,300 ordinary shares
500,000 convertible redeemable preferred shares
13,184,000 deferred shares

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ___No xxx

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act of 1934. Yes ___No xxx

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 ninety days. Yes ___ No xxx

Indicate by check mark whether the registrant has submitted electronically and posted onits corporate Web site, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes xxx No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer xxx

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ___ International Financial Reporting Standards as issued by the International Accounting Standards Board xxx

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ___ Item 18 xxx

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No N/A xxx

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 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 N/A xxx

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INTRODUCTION

Seven Arts Pictures PLC (“Seven Arts” or the “Company”) was incorporated as Glasgow Park Investments PLC on August 24, 2001 under the English Companies Act of 1985. Pursuant to a resolution passed at a meeting of the shareholders of the Company held on September 11, 2001, the Company changed its name from Glasgow Park Investments PLC to The Cabouchon Collection PLC. Pursuant to a resolution passed at a meeting of the shareholders of the Company that was held on November 6, 2003, the name of the Company was changed to Cabouchon PLC. Pursuant to a resolution passed at a meeting of the shareholders of the Company that was held on September 2, 2004, the name of the Company was changed to Seven Arts Pictures PLC, at the time all motion picture business assets of Seven Arts Pictures Inc. were transferred to a subsidiary of the Company (Seven Arts Filmed Entertainment Limited) pursuant to an Asset Transfer Agreement in exchange for ordinary shares of the Company. Documents concerning the Company which are referred to herein may be inspected during regular hours at the Company's Los Angeles affiliate office located at 6121 Sunset Blvd., Suite 512, Los Angeles, CA 90028 U.S.A.

BUSINESS OF SEVEN ARTS PICTURES PLC

Seven Arts Pictures PLC (“Seven Arts” or the “Company”), an English corporation, is the successor of Seven Arts Pictures Inc. (“SAP”) as a result of an Asset Transfer Agreement under which all motion picture business assets of SAP were transferred to a subsidiary of the Company for ordinary shares of the Company. SAP was founded in 2002 as an independent motion picture production company engaged in developing, financing, producing and licensing theatrical motion pictures with budgets in the range of $2 million to $15 million for exhibition in domestic (i.e. the United States and Canada) and foreign theatrical markets and for subsequent post theatrical worldwide release in other forms of media, including DVD, home video, pay-per-view, and free television. SAP continued the motion picture production and distribution activities of CineVisions incorporated in 1992, which SAP acquired on SAP's initial capitalization pursuant to an Asset Transfer Agreement in October, 2002, which was intended to qualify as a Section 351 transaction under the Internal Revenue Code of 1986, as amended. The Company currently owns interests in 31 completed motion pictures subject in certain instances to the prior financial interests of other parties. (listed in Table 8)

FORWARD-LOOKING STATEMENTS

Certain statements in this document might constitute “forward-looking statements”. Some, but not all, forward-looking statements can be identified by the use of words such as “anticipate,” “believe,” “plan,” “estimate,” “expect,” and “inte statements that an action or event “may,” “might,” “could,” “should,” or “will” be taken or occur, or other similar expressio Although the Company has attempted to identify important factors that could cause actual results to differ materially from expected results, such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or other future events, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following risks: the need for additional financing; uncertainties and risks related to carrying on business in foreign countries; risks associated with third party infringement of copyrights and other intellectual property, especially the unauthorized duplication of motion picture DVDs and unauthorized distribution of motion pictures through the world wide web; risks associated with the lack of enforcement of applicable copyright and intellectual property laws, especially in foreign countries; risks associated with changing copyright and applicable intellectual property laws, especially in foreign countries; risks associated with changing distribution models for motion pictures, especially on the world wide web; risks associated with restrictions of motion picture content, especially in foreign countries; reliance on key personnel; the potential for conflicts of interest among certain officer, directors or promoters of the Company; the absence of dividends; currency fluctuations; competition; dilution; the volatility of the Company’s ordinary share price and volume; and tax consequences to United States Shareholders. Except as required by law, the Company undertakes no obligation to revise any forward-looking statements because of new information, future events or otherwise.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

1.A.1. Directors
N/A
1.A.2. Senior Management
N/A

1.B. Advisors
N/A

1.C. Auditors
N/A

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.
N/A

ITEM 3. KEY INFORMATION.
Note: All data in this report reflects a 5 for 1 reverse stock split enacted on the last day of the December 31, 2008 fiscal period.

3.A.1. Selected Financial Data

The following sets forth a summary of consolidated profit and loss statements for the Fiscal Years ended June 30, 2009 and March 31, 2008 and the three month period ended June 30, 2008 all of which have been derived from the Company's audited consolidated financial statements and related notes included elsewhere in this report. The Company has also included for informational purposes unaudited consolidated profits and loss and balance sheet data for the three month period ended June 30, 2007 extracted from audited consolidated financial statements previously audited by Mazars LLP and prepared under United Kingdom Generally Accepted Accounting Principals ("UK GAAP"). In addition the Company has also included for informational purposes a summary of consolidated profit and loss statements and balance sheet for the Fiscal Years ended March 31, 2007 and March 31, 2006 based on audited consolidated financial statements previously audited by Mazars LLP and prepared under UK GAAP. In 2008, Seven Arts adopted a fiscal year end of June 30. The summary consolidated historical financial and operating information should be read in conjunction with Item 5.A. OPERATING AND FINANCIAL REVIEW AND PROSPECTS -- Operating Results and the consolidated financial statements and the related notes thereto and the other financial information included elsewhere in this report.

Table No.3
(in $ 000's, except per share data)

Summary Profit and Loss Statements (1)	Fiscal Year Ended June 30, 2009	Fiscal Year Ended March 31, 2008	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007 (unaudited)	Fiscal Year Ended March 31, 2007 (UK GAAP)	Fiscal Year Ended March 31, 2006 (UK GAAP)
Total Revenues	$10,232	$3,266	$2,793	$950	$11,208(2)	$13,168
Cost of Sales	($4,663)	($4,088)	($1,302)	($611)	($5,269)	($10,504)
Gross Profit	$5,569	($822)	$1,491	$339	$5,939	$2,664
Other operating expenses	($4,125)	($4,837)	($711)	($1,383)	($2,323)	($1,723)
Other Income	$5,602(3)	-	-	-	-	-
Net interest expense/income	($2,308)	($206)	($423)	($310)	($675)	($128)
Profit Before Taxes	$4,737	($5,044)	$357	($1,354)	$2,940	$813]
Provision for Taxes	$0	$486	$0	$502	($1,099)	($632)
Net Profit/(Loss)	$4,737	($4,557)	$357	($852)	$1,842	$181
Weighted Average Primary Shares Outstanding	6,051.5	4,676.3	4,870.8	4,337.9	2,694.9	2,636.8
Weighted Average Fully Diluted Shares Outstanding	8,146.9	7,851.6	8,255.9	8,188.8	7,454.1	7,436.8
Weighted Average Earnings Per Share (cents)(4)	78	(98)	7	(20)	77	19
Weighted Average Fully Diluted Earnings Per Share (cents) (4)	58	(98)	4	(20)	28	7
Summary Balance Sheet						
Total Debt	$17,828	$261,656(5)	$248,716(5)	$30,976	$20,198	$16,253
Total Assets	$27,270	$302,388(5)	$400,853(5)	$38,999	$37,612	$28,442
Shareholders' Equity (6, 7)	$1,717	$410	$832	$7,974(8)	$8,938(8)	$4,927(8)

(1) Seven Arts changed its fiscal year end from March 31 to June 30 during the fiscal period ended June 30, 2008. The three month results compare the three months ended June 30, 2008 (audited) with the three months ended June

30, 2007 (unaudited).

(2) Under UK GAAP, Seven Arts recorded the $1,623,000 gain attributable to the settlement of debt as revenue in fiscal year ended March 31, 2007, whereas under IFRS it would have been treated as a below the line net income item.

(3) Other income of $5,601,683 recorded in the period ending June 30, 2009 reflects cancellation of indebtedness arising from the decision of a lender to Seven Arts Future Flow 1 ("SFF"), a limited liability company owned by SAP Inc., to take control of twelve motion pictures owned by SFF and pledged to secure an $8,300,000 loan to Arrowhead Target Fund Ltd. ("Arrowhead"). Since the Company no longer controls the licensing of these motion pictures, it has removed all investment in and receivables relating to the pictures pledged to Arrowhead as assets, and has removed all limited recourse indebtedness and accrued interest related to the Arrowhead loan as liabilities from its balance sheet, resulting in a net gain in the above amount.

(4) The attached audited Consolidated Financial Statements for the three month period ended June 30, 2008 and each of the three years ended March 31, 2008, show income per share figures calculated using the weighted average number of shares outstanding in each period. A 5 for 1 reverse stock split occurred on the last day of the December 31, 2008 financial period. The income per share figures in the table above have been adjusted to show the effect of the 5 for 1 reverse stock split as if it had occurred on the first day of the Fiscal Year ended March 31, 2006.
(5) In May 2008, Seven Arts completed a transaction with Zeus Partners LLP that raised capital for investment into the production and distribution costs of the Company's existing and future motion picture productions and acquisitions. The total investment raised was approximately $268,000,000. $10,917,087 of the net proceeds from that transaction received by the Company, which totaled $16,002,766, were accounted for as a reduction in the carrying value of its film costs on the balance sheet, while the balance of approximately $5,085,679 was recorded as fee income in the Fiscal Year ended June 30, 2009.

Accounting for the Zeus investments has resulted in the recognition of substantial assets and liabilities arising from the related financing arrangements for the Fiscal Year ended March 31, 2008 and for the three months ended June 30, 2008. These assets and liabilities are essentially offsetting. The Zeus investments accounted for restricted cash on the balance sheet of $198,405,009 and $112,394,240 as of March 31, 2008 and June 30, 2008, respectively, the creation of receivables from investors of $53,601,395 and $247,322,586, the creation of deferred income of $27,247,893 and $118,067,801 and the creation of short term bank loans aggregating $225,444,481 and $225,478,399. The debt associated with the Zeus transaction was retired with the restricted cash balances on May 19, 2009 and the remaining accounts relating to the Zeus investment were concurrently eliminated from our balance sheet as of that same date. Therefore, the impact of the Zeus investment has been entirely eliminated from the Company's balance sheet as of our Fiscal Year ended June 30, 2009.
(6) Convertible Debentures owned by Langley Park Investment Trust PLC are treated as Shareholder's Equity under IFRS and as Shareholders' Funds under UK GAAP. As of June 30, 2009, the value of such debentures outstanding was approximately $3,432,000 as it was in all periods except March 31, 2006 when it was approximately $5,204,000. Langley converted 1,250,000 of the 3,000,000 Debentures into 1,000,000 ordinary shares on March 15, 2007.
(7) Convertible Preference Shares owned by Armadillo Investment PLC until November 20, 2008, and then by the Company's Employee Benefit Trust ("EBT"), are treated as Shareholders' Equity under IFRS and as Shareholders' Funds under UK GAAP. As of June 30, 2009, the value of the 500,000 preference shares that had not been converted amounted to $1,539,800. For all previous periods the 3,000,000 preference shares were valued at $5,669,000.The EBT converted 2,500,000 of the 3,000,000 Preference Shares into 2,000,000 ordinary shares on November 20, 2008.
(8) Shareholders' Equity for the periods previous to March 31, 2008 included $5,207,599 of goodwill arising from the reverse takeover of Cabouchon plc by Seven Arts. This goodwill was written off when the Company converted to IFRS accounting.

3.A.3. Exchange Rates

Table No. 4 sets forth the exchange rates for the UK pound sterling at the end of the Fiscal Year Ended June 30, 2009, the three months ended June 30, 2008 and the previous Fiscal Years ended March 31 , as well as the average rates for the periods, and the range of high and low rates for the periods. The data for the end of each month during the most recent twelve months is also provided.

For purposes of this table, the rate of exchange means the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. The table sets forth the number of U.S. dollars required under that formula to buy one U.K. pound. The average rate means the average of the exchange rates on the last day of each month during the period.

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Table No. 4
US Dollar to UK Pounds Sterling

Period	Average	High	Low	Close
February 2010	1.5629	1.6069	1.5152	1.5242
January 2010	1.6155	1.6457	1.5896	1.5992
December 2009	1.6239	1.6720	1.5832	1.5928
November 2009	1.6591	1.6877	1.6261	1.6514
October 2009	1.6164	1.6692	1.5707	1.6526
September 2009	1.6332	1.6741	1.5769	1.5922
August 2009	1.6554	1.7042	1.6153	1.6275
July 2009	1.6361	1.6743	1.5983	1.6450
June 2009	1.6355	1.6658	1.5801	1.6520
May 2009	1.5395	1.6194	1.4703	1.6194
April 2009	1.4732	1.5066	1.3653	1.4718
March 2009	1.4170	1.4776	1.3653	1.4214
February 2009	1.4422	1.4936	1.3960	1.4276
January 2009	1.4496	1.5373	1.3501	1.4307
Fiscal Year Ended 6/30/09	1.6170	2.0148	1.3501	1.6520
Three Months Ended 6/30/08	1.9678	1.9952	1.9411	1.9954
Fiscal Year Ended 3/31/08	2.0010	2.0397	1.9715	1.9951
Fiscal Year Ended 3/31/2007	1.8928	1.9915	1.7248	1.9625
Fiscal Year Ended 3/31/2006	1.7863	1.9216	1.7048	1.7398

3.B. Capitalization and Indebtedness
N/A

3.C. Reasons For The Offer And Use Of Proceeds
N/A

3.D. Risk Factors

Risks Relating to The Company's Business

The Company's success depends on certain key employees.

The Company's success depends to a significant extent on the performance of a number of senior management and other key employees, including production and creative personnel. The Company particularly depends upon its Chairman and Chief Executive Officer, Peter Hoffman, whose employment agreement grants him the right, as long as he is employed by the Company, to approve or control all artistic and business decisions regarding motion pictures that the company acquires, produces or distributes. As a result, the Company's success depends to a significant extent on Mr. Hoffman's creative and business decisions regarding the motion pictures acquired, produced and distributed by Seven Arts.

The Company does not have any "key person" life insurance for any of its officers or directors. The Company has entered into employment agreements with its top executive officers. These agreements entitle the Company to possible injunctive relief for breach of the agreements but do not include any "non-compete" covenants. These agreements cannot assure the Company of the continued services of such employees. In addition, competition for the limited number of business, production and creative personnel necessary to create and distribute the Company's entertainment content is intense and may grow in the future. The Company's inability to retain or successfully replace where necessary members of its senior management and other key employees could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company's interests may conflict with those of its Chairman and Chief Executive Officer.

The Company has entered into a series of agreements with Mr. Hoffman and his affiliated companies which may result in the Company's interests differing from theirs (see "6.C.2 Directors' Service Contracts"). One of these agreements concerns a financing arrangement that Seven Arts Pictures, Inc. ("SAP"), a company controlled by Mr. Hoffman, entered into with Cheyne for the production of the Company's motion pictures which has been secured with (i) the motion picture assets on six of the Company's motion pictures and (ii) 1,607,000 of the Company's ordinary shares beneficially owned by Mr. Hoffman. The Company intends to satisfy the obligations under this financing arrangement, and as a result, would retain its rights to the motion picture assets that were used to secure the financing and SAP would maintain its control position in the Company. Satisfying the obligations under this financing arrangement may provide divergent benefits to the Company and to Mr. Hoffman.

Other agreements that the Company has entered into with Mr. Hoffman and his affiliates that may result in conflicts of interest include his employment agreement which grants Mr. Hoffman rights to produce certain "remakes" and "sequels" to the Company's motion pictures and an Intercompany Agreement which provides that SAP will own limited liability companies in the United States, with all distribution rights and profits thereof for the Company's account and provide other services for the Company's account and by which has SAP assigned to the Company any results and proceeds arising from services performed by SAP on the Company's behalf. See 7.B Related Party Transactions.

The Company's failure to repay obligations under the Arrowhead Loan and Cheyne Loan could result in the loss of assets that have been pledged and the loss of the Chief Executive Officer's beneficial interest in the Company's ordinary shares.

Seven Arts Future Flow I ("SFF"), a limited liability company owned by SAP, one of the Company's controlling shareholders and a company controlled by Mr. Hoffman, obtained financing from the Arrowhead Target Fund, Ltd. ("Arrowhead") of approximately $8,300,000 (the "Arrowhead Loan"). The Company secured the Arrowhead Loan with liens on 12 motion pictures that generated revenues of $820,026 in the Fiscal Year Ended June 30, 2009, $2,739,800 in the Fiscal Year Ended March 31, 2008 and $544,478 in the three month period ended June 30, 2008. The Arrowhead Loan is recorded in the Company's audited financial statements as a $8,300,000 liability as of December 31, 2008. The Company's only liability is to repay the Arrowhead Loan from the proceeds of the film assets pledged against the Arrowhead Loan. The Company is not required to repay the Arrowhead Loan from any of its other assets or revenues.

The Arrowhead Loan is now due, and SFF has not paid the outstanding principle and interest due thereon. Arrowhead has the right to foreclose on the pledged film assets, but has not done so at the present time. SFF has received a default notice to this effect, and as a result Arrowhead is now collecting directly all sums receivable by us with respect to these motion pictures, and has appointed a new servicing agent for these motion pictures with the result that we no longer control the licensing of these motion pictures. Failure to repay or refinance the Arrowhead Loan could result in a material disposition of assets through the loss of the Company's rights to thirteen motion pictures and related loss of revenues in amounts that are difficult to predict.

As a result of the foregoing, the Company has removed all investment in, and receivables relating to the thirteen motion pictures pledged to Arrowhead as assets, and has removed all limited recourse indebtedness related to these motion pictures as liabilities from the Company's consolidated balance sheet for the Fiscal Year ended June 30, 2009. Arrowhead has made a claim against the Company by reason of monies the Company has collected from distribution of these motion pictures and not paid to Arrowhead based on the Company's interpretation of the transactional contracts. The Company has established a reserve to cover what management believes is the potential liability that may be claimed in the attached consolidated financial statements .

Arrowhead has also advised the Company that it believes the Company is liable for any deficiencies that may arise from SFF not meeting its obligations under the loan agreement. While Arrowhead has not made a formal claim against the Company, the Company believes it has no obligation to guaranty SFF's financial performance under the loan agreement and should Arrowhead make a demand , the Company intends to vigorously defend itself . Due to the uncertainly of the potential claim, the Company cannot at this time predict the ultimate outcome of this unasserted claim, if any , that may occur and could have a material adverse effect on our business, financial condition and results of operations.

The Company also obtained financing of an aggregate of approximately $7,500,000 from Arrowhead Consulting Group LLC ("ACG") for $1,000,000 and Cheyne for $6,500,000 ("Cheyne Loan") at a rate of interest of 19% and 18% per annum, respectively. SAP, one of the Company's controlling shareholders and a company controlled by Mr. Hoffman, Chief Executive Officer of the Company, secured the ACG Loan and the Cheyne Loan with 1,607,000 of the Company's ordinary shares beneficially owned by Mr. Hoffman (representing approximately 23% of the Company's outstanding shares), and the Company secured ACG Loan and the Cheyne Loan with liens on six motion pictures that generated aggregate revenues of $2,326,078,over the Fiscal Years ended June 30, 2009 and March 31, 2008 and the three month period ended June 30, 2008, plus a second position security interest in the motion pictures pledged under the Arrowhead Loan. The Cheyne Loan matured on September 30, 2007. The Company repaid all sums then due to Cheyne, a sum of approximately $6,500,000, in April 2008, and received an assignment from Cheyne of their senior secured position on the film assets, including Cheyne's subordination agreement with ACG.

ACG has demanded payment of the ACG Loan of $1,000,000. Failure to repay or refinance the ACG Loan could result in the loss of the Company's rights to six motion pictures and the Company's Chief Executive Officer, through his interest in SAP, could lose his equity position in the Company.

The Company faces substantial capital requirements and financial risks.

The Company's business requires a substantial investment of capital. The production, acquisition and distribution of motion pictures require a significant amount of capital. A significant amount of time may elapse between the Company's expenditure of funds and the receipt of commercial revenues or tax credits derived from the production of its motion pictures. This time lapse requires the Company to fund a significant portion of its capital requirements from various financing sources. The Company cannot be certain that it can continue to successfully implement these financing arrangements or that the Company will not be subject to substantial financial risks relating to the production, acquisition, completion and release of future motion pictures. The Company currently employs a variety of structuring techniques, including debt or equity financing, in an effort to achieve its investment objectives. The

Company cannot be certain that it will be able to negotiate structures which accomplish its objectives. The Company intends to increase (through internal growth or acquisition) its production slate or its production budgets, and if the Company does, it will be required to increase overhead and/or make larger up-front payments to talent and, consequently, bear greater financial risks. Any of the foregoing could have a material adverse effect on the business, results of operations and financial condition of the Company.

The costs of producing and marketing feature films have steadily increased and may further increase in the future, which may make it more difficult for a film to generate a profit or compete against other films. The costs of producing and marketing feature films have generally increased in recent years. These costs may continue to increase in the future, which may make it more difficult for the Company's films to generate a profit or compete against other films. Historically, production costs and marketing costs have risen at a higher rate than increases in either the number of domestic admissions to movie theaters or admission ticket prices. A continuation of this trend would leave the Company more dependent on other media, such as home video, television, international markets and new media for revenue, and the revenues from such sources may not be sufficient to offset an increase in the cost of motion picture production. If the Company cannot successfully exploit these other media, it could have a material adverse effect on the business, results of operations and financial condition of the Company.

Budget overruns may adversely affect the Company's business. The Company's business model requires that it be efficient in the production of its motion pictures. Actual motion picture production costs often exceed their budgets, sometimes significantly. The production, completion and distribution of motion pictures are subject to a number of uncertainties, including delays and increased expenditures due to creative differences among key cast members and other key creative personnel or other disruptions or events beyond the control of the Company. Risks such as death or disability of star performers, technical complications with special effects or other aspects of production, shortages of necessary equipment, damage to film negatives, master tapes and recordings or adverse weather conditions may cause cost overruns and delay or frustrate completion of a production. If a motion picture incurs substantial budget overruns, the Company may have to seek additional financing from outside sources to complete production. The Company cannot be sure that such financing on terms acceptable to the Company will be available, and the lack of such financing could have a material adverse effect on the business, results of operations and financial condition of the Company.

In addition, if a motion picture production incurs substantial budget overruns, the Company cannot be sure that it will recoup these costs, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Increased costs incurred with respect to a particular film may result in any such film not being ready for release at the intended time and the postponement to a potentially less favorable time, all of which could cause a decline in box office performance, and, thus, the overall financial success of such film. Budget overruns could also prevent a picture from being completed or released. Although none of these events has occurred to the Company to date, any of the foregoing could have a material adverse effect on the business, results of operations and financial condition of the Company.

A substantial number of Seven Arts' motion pictures did not generate enough revenue to satisfy financing obligations secured by those motion pictures, and the Company's future motion pictures may not generate enough revenue to satisfy obligations entered into to finance their production.

The Company has obtained financing for most of its motion pictures and secured those financings with the assets from those and other motion pictures. If the Company is unable to generate sufficient revenues to repay those obligations under the terms of the financings, the Company loses those motion picture assets and any future revenues that could be derived from those assets. As noted, the revenues of the 12 and 6 motion pictures securing the Arrowhead Loan and the ACG Loan, respectively, have not met the Company's estimates, and as a result, the Company has not been able to repay those loans in the periods set out in those loans. If the Company is unable to amend the terms of those loans or satisfy them otherwise, it could lose those motion picture assets.

Additionally, the Company's revenues from certain tax advantaged transactions were not sufficient to enable it to satisfy a €1,000,000 convertible debenture loan from Trafalgar Capital Special Investment Fund that came due on June 30, 2009. On August 25, 2009 the Company paid Trafalgar $1,000,000 as a partial payment on this loan. The balance on the Trafalgar loan is currently past due.

The Company entered into two senior financing loan and security agreements with Palm Finance Corp ("Palm") to finance the production costs of Pool Boys, Autopsy and Nine Miles Down dated May 7, 2007 and December 17, 2007. These loans are secured by the revenues to be collected from these motion pictures. The revenues so far collected have been insufficient to repay the majority of these loans, primarily as result of management's decision to delay the release of these films to a more beneficial release date. The Company has entered into a forbearance agreement with Palm extending the due date of these loans to June 30, 2010.

On August 27, 2007, the Company borrowed $1,650,000 from Blue Rider Financial ("Blue Rider") to pay for the domestic print and advertising costs for the motion Picture Deal ("Blue Rider Loan") and arranged that the revenues due from Metro-Goldwyn-Mayer Studios Inc. ("MGM") to the Company for the distribution of that motion picture be assigned to Blue Rider Financial as partial security for that loan. To date the revenues paid to the Company from MGM have not yet been sufficient to repay the Blue Rider Loan, primarily as a result of delays by MGM in selling the picture in overseas territories. The Company has therefore entered into an accommodation agreement with Blue Rider to redeem the loan due for $2,200,000, less approximately $515,000 of collections that have been received by Blue Rider to date from MGM.

The Company cannot be sure that a failure to repay these obligations will not make the terms of future financings more onerous or prohibitive. The Company also cannot be sure that its estimates of revenues from motion pictures securing any other current or future financings will be accurate, and that it will be able to satisfy those financings with the revenues from the motion pictures securing those financings. The loss of motion picture assets as a result of any such default would adversely affect the business of the Company.

The Company’s revenues and results of operations may fluctuate significantly.

Revenues and results of operations are difficult to predict and depend on a variety of factors. The Company’s revenues and results of operations depend significantly upon the performance of the motion pictures that it licenses for distribution, which cannot be predicted with certainty. Accordingly, the revenues and results of operations of the Company may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods. Furthermore, largely as a result of these predictive difficulties, the Company may not be able to achieve analysts’ projected earnings. Revisions to projected earnings could cause investors to lose confidence in the Company, which in turn could materially and adversely affect the Company’s business, the Company’s financial condition and the market value of the Company’s securities.

Accounting practices used in the Company’s industry may accentuate fluctuations in operating results. In addition to the cyclical nature of the entertainment industry, The Company’s accounting practices (which are standard for the industry) may accentuate fluctuations in its operating results. While such fluctuations have not occurred to date, the Company may in the future experience such fluctuations due to industry-wide accounting practices. In accordance with IFRS and U.S. generally accepted accounting principles and industry practice, the Company amortizes film and television programming costs using the “individual-film-forecast” method. Under this accounting method, the Company amortizes film costs using the “individual-film-forecast” method, whereby these costs are amortized and participations and residuals costs are accrued in the proportion that current year’s revenue bears to management’s estimate of ultimate revenue at the beginning of the current year expected to be recognized from the exploitation, exhibition or sale of the films. The great majority of a film's costs (80% or more) are generally amortized within three years of the picture's initial release.

Ultimate revenue includes estimates over a period not to exceed ten years following the date of initial release. Film costs are stated at the lower of amortized cost or estimated fair value. Individual film costs are reviewed on a title-by-title basis, when an event or change in circumstances indicates that the fair value of a film is less than its unamortized cost. The fair value of the film is determined using management’s future revenue and cost estimates and a discounted cash flow approach. Additional amortization is recorded in the amount by which the unamortized costs exceed the estimated fair value of the film. Estimates of future revenue involve measurement uncertainty and it is therefore possible that reductions in the carrying value of investment in films may be required as a consequence of changes in management’s future revenue estimates.

The Company depends on a limited number of projects, and the loss or failure of a major project could have a material adverse effect on the business of the Company. The Company’s revenue is generated from a limited number of films. Films that the Company develops, finances, or licenses for distribution vary due to the opportunities available to the Company and to targeted audience response, both of which are unpredictable and subject to change. The loss or failure of a major project could have a material adverse effect on the results of operations and financial condition as well as on the market price of the securities of the Company. The Company cannot be sure that any project it undertakes or participates in will be successful.

The Company relies upon pre-sales, advances and guarantees.

The Company attempts to minimize some of the financial risks normally associated with motion picture production by obtaining, at various stages prior to release of its motion pictures, advances and guarantees from distributors in exchange for distribution rights to such pictures in particular territories. Advances and guarantees paid by a distributor for distribution rights to a film generally represent a minimum purchase price for such rights. While guarantees from distributors reduce some of the financial risk of the Company’s motion pictures by guaranteeing the receipt of certain revenues upon delivery of these motion pictures for distribution, such advances and guarantees do not assure the profitability of the Company’s motion pictures or the Company's operations. While the licensing of distribution rights in exchange for advances and guarantees reduces the risk to the Company with respect to unsuccessful films, it may also result in the Company receiving lower revenues with respect to highly successful films than if such licensing of distribution rights were made upon different terms that, for example, might have provided lower or no advances and guarantees to the Company but also a lower distribution fee (i.e. a lower percentage of gross revenues) to the distributor. The Company believes the international “pre-sale” market has become increasingly difficult to navigate resulting in fewer “pre-sales” with lower minimum guarantees, and this situation may continue for the indefinite future. As the international marketplace for motion pictures demands increasingly costly motion pictures, the Company cannot be certain that the amount of advances and guarantees which it anticipates generating on a given film project will be greater than or equal to its cost of producing such motion picture.

In today's rapidly changing and competitive marketplace for motion pictures, it is possible that the amount of such advances and guarantees alone, after payment of our operating expenses, even if greater than the direct cost to the Company of producing a specific film, will not be sufficient to provide the Company with a significant return on its invested capital. Should the Company incur higher than expected overhead or production expenses, that amount may not be sufficient to provide a return of all or substantially all of the Company’s invested capital. To the extent that the Company does not produce one or more films that generate overages for the Company, there may be a material adverse effect upon the Company and the potential for returns on, and even the return of, the Company’s capital.

The Company has a limited operating history.

The Company’s predecessor was formed in 1992, and later transferred all its motion picture assets to SAP, one of the Company’s controlling shareholders and a company controlled by Peter Hoffman, Chief Executive Officer of the Company, in October, 2002. SAP acquired control of the Company in September 2004 by a transfer of all its motion picture rights to Seven Arts Filmed Entertainment Limited, the Company’s wholly owned subsidiary. Although the Company’s predecessors have a more extensive operating history, the Company began operations in its current form and business strategy in September, 2004. As a result, investors will have only a limited period of motion picture operations to evaluate the performance of the Company.

The Company currently lacks a credit facility.

The Company does not have any credit facility with respect to financing production of its motion pictures. The Company has primarily depended upon financing arrangements tied to specific motion pictures for the funding of its productions. Given the tightening of credit markets, the Company is seeking to establish a credit facility to provide more flexibility in the funding of its productions or operations. The Company cannot be sure that it can secure a credit facility or that, if the Company secures a credit facility, the terms will be favorable to the Company.

The Company faces risks from doing business internationally.

The Company distributes motion pictures outside the United States through third-party licensees and derives revenues from these sources. As a result, the business of the Company is subject to certain risks inherent in international business, many of which are beyond its control. These risks include:

- laws and policies affecting trade, investment and taxes, including laws and policies relating to the repatriation of funds and withholding taxes, and changes in these laws,
- changes in local regulatory requirements, including restrictions on content,
- differing cultural tastes and attitudes,
- differing degrees of protection for intellectual property,
- financial instability and increased market concentration of buyers in foreign television markets, including in European pay television markets,
- the instability of foreign economies and governments and
- war and acts of terrorism.

Events or developments related to these and other risks associated with international trade could adversely affect the Company's revenues from non-U.S. sources, which could have a material adverse effect on the business, financial condition and results of operations of the Company.

Amendments to current laws and regulations governing the Company's operations could have a material adverse impact on its business.

The Company's operations are subject to substantial government regulation, particularly regulations governing the use of tax credits granted during film production in Louisiana, the United Kingdom, Canada and Hungary. The Company receives a substantial portion of the financing for its motion picture production from tax credits and other tax preferred financings. Amendments to current laws and regulations governing these tax credits or other aspects of the Company's business, including intellectual property and censorship laws, could increase the Company's costs of operations, reduce its revenues, jeopardize the ownership of certain assets or increase the cost of financing its motion pictures. Tax regulations, intellectual property laws or other rules and regulations affecting the Company's business may be changed in a manner which may adversely affect the Company and its ability to operate its business plan.

The production of a larger budget motion picture may adversely affect the Company's operating results.

Historically, the Company has primarily produced motion pictures with budgets of between $2 million and $15 million. The Company may occasionally produce a motion picture with a larger budget of between $30 million and $50 million. To produce such a motion picture, the Company believes that it will need to co-produce such motion pictures with major studios, or with one or more other independent production companies, and ensure a studio-wide release and a commitment to cover P&A costs. To date, the Company has not produced or co-produced a motion picture with a budget in that range. The Company cannot be sure that it can successfully produce and distribute motion pictures in that budgetary range, that it can find a major studio to co-produce such motion pictures or that it can secure a studio-wide release or a commitment from a studio to cover P&A costs.

The Company may not be able to execute its distribution strategy with CineWorks Media, LLC.

The Company intends to make an investment from its working capital of up to $3,000,000 of equity in CineWorks Media, LLC, if it completes its current private placement offering, representing less than 10% of CineWork's equity. If CineWorks is formed as was most recently described to the Company, it will be an independent distributor of rights of motion pictures in the United States and Canada. The Company intends to have CineWorks Media distribute some or all of its motion pictures in the United States and Canada. CineWorks Media will be managed separately from the Company. The Company cannot guarantee that it will be able to successfully invest in CineWorks Media, that it will be able to enter into a distribution arrangement on acceptable terms with CineWorks Media or that CineWorks will successfully become a distributor of motion picture rights and that the Company will be able to recoup its investment. A failure of any of the above may result in the Company being unable to execute its proposed change in its distribution strategy in the United States and Canada and losing any investment that the Company may make in CineWorks.

Risks Relating to the Motion Picture Industry

The Company's success depends on external factors in the motion picture industry.

The Company's success depends on the commercial success of motion pictures, which is unpredictable. Operating in the motion picture industry involves a substantial degree of risk. Each motion picture is an individual artistic work, and inherently unpredictable audience reactions primarily determine commercial success. Generally, the popularity of the Company's motion pictures depends on many factors, including public reception, the format of their initial release, for example, theatrical or direct-to-video, the actors and other key talent, their genre and their specific subject matter. The commercial success of the Company's motion pictures also depends upon the quality and acceptance of motion pictures that the Company's competitors release into the marketplace at or near the same time, critical reviews, the availability of alternative forms of entertainment and leisure activities, general economic conditions and other tangible and intangible factors, many of which the Company cannot control and all of which may change. The Company cannot predict the future effects of these factors with certainty, any of which factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

In addition, because a motion picture's performance in ancillary markets, such as home video and pay and free television, is often directly related to its box office performance or television ratings, poor box office results or poor television ratings may negatively affect future revenue streams. The Company's success will depend on the experience and judgment of its management to select and develop new investment and production opportunities. The Company cannot be sure that its motion pictures will obtain favorable reviews or ratings, or that its motion pictures will perform well at the box office or in ancillary markets. The failure to achieve any of the foregoing could have a material adverse effect on the business, results of operations and financial condition of the Company.

Changes in the United States, global or regional economic conditions could adversely affect the profitability of the Company's business. The current severe decrease in economic activity in the United States or in other regions of the world in which the Company does business could adversely affect demand for its films, thus reducing the Company's revenue and earnings. A decline in economic conditions could reduce performance of the Company's theatrical, television and home entertainment releases. In addition, an increase in consumer costs generally, or consumer costs in a particular sector of the entertainment industry, could result in a shift in consumer demand away from the entertainment the Company offers, which could also adversely affect the Company's revenues and, at the same time, increase its costs.

Distributors' failure to promote the Company's programs may adversely affect its business. Licensed distributors' decisions regarding the timing of release and promotional support of the Company's motion pictures and related products are important in determining the success of these pictures and products. The Company does not control the timing and manner in which its licensed distributors distribute the Company's motion pictures. Any decision by those distributors not to distribute or promote one of the Company's motion pictures or related products or to promote the Company's competitors' motion pictures or related products to a greater extent than they promote those of the Company could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company could be adversely affected by strikes, potential strikes or other union job actions. The Company directly or indirectly depends upon highly specialized union members who are essential to the production of motion pictures. A strike by, or a lockout of, one or more of the unions that provide personnel essential to the production of motion pictures could delay or halt the Company's ongoing production activities. In November 2007, the members of the Writer's Guild of America went on strike, and a new agreement was not approved until February 2008. Additionally, the Directors Guild of America and Screen Actors Guild ("SAG") collective bargaining agreements expired in 2008. An agreement has been reached with the Directors Guild and SAG, which agreement expired on June 30, 2008, but the SAG agreement has not yet been approved by SAG members at a scheduled vote. A SAG or other union strike or action, depending on the length of time, could cause a delay or interruption in the production and release of new motion pictures, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Almost all financing of the production of motion pictures by independent production companies involves third parties providing film production completion bonds to guarantee the repayment of the financings upon the abandonment of production if certain conditions are met. Such film completion bonds do not provide for the repayment of the financing if a production is abandoned due to a strike. Without such waivers and in view of a potential strike, there may be dramatically less financing of the production of motion pictures by independent production companies as it will be difficult or impossible to obtain a film production completion bond, and it may be too risky to start films where production could be interrupted by a strike.

The Company faces substantial competition in all aspects of its business.

The Company is smaller and less diversified than many of its competitors. As an independent distributor and producer, the Company constantly competes with major U.S. and international studios and independent producers and distributors. Most of the major U.S. studios are part of large diversified corporate groups with a variety of other operations, including television networks and cable channels, which can provide both the means of distributing their products and stable sources of earnings that may allow them better to offset fluctuations in the financial performance of their motion picture operations. In addition, the major studios and larger independent producers and distributors have more resources with which to compete for ideas, storylines and scripts created by third parties as well as for actors, directors and other personnel required for production. The resources of the major studios and larger independent producers and distributors may also give them an advantage in acquiring other businesses or assets, including film libraries, that the Company might also be interested in acquiring. The Company's inability to compete successfully could have a material adverse effect on the business, results of operations and financial condition of the Company.

The motion picture industry is highly competitive and at times may create an oversupply of motion pictures in the market. The number of motion pictures released by competitors of the Company may create an oversupply of product in the market, reduce the Company's share of box office receipts and make it more difficult for its films to succeed commercially. Oversupply may become most pronounced during peak release times, such as school holidays and national holidays, when theater attendance is expected to be highest. For this reason, and because of its more limited production and advertising budgets, generally provided by third party distributors, the Company typically does not release its films during peak release times, which may also reduce the Company's potential revenues for a particular release. Moreover, the Company cannot guarantee that it can release all of its films when they are otherwise scheduled. In addition to production or other delays that might cause the Company to alter its release schedule, a change in the schedule of a major studio may force the Company to alter the release date of a film because the Company cannot always compete with a major studio's larger promotion campaign. Any such change could adversely impact a film's financial performance. In addition, if the Company cannot change its schedule after such a change by a major studio because it is too close to the release date, the major studio's release and its typically larger promotion budget may adversely impact the financial performance of the Company's film. The foregoing could have a material adverse effect on the business, results of operations and financial condition of the Company.

The limited supply of motion picture screens compounds this product oversupply problem. Currently, a substantial majority of the motion picture screens in the United States typically are committed at any one time to only ten to fifteen films distributed nationally by major studio distributors. In addition, as a result of changes in the theatrical exhibition industry, including reorganizations and consolidations and the fact that major studio releases occupy more screens, the number of screens available to the Company when it wants to release a picture may decrease. If the number of motion picture screens decreases, box office receipts, and the correlating future revenue streams, such as from home video and pay and free television, of the Company's motion pictures may also decrease, which could have a material adverse effect on the business, results of operations and financial condition of the company.

DVD sales have been declining, which may adversely affect the Company's growth prospects and results of operations.

Several factors, including weakening economic conditions, the deteriorating financial condition of major retailers, the maturation of the DVD format, increasing competition for consumer discretionary spending and leisure time, piracy and increased competition for retailer shelf space, are contributing to an industry-wide decline in DVD sales both domestically and internationally. The high definition format war between the HD DVD and Blu-ray formats ended in February 2008 with Toshiba Corporation's announcement of its decision to discontinue its HD DVD businesses; however, reduced consumer discretionary spending in a challenging economic environment, may slow widespread adoption of the Blu-ray format or lead consumers to forego adopting a high definition DVD format altogether, which would adversely affect DVD sales. DVD sales also may be negatively affected as consumers increasingly shift from consuming physical entertainment products to digital forms of entertainment. The motion picture industry faces a challenge in managing the transition from physical to electronic formats in a manner that continues to support the current DVD business and its relationships with large retail customers and yet meets the growing consumer demand for delivery of motion pictures in a variety of electronic formats. The Company cannot be sure that home video wholesale prices can be maintained at current levels, due to aggressive retail pricing, digital competition and other factors. In addition, in the event of a protracted economic downturn, reduced consumer discretionary spending could lead to further declines in DVD sales. A decline in DVD sales may have a disproportionate affect on the Company and its results of operations as a number of the Company's releases only have a limited theatrical release or are released direct-to-DVD.

The Company must successfully respond to rapid technological changes and alternative forms of delivery or storage to remain competitive.

Advances in technologies or alternative methods of product delivery or storage or certain changes in consumer behavior driven by these or other technologies and methods of delivery and storage could have a negative effect on the business of the Company. Examples of such advances in technologies include video-on-demand, new video formats and downloading and streaming from the internet. An increase in video-on-demand could decrease home video rentals. Similarly, further increases in the use of portable digital devices that allow users to view content of their own choosing while avoiding traditional commercial advertisements could adversely affect the revenues of the Company. Other larger entertainment distribution companies will have larger budgets to exploit these growing trends. The Company cannot predict how it will financially participate in the exploitation of its motion pictures through these emerging technologies or whether the Company has the right to do so for certain of its library titles. If the Company cannot successfully exploit these and other emerging technologies, it could have a material adverse effect on the business, results of operations and financial condition of the Company.

Protecting and defending against intellectual property claims may have a material adverse effect on the business of the Company.

The Company's ability to compete depends, in part, upon successful protection of its intellectual property. The Company does not have the financial resources to protect its rights to the same extent as major studios. The Company is not a member of the Motion Picture Association of America ("MPAA") as are the major studios and as a result cannot rely on MPAA resources to prevent piracy and copyright infringements. The Company attempts to protect proprietary and intellectual property rights to its productions through available copyright and trademark laws and licensing and distribution arrangements with reputable international companies in specific territories and media for limited durations. Despite these precautions, existing copyright and trademark laws afford only limited practical protection in certain countries. The Company also distributes its products in other countries in which there is no copyright or trademark protection. As a result, it may be possible for unauthorized third parties to copy and distribute the Company's productions or certain portions or applications of its intended productions, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Litigation may also be necessary in the future to enforce the Company's intellectual property rights, to protect its trade secrets, or to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and the diversion of resources and could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company cannot be sure that infringement or invalidity claims will not materially adversely affect its business, results of operations and financial condition. Regardless of the validity or the success of the assertion of these claims, the Company could incur significant costs and diversion of resources in enforcing its intellectual property rights or in defending against such claims, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Others may assert intellectual property infringement claims against the Company.

One of the risks of the film production business is the possibility that others may claim that the Company's productions and production techniques misappropriate or infringe the intellectual property rights of third parties with respect to their previously developed films, stories, characters, other entertainment or intellectual property. The Company may receive in the future claims of infringement or misappropriation of other parties' proprietary rights, although the Company has to date been served with only one such claim which was settled on favorable terms. Any such assertions or claims may materially adversely affect the business, financial condition or results of operations of the Company. Irrespective of the validity or the successful assertion of such claims, the Company could incur significant costs and diversion of resources in defending against them, which could have a material adverse effect on the business, financial condition or results of operations of the Company. If any claims or actions are asserted against the Company, the Company may seek to settle such claim by obtaining a license from the plaintiff covering the disputed intellectual property rights. The Company cannot be sure, however, that under such circumstances a license, or any other form of settlement, would be available on reasonable terms or at all.

The Company's business involves risks of liability claims for media content, which could adversely affect the business, results of operations and financial condition of the Company.

As a licensor of media content, the Company may face potential liability for:

- defamation,
- invasion of privacy,
- negligence,
- copyright or trademark infringement (as discussed above), and
- other claims based on the nature and content of the materials distributed.

These types of claims have been brought, sometimes successfully, against producers and licensors of media content. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on the business, results of operations, and financial condition of the Company.

Piracy of motion pictures, including digital and internet piracy, may reduce the gross receipts from the exploitation of the Company's films.

Motion picture piracy is extensive in many parts of the world and is made easier by technological advances and the conversion of motion pictures into digital formats. This trend facilitates the creation, transmission and sharing of high quality unauthorized copies of motion pictures in theatrical release, on videotapes and DVDs, from pay-per-view through set top boxes and other devices and through unlicensed broadcasts on free television and the internet. The proliferation of unauthorized copies of these products has had and will likely continue to have an adverse effect on the Company's business, because these unauthorized pirated copies reduce the revenue received from the Company's products. Additionally, to contain this problem, the Company may have to implement elaborate and costly security and anti-piracy measures, which could result in significant expenses and losses of revenue. The Company cannot be sure that even the highest levels of security and anti-piracy measures will prevent piracy.

In particular, unauthorized copying and piracy are prevalent in countries outside of the United States, Canada and Western Europe, whose legal systems may make it difficult for the Company to enforce its intellectual property rights. While the U.S. government has publicly considered implementing trade sanctions against specific countries that, in its opinion, do not make appropriate efforts to prevent copyright infringements of U.S. produced motion pictures, the Company cannot be sure that any such sanctions will be enacted or, if enacted, will be effective. In addition, if enacted, such sanctions could impact the amount of revenue that the Company realizes from the international exploitation of motion pictures. If no embargoes or sanctions are enacted, or if other measures are not taken, the Company may lose revenue as a result of motion picture piracy.

There is a potential for disputes and litigation in the motion picture business.

The motion picture business is more subject to disputes and litigation than comparable businesses. There is a risk of disputes and litigation with financiers, competitors, putative rights owners, unions, producers and other talent, and with distributors. The Company cannot be sure that it will prevail in the event of any disputes or litigation. The Company has failed to prevail in an arbitration regarding 9 ½ Weeks II, which could result in payment by the Company of as much as $700,000. The Company fully reserved for such a payment in the Fiscal Year ended June 30, 2009.

Risks Relating to the Company’s Shares

The Company has not paid dividends to date and does not intend to pay any dividends in the near future.

The Company has never paid dividends on its ordinary shares and presently intends to retain any future earnings to finance the operations of its business. Shareholders may never receive any dividends on their shares.

The exercise of stock options, the conversion of redeemable debentures, or preference shares or the later sales of the Company’s ordinary shares may further dilute shareholders ordinary shares.

The Company has granted approximately 257,500 stock options, issued redeemable debentures convertible into a maximum of 700,000 ordinary shares and issued preference shares convertible into up to 200,000 ordinary shares. The due balance remaining on the Trafalgar Debenture is convertible into approximately 458,000 ordinary shares. The issuance of any ordinary shares pursuant to exercise of such options, redemption of the debentures, redemption of the preference shares, and conversion of the Trafalgar Debenture would be at a per share price below the current market price of the ordinary shares and would dilute the interest of persons acquiring ordinary shares.

The Company’s Board of Directors is authorized to sell additional ordinary shares, or securities convertible into ordinary shares, if in its discretion it determines that such action would be beneficial to the Company.

The Company’s articles of association provide indemnification for officers, directors and employees.

The Company’s governing instruments provide that officers, directors, employees and other agents and their affiliates shall only be liable to the Company for losses, judgments, liabilities and expenses that result from the negligence, misconduct, fraud or other breach of fiduciary obligations. Thus certain alleged errors or omissions might not be actionable by the Company. The governing instruments also provide that, under the broadest circumstances allowed under law, the Company must indemnify its officers, directors, employees and other agents and their affiliates for losses, judgments, liabilities, expenses and amounts paid in settlement of any claims sustained by them in connection with the Company, including liabilities under applicable securities laws.

As a "foreign private issuer,” shareholders may not receive corporate and company information and disclosure that they are accustomed to receiving or in a manner in which they are accustomed to receiving it.

The Company is foreign private issuer, and the rules governing the information that it discloses differ from those governing U.S. corporations pursuant to the Securities Exchange Act of 1934. The Company is not required to file quarterly reports on Form 10-Q or provide current reports on Form 8-K disclosing significant events within four days of their occurrence. In addition, the Company is exempt from the Section 14 proxy rules, and proxy statements that it distributes will not be subject to review by the U.S. Securities and Exchange Commission. The Company’s exemption from Section 16 rules regarding sales of ordinary shares by insiders means that shareholders will have less data in this regard than shareholders of U.S. companies that are subject to the Securities Exchange Act. As a result, shareholders may not have all the data that they are accustomed to having when making investment decisions.

The Company's share price may be volatile, and shareholders may not be able to sell their ordinary shares.

The stock market in general, and the market for motion picture stocks in particular, has experienced extreme price and volume fluctuations. These broad market and industry fluctuations may adversely affect the market price of the Company's ordinary shares, irrespective of its actual operating performance. Additional factors which could influence the market price of the Company's ordinary shares include statements and claims made by the Company and other participants in the motion picture industry and public officials.

If large amounts of the Company's shares held by existing shareholders are sold in the future, the market price of its ordinary shares could decline.

The market price of the Company's ordinary shares could fall substantially if its existing shareholders sell large amounts of the Company's ordinary shares in the public market. These sales, or the possibility that these sales may occur, could also make it more difficult for the Company to sell equity or equity-related securities if it needs to do so in the future to address then-existing financing needs. U.S. federal securities laws requiring the registration or exemption from registration in connection with the sale of securities limit the number of ordinary shares available for sale in the public market.

ITEM 4. INFORMATION ON THE COMPANY

4.A. History and Development of the Company
Introduction
Seven Arts' executive offices are located at:
38 Hertford Street
London W1J 7SG
UK
Telephone: (44 20) 30068222
Facsimile: (323) 372-3790
Website: www.7artspictures.com
Email: info@7artspictures.com

6121 Sunset Blvd., Suite 512
Los Angeles, CA 90028
USA
Telephone: (323) 634-0990
Facsimile: (323) 463-1670
Website: www.7artspictures.com
Email: info@7artspictures.com
The contact person is: Peter M. Hoffman, CEO.

Seven Arts' Fiscal Year ends June 30.

The Company's ordinary shares have traded in the past five years on several different markets. Starting in February of 2009, Seven Arts' shares have been quoted on the NASDAQ Capital Market under the symbol "SAPX". Starting in March of 2008 and continuing until February 12, 2009, the Company's shares had been quoted on the Over-the-Counter Bulletin Board under the symbol "SAPxf". The Company's ordinary shares traded on the Alternative Investment Market in London, England from September 2004 until February 2007 under the symbol "SAPP". Ordinary shares of the Company were listed on the PLUS Market in London, England starting in April 2007 under the symbol "SAPP". The Company notified its shareholders of the decision to de-list the Company's ordinary shares from the PLUS Market on February 25, 2009 and this de-listing was approved by the shareholders at an extraordinary general meeting on March 16, 2009 and the de-listing was effective on March 24, 2009.

The authorized capital of Seven Arts consists of 102,636,800 ordinary shares par value of £0.25 each, 13,184,000 deferred shares of £0.45 each and 6,000,000 convertible redeemable preference shares of £1.00 each.

According to the Company's register on June 30, 2009, there were 6,927,300 ordinary shares of £0.25 each, 13,184,000 deferred shares of £0.45 each and 500,000 convertible redeemable preference shares of £1.00 each issued. The Company issued 2,000,000 ordinary shares to the Seven Arts Employee Benefit Trust on November 20, 2008 on conversion of 2,500,000 convertible preference shares acquired from Armadillo Investments Ltd on October 30, 2008. See Exhibit 18. In addition 12,500 share options were converted to ordinary shares in October, 2008.

Incorporation and Name Changes
The Company was incorporated as Glasgow Park Investments PLC on August 24, 2001, under the English Company Act of 1985. Pursuant to a resolution passed at a meeting of the shareholders of the Company that was held on September 11, 2001, the Company changed its name from Glasgow Park Investments PLC to The Cabouchon Collection PLC. Pursuant to a resolution passed at a meeting of the shareholders of the Company that was held on November 6, 2003, the name of the Company was changed to Cabouchon PLC. Pursuant to a resolution passed at a meeting of the shareholders of the Company that was held on 2 September 2004, the name of the Company was

changed to Seven Arts Pictures PLC, at the time all motion picture business assets of Seven Arts Pictures Inc. were transferred to a subsidiary of the Company (Seven Arts Filmed Entertainment Limited) pursuant to an Asset Transfer Agreement in exchange for ordinary shares of the Company. Documents concerning the Company which are referred to herein may be inspected during regular hour at the Company's Los Angeles affiliate office located at 6121 Sunset Blvd., Suite 512, Los Angeles, CA 90028 U.S.A.

Financings

During the year ended March 31, 2005, Seven Arts issued (A) £3,000,000, of convertible debt to Langley Park Investment Trust PLC (“Langley”) in return for 3,000,000 ordinary shares in Langley valued at approximately $5,204,000, and (B) approximately £3,000,000 of convertible redeemable preference shares to Armadillo Investments plc (“Armadillo”) in return for 3,000,000 ordinary shares from Armadillo, valued at $5,669,000. The Company received actual cash in Fiscal Year 2005 of approximately $2,232,000 through the sale of ordinary shares of Armadillo Investments plc (approximately $1,302,000) and Langley Park Investment Trust PLC, (approximately $930,000). The amounts that the Company received from the sale of a portion of its Armadillo shares and all of its Langley shares were substantially less than the stated value of the debenture and preference shares. Langley converted 1,250,000 of its convertible debenture into 1,000,000 ordinary shares on March 15, 2007. The convertible redeemable preference shares held by Armadillo were acquired by the Seven Arts Employee Benefit Trust (‘Trust”) on October 30, 2008 and 2,500,000 of the preference shares were converted into 2,000,000 of the Company’s ordinary shares on November 20, 2008.

The Company borrowed an aggregate of $7,500,000 from Arrowhead Consulting Group (“ACG”) for $1,000,000 and Cheyne Specialty Finance Fund LP (“Cheyne”) for $6,500,000 in December 2006, secured by certain of the Company’s motion picture assets. The Cheyne Loan and ACG Loan bear interest at 19% and 18% per annum, respectively. The Cheyne Loan matured on September 30, 2007, and Seven Arts repaid $6,500,000 of the Cheyne Loan plus interest thereon, and obtained an assignment of their senior position and subordination agreement with Arrowhead. The remaining $1,000,000 of the ACG Loan is now due and is secured with a pledge of 1,607,000 of ordinary shares of the Company owned by SAP, one of the Company’s controlling shareholders and a company controlled by Peter Hoffman, Chief Executive Officer of Seven Arts. Seven Arts estimates of the amount of time it would take to repay the ACG Loan from the proceeds of the film assets securing the loan have not been met. In October 2008, Seven Arts received a notice of default from ACG in connection with this loan. The ACG Loan is secured by Noise, Deal, Pool Hall Prophets, Boo, A Broken Life, and Mirror Wars and a second position security interest in the motion pictures listed above which are pledged to Arrowhead.

Seven Arts Future Flow I (“SFF”), a limited liability company owned by SAP, one of the Company’s controlling shareholders and a company that is owned by Peter Hoffman, Chief Executive Officer of the Company, obtained financing of $8,300,000 (the "Arrowhead Loan") from Arrowhead Target Fund Ltd. ("Arrowhead") in February 2006, at an interest rate of 15% per annum. Seven Arts secured the Arrowhead Loan with liens on twelve motion pictures. The Company’s only liability was to repay the Arrowhead Loan from the proceeds of the film assets securing the Arrowhead Loan. The specific film assets which secure the Arrowhead Loan were the Company’s distribution rights in the following motion pictures: Asylum, Stander, I’ll Sleep When I’m Dead, No Good Dead, Supercross, Popstar, Red Riding Hood, Johnny Mnemonic, Shattered Image, Never Talk to Strangers, The Hustle, and Shot at Glory. The Company was not required to repay the Arrowhead Loan from any other of its assets or revenues. Seven Arts’ estimates of the amount of time it would take to repay the Arrowhead Loan from the proceeds of the film assets securing the loan have not been met. The Arrowhead Loan matured on February 15, 2009, and was then due in full. SFF received a default notice from Arrowhead to that effect, and as a result Arrowhead is now collecting directly all sums receivable by the Company with respect to these motion pictures and has appointed a new servicing agent for these motion pictures, with the result that Seen Arts no longer controls the licensing of these motion pictures. As a result of the foregoing, the Company had removed all investment and receivables related to the twelve motion pictures pledged to Arrowhead as assets and has removed all limited recourse indebtedness relating to these motion pictures as a liability.

The Company sold 34,000 ordinary shares for $100,000 in June, 2007 and 500,000 ordinary shares for $748,000 and for certain investment banking services in September, 2007 to Unique Fidelity Engineering ltd (“Unique”).

Seven Arts entered into two senior financing loan and security agreements with Palm Finance Corp (“Palm”) to finance the production costs of Pool Boys, Autopsy and Nine Miles Down dated May 7, 2007 and December 17, 2007. These loans are secured by the revenues to be collected from these motion pictures. The revenues so far collected have been insufficient to repay the majority of these loans, primarily as result of management's decision to delay the release of these films to a more beneficial release date. The Company has entered into a forbearance agreement with Palm extending the due date of these loans.

On August 27, 2007 Seven Arts borrowed $1,650,000 from Blue Rider Financial ("Blue Rider") to pay for the domestic print and advertising costs for the motion Picture Deal ("Blue Rider Loan") and arranged that the revenues due from Metro-Goldwyn-Mayer Studios Inc. ("MGM") to the Company for the distribution of that motion picture be assigned to Blue Rider as partial security for that loan. To date the revenues paid to the Company from MGM have not yet been sufficient to repay the Blue Rider Loan, primarily the result of delays in selling the picture in overseas territories. Seven Arts has therefore entered into an accommodation agreement with Blue Rider to redeem the loan due for $2,200,000, less approximately $515,000 of collections that have been received to date from MGM.

On January 29, 2008, the Company entered into a loan agreement with Trafalgar Capital Specialized Investment Fund in the amount of £500,000. See Exhibits 15. This loan has been repaid.

On October 15, 2008 Seven Arts borrowed £1,000,000 ($1,437,800 at the prevailing exchange rate) from Trafalgar Capital Special Investment Fund ("Trafalgar") a portion of which the Company advanced to the EBT for it to use as the first installment for the acquisition of all the Preference Shares owned by Armadillo. On September 2, 2009 Seven Arts repaid Trafalgar $1,000,000 as a partial payment of its loan. The balance of the Trafalgar Loan is currently past due. See Exhibit 19.

On October 30, 2008, the Seven Arts Employee Benefit Trust acquired 3,000,000 of the Company's convertible Preference Shares from Armadillo Investments Plc ("Armadillo") for £1,500,000, to be paid in three equal installments of £500,000 and the return to Armadillo of 1,600,000 ordinary shares of Armadillo, valued at £800,000, for an aggregate purchase price of £2,300,000. The agreed upon purchase price was to be loaned to the EBT by the Company at a nominal interest rate and to date Seven Arts has advanced £500,000 as the first of the three equal installments, together with the 1,600,000 ordinary shares of Armadillo to the EBT, which has paid them over to Armadillo. Seven Arts has guaranteed the second and third installments that the EBT owes to Armadillo, aggregating £1,000,000. The EBT in turn owes the Company £1,475,000 ($2,436,110) and this amount has been booked as a contra asset under share premium, which is a deduction from shareholders' equity. The EBT will owe the Company an additional £1,000,000 when the Company has made good on its obligation. See Exhibits 5 and 18.

The Company and an affiliate entered into three agreements with seventeen UK corporations formed by Zeus Capital Partners for the sale of interest in substantially all motion pictures owned or controlled by the Company for approximately £136,000,000 (approximately $270,000,000) payable in cash on closing and in installments due on June 30, 2008 and September 30, 2008 ("Zeus Transaction"). After provision for expenses and commitments required by the Zeus Transaction, the Company received free cash flow of $16,002,766 which was used to repay the Cheyne Loan, other funded debts of the Company and for working capital. Approximately $10,917,087 of the net proceeds from that transaction received by us, which totaled $16,002,766, were accounted for as a reduction in the carrying value of our film costs on the balance sheet, while the balance of $5,085,679 was recorded as fee income in the Fiscal Year ended June 30, 2009. The loan associated with this transaction was paid off on May 16, 2009. After June 30, 2009 the Company exercised its rights to obtain possession and ownership of the ordinary shares of the 17 corporations which had provided the funds for the Zeus Transaction. The Company intends to liquidate each of these corporations during the fiscal year ended June 30, 2010.

The Company has recently negotiated an additional transaction on terms similar to the Zeus Transaction, and has partially closed on this transaction. Further closures are anticipated during the fiscal year ended June 30, 2010.

4.B. Business Overview

SAP was incorporated in Nevada in October 2002 and acquired control of the Company in September 2004 through an Asset Transfer Agreement under which SAP transferred all its motion picture assets to a subsidiary of Company for ordinary share of the Company. The predecessor company to SAP was CineVisions, a California corporation founded in 1992, and Seven Arts Pictures Limited ("SAPL"), a UK corporation, which was founded in 2000 by Chief Executive Officer and Director Peter Hoffman. Both were created respectively to produce and distribute independent motion pictures, and to provide consulting and financing services within the industry. Upon formation of Seven Arts, motion picture assets previously held by CineVisions and SAPL, including interests in 18 completed films (including the Fireworks Pictures included below) and approximately $2.6 million of expenditures on projects in development were transferred to the Company.

Between 1996 and 1998, CineVisions successfully produced and distributed four motion pictures, including:

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Table 6A: Films Produced and Distributed from 1996-1998*

Film Title	Budget	Talent
Johnny Mnemonic	$24.5M	Cast: Keanu Reeves, Dolph Lundgren, Ice T Director: Robert Longo Writer: William Gibson
Never Talk To Strangers	11.7M	Cast: Rebecca De Mornay, Antonio Banderas, Dennis Miller Director: Sir Peter Hall
9 1/2 Weeks II	12M	Cast: Mickey Rourke, Angie Everhart Director: Anne Goursaud
Shattered Image	7.25M	Cast: Anne Parillaud, William Baldwin Director: Raul Ruiz Producer: Barbet Schroeder, Lloyd Silverman

*Ownership interests in these films were transferred to SAP on October 1, 2002. All interest in 9 ½ Weeks II was transferred by court order (under appeal) to a rights owner.

On or about September 1998, SAPL entered into a joint venture agreement for the production and distribution of motion pictures with Fireworks Pictures, Inc. ("Fireworks") a subsidiary of CanWest Global Entertainment, Inc., a large diversified Canadian media company with interests in broadcasting and newspapers. Pursuant to that joint venture, Fireworks and SAPL have produced or acquired and distributed 11 motion pictures (the "Fireworks Pictures"), including certain motion pictures described below. SAPL's interest in the Fireworks Pictures (but no liability) and all of the CineVisions pictures were transferred to the Company in September 2004, pursuant to an Asset Transfer Agreement with a subsidiary of the Company in exchange for the Company's ordinary shares.

Through SAPL, Mr. Hoffman successfully produced and acquired the following films with Fireworks:

Table 6B: Films Produced and Acquired by SAPL and Fireworks1 , 2

1 See "Risk Factors" on Fireworks litigation.

2 SAPL ownership interests in these films were transferred to SAP on October 1, 2002, and to Seven Arts in September 2004.

Film Title	Budget	Talent
Onegin	$15.0M	Cast: Ralph Fiennes, Liv Tyler Director: Martha Fiennes Writer: Michael Ignatieff, Peter Eitedgui
The Believer (3)	3.0M	Cast: Ryan Gosling, Billy Zane Writer/Director: Henry Bean
American Rhapsody	3.5M	Cast: Nastassja Kinski, Tony Goldwyn, Scarlett Johansson Writer/Director: Eva Gardos
Cletis Tout	15.0M	Cast: Christian Slater, Tim Allen, Portia DeRossi, Richard Dreyfuss Director: Chris Ver Weil
Interstate 60	10.0M	Cast: James Marsden, Kurt Russell, Amy Smart, Gary Oldman Director: Bob Gale Writer: Chris Ver Weil

Through SAPL, Mr. Hoffman co-financed three additional motion pictures in conjunction with Fireworks and Paramount. These pictures include:

Table 6C: Films Produced and Acquired by SAPL 1 and Fireworks 2

1 SAPL ownership interests in these films were transferred to SAP on October 1, 2002, and to Seven Arts in September 2004.
2 See "Risk Factors" on Fireworks litigation.

Film Title	Budget	Talent
Rules of Engagement	$52.0M	Cast: Tommy Lee Jones, Samuel Jackson Director: William Friedkin Writer: Stephan Gagan, James Webb
Rat Race	55.0M	Cast: Cuba Gooding Jr., Rowan Atkinson Director: Jerry Zucker
Hardball	47.0M	Cast: Keanu Reeves Writer/Director: Brian Robbins

Completed Films. In total the Company and its predecessors have produced or acquired interest in the 32 feature films to date described below in Table 8, exclusive of the Fireworks Pictures. The Company owns (directly or through grants of all rights in perpetuity) the copyright to each picture designated as "CR" in Table 8 and for all other pictures in Table 8 own the distribution rights for at least all territories outside the United States and Canada for no less than 15 years.

Production. The Company is an independent production company engaged primarily in the development, financing, production and licensing of theatrical motion pictures for exhibition in domestic and international theatrical markets, and for subsequent worldwide release in other forms of media, including home video and pay and free television. The number of pictures that the Company has been able to make has depended upon the funds available to it. The pictures are selected according to several key criteria formulated to maximize the profit potential of the Company's films. The Company "pre-sells" its films to worldwide markets. In addition, the Company is now entitled to receive "overages" if a film generates significantly more net revenue than the advance given to any market. (See "Distribution" section for more detailed discussion of overages.)

The Company is submitted from 50 to 100 film projects or completed films in any given year, which generally include a "package" of a screenplay and certain talent elements (e.g. producer, director and cast). The Company in certain limited cases will arrange for the creation of a screenplay and the "packaging" of creative elements (e.g. producer, director and cast). The Company commissions independent production budgets of certain projects to evaluate the project's suitability for production or distribution. The Company selects projects for production or acquisition based on management's belief that it can license the worldwide distribution rights to the film for an amount greater than the projected production budget and will be a "quality" or "good" motion picture, as well as management's belief that the key creative elements (the director and the two cast members most prominent in the film) are likely to be both responsible and artistically gifted in creation of motion picture entertainment. There are no "rules" or specific strategic limitations on the Company's choice of motion pictures to produce or distribute, other than the Company will rarely consider a motion picture with a production cost in excess of $15,000,000.

The Company, through an affiliate Seven Arts Pictures Louisiana LLC, has acquired real property at 807 Esplanade Avenue in New Orleans, Louisiana and intends to develop this property as a production and post production facility for the Company's productions in Louisiana. The Company has to date produced or acquired eight motion pictures produced under the Louisiana Film Incentive Act which provides substantial transferable tax credits for film production activities in Louisiana.

Distribution . The Company licenses most of the foreign territories prior to and during the production of each picture. The Company licenses the territories either for a fixed price or shares in the revenues generated by the picture. The Company arranges its "pre-sales" and licenses through its existing staff. In a typical foreign license agreement currently used by the Company, the Company licenses a picture before it is produced or completed for an advance from the licensee against revenues generated through distribution of the picture in the licensee's territory. The Company seeks to receive a cash deposit plus a letter of credit or "bank letter" for the balance payable 10-20% on execution and the balance on delivery. The license grants the foreign distribution company the right to release the picture in all or certain media in their territory for a predetermined time period. After this time, the distribution rights revert back to the Company, which is then free to re-license the picture. The license specifies that the foreign distributor is entitled to recoup its advance from the revenue generated by the release of the picture in all markets in its territory, as well as its release costs and distribution fees. After the foreign distributor has recouped its advance, costs and fees, any remaining revenue is shared with the Company according to a predetermined formula. This is known as an "overage" and can be a significant source of revenue for the Company from successful films. However, a film's poor reception in one market does not preclude it from achieving success in another market and generating significant additional revenue for the Company in the form of an "overage" in that territory. In all of the Company's licensing arrangements, the Company retains ownership of its films and maintains its control of each copyright. The Company intends to continue the practice of retaining underlying rights to its film projects in order to build up a library of films to license or sell in the future.

The Company has organized and is promoting the sale of $50,000,000 of units (at $1,000,000 per unit) in a limited liability company currently named CineWorks Media, in a private placement under Regulation D of the Securities and Exchange Act of 1934. The Company intends to acquire between one and ten units in CineVisions Media, which intends to become an independent distributor of all rights in motion pictures in the United States and Canada. CineWorks Media will be managed separately from the Company. The Company anticipates that all its motion pictures will be distributed in the United States and Canada through CineWorks Media, if the company is capitalized, except for motion pictures committed to other distributors prior to the formation of CineWorks Media.

Finance. The Company has created a separate finance plan for each motion picture it has produced and hence the sources of the funds for production of that motion picture vary according to each finance plan. The Company utilizes "tax-preferred" financing (e.g. tax credits, sale/lease back transactions and direct subsidies), "mezzanine" or "gap" funds that are senior to Seven Arts equity and tax preferred funds, and senior secured financings with commercial bank (e.g. Comerica Bank and First California Bank) or private lenders (e.g. Blue Rider Pictures, A-Mark Entertainment, Parallel Pictures and the "hedge funds" discussed herein), together in certain cases with a limited investment from the Company (e.g. less than 10% of the production budget). No generalization is possible as to the amount any of these sources of funds utilized on any particular motion picture. The Company always obtains some advances or guarantees prior to commitment to production of a motion picture project, but those amounts may not be substantial on smaller budgeted motion picture (e.g. under $10,000,000), and in certain cases the Company has committed to production with an unsubstantial amount of advances and guarantees. The Company will likely not commit to production of larger budget motion pictures (e.g. over $15,000,000) and has never in the past committed to such production, without substantial advances or guarantees from third party distributors or the equivalent in "non-recourse" financings.

Plan Of Operations

Source of Funds for Fiscal Years Ending June 30, 2009, and Fiscal Years Ending March 31, 2008, 2007, and 2006.

Seven Arts' primary source of funds since incorporation has been funds provided from the distribution of films, loans secured by the Company's motion pictures, tax credits, third party investments and tax preferred investments in the Company's motion pictures, and the proceeds of the sale of redeemable convertible preferred stock and debentures. See Exhibits 4 and 5 attached hereto.

Use of Funds for Fiscal Years Ending June 30, 2009, three month period ended June 30, 2008, and Fiscal Years Ending March 31, 2008, 2007, and 2006.

In each of the last four Fiscal Years, Seven Arts has expended between $2,500,000 and $3,000,000 on general /administrative expenses, which principally include salaries, payroll taxes, rents, travel and entertainment, and outside professional fees (legal, audit, sales, and tax advice) and the Company anticipates that it will expend a similar amount in Fiscal Year 2010. The Company's major cash outlays in these years has been for the acquisition and production of motion pictures. In Fiscal Years 2009, 2008 and 2007, Seven Arts expended approximately $10,000,000, $16,000,000 ($20,000,000 including the three month period ended June 30, 2009), and $17,500,000, respectively on the acquisition or production of motion pictures. The Company anticipates expenditure of a lesser amount on production and acquisition of motion pictures in Fiscal Year ended June 30, 2010, but expects that outlays will increase substantially in the following Fiscal Year.

Anticipated Changes to Facilities/Employees

The Company's employees and locations are two rented premises in Los Angeles and London and approximately 14 employees and consultants as of June 30, 2009. Management anticipates no changes to either facilities or employees in the near future.

United States vs. Foreign Sales

	Year ended June 30, 2009	Year ended March 31, 2008	3 months ended June 30, 2008
Europe	$ 563,753	$ 1,726,841	$ 568,061
North America	2,278,490	884,936	2,086,902
South America	173,536	222,673	0
Africa and Middle East	100,511	6,178	26,447

Asia	366,815	401,580	86,706
Australia	734,804	23,600	24,720
Total	$ 4,217,909	$ 3,265,808	$ 2,792,836

Profits before taxes for each of the periods relate to the above geographical markets in approximately the same proportion as total revenues. The net assets of the Group are also considered to relate to the above geographical markets in approximately the same proportion as total revenues.

Film revenues consist of minimum guarantees from distributors recognized when a film becomes available for release in that territory, royalties either collected or receivable and other fees or income associated with the sale of the Group's motion pictures.

Fee related revenues in the period ending June 30, 2009 consisted of:

1. $5,085,679 of net fee income derived from the Zeus transaction, a structured finance transaction with UK investors who invested in certain of the Group’s motion picture and distribution activities. The Zeus transaction resulted in a net benefit to the Group of $16, 534,142, of which $10, 917,087 has been applied as a reduction in certain of the Group's motion picture costs and the balance has been recorded as fee income. The Zeus transaction has been fully accounted for.

2. Tax credit revenues of $928,634 resulting from certain infra-structure expenditures relating to its post-production facilities in Louisiana made by the Group.

All of the Group's revenues and profits before taxes in each of the three periods derived from the financing, production and distribution of films.

Regulation of the Motion Picture Industry

A key element in the motion picture industry involves intellectual property law. In this respect, the Company conducts its business through the control and exploitation of the copyrights and trademarks that may underlie its properties; therefore, domestic and international laws affecting intellectual property have a significant importance to the Company. Distribution rights to motion pictures are granted legal protection under the copyright laws of the United States and most foreign countries, which laws provide substantial civil and criminal actions for unauthorized duplication and exhibition of motion pictures. Motion pictures, musical works, sound recordings, art work, still photography and motion picture properties are separate works subject to copyright under most copyright laws, including the United States Copyright Act of 1976, as amended (the "Copyright Act"). Under the Copyright Act, motion pictures are allowed a copyright term of 95 years.

The Company currently takes appropriate and reasonable measures to secure, protect and maintain certain agreements to secure, protect and maintain copyright protection for all Company pictures under the laws of applicable jurisdictions; however, there can be no assurance that such measures will adequately protect the Company's properties, or that enforcement of its rights will not be financially prohibitive. Management is aware of reports of extensive unauthorized misappropriation of video rights to motion pictures, which may include the Company's motion pictures. Further, the Company is aware of reports of outright "pirating" of video properties, especially outside of the United States where enforcement of copyright laws is more difficult, if not impossible.

The Code and Ratings Administration of the MPAA (Motion Picture Association of America), an industry trade association, assigns ratings indicating age-group suitability for theatrical distribution of motion pictures. The Company will follow the practice of submitting its motion pictures for such ratings. A substantial number of the Company's films may be rated "R" by the MPAA, which means that children under certain ages may, under rules enforced by theatrical exhibitors, view the applicable motion picture only if accompanied by an adult. The Company's general policy is to produce or acquire motion pictures that qualify for a rating no more restrictive than "R." The NC-17 rating and its acceptance by distributors also presents an uncertainty in the demand for the feature films with this rating, as there is a very limited history of films with this rating. The Company does not anticipate that any of its films will be rated NC-17.

United States television stations and networks, as well as foreign governments, impose additional restrictions on the content of motion pictures, which may restrict in whole or in part theatrical or television exhibition in particular, territories. Management's practice will be to produce motion pictures for which there will be no material restrictions on exhibition in any major territories or media. This practice often requires the production of "cover shots" or different photography and recording of certain scenes for insertion in versions of motion picture exhibited on television or theatrically in certain territories where governmental restrictions are relatively more stringent. No assurance can be given that current and future restrictions on the content of the Company's motion pictures may not limit or affect the Company's ability to exhibit certain of its pictures in certain territories and media.

Seasonality
Dependency upon Patents/Licenses/Contracts/Processes
Sources/Availability of Raw Materials
N/A

4.C. Organization Structure

The following is the corporate organization chart of Seven Arts and its subsidiaries as of June 30, 2009 (with share ownership as of June 30, 2009):

Table 7

4.D. Property, Plant and Equipment

Seven Arts' executive offices are located in rented premises of approximately 3,500 sq. ft. at 6121 Sunset Blvd., Suite 512 , Los Angeles, California US 90028 (rented by its affiliate Seven Arts Pictures Inc.) and 38 Hertford Street, London UK W1J 7SG. Seven Arts and its affiliates began occupying these facilities on about May, 2008 (US) and November 2007 (UK). Monthly rent is approximately $10,000.

In total Seven Arts and its predecessors have produced or acquired interests in the following 33 motion pictures to date described below in Table 8. Seven Arts owns (directly or through grants of all rights in perpetuity or at least theatrical, video, and television rights) the copyright to each picture designated as "CR" in the table below, which are the pictures produced or co-produced by the Company, and for all other pictures in table below Seven Arts owns all material and distribution rights in the markets in which the Company operates for at least all territories outside the United States and Canada for no less than 15 years, which generally are the motion pictures the Company acquires for distribution only. Historically, in any financial period a small number of motion pictures have accounted for the vast majority of Seven Arts' revenues generated from the Company's motion picture library.

The Company has lost the right to manage twelve motion pictures (designated "+" in the table below) by way of the exercise by the Arrowhead Target Fund of its rights under the Arrowhead Loan described above in "Risk Factors" p.11.

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Table 8

Title	Talent	Delivery Date	1st U.S. Release	Date Distribution Rights Terminate
American Summer aka The Pool Boys (CR)	Cast: Matthew Lillard Director: J.B. Rogers			