Seven Arts Pictures PLC
Form F-1/A
August 03, 2010

As filed with the Securities and Exchange Commission on August 3, 2010
File No. 333-168118

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

AMENDMENT NO. 1 TO
FORM F-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SEVEN ARTS PICTURES PLC
(Exact name of registrant as specified in its charter)

| England | 7812 | [Not Applicable] |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

38 Hertford Street
London, UK W1J7SG
44 (203) 006-8222
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Sprecher Grier Halberstam LLP
Attention: John Bottomley
One America Square, Crosswall
London, EC3N 2SG
Telephone: + 44 (207) 264 4444
Facsimile: +44 (207) 264 4440
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
Peter M. Hoffman
Chief Executive Officer
6121 Sunset Boulevard
Los Angeles, CA 90028
Telephone: 323.634.0990
Facsimile: 323.463.1670

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to Be Registered | Amount to be Registered | | Proposed Maximum Offering Price per Share(1) | Proposed Maximum Aggregate Offering Price(1) | Amount of Registration Fee (3) |
|---|---|---|---|---|---|
| C Ordinary Shares | 6,900,000 | (2) | U.S.$1.55 | U.S.$10,695,000 | U.S.$983.94 |
| Underwriters Warrants | 300,000 | | -- | -- | -- |
| Shares Underlying the Underwriters Warrants | 300,000 | | U.S.$1.94 | U.S.$582,000 | U.S.53.54 |
| Total | 7,200,000 | | | U.S.$11,277,000 | U.S.$1,037.48 |

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457 under the Securities Act.

(2) Includes 6,000,000 ordinary shares offered hereby and 900,000 ordinary shares related to the over-allotment option granted to the underwriters' representative. Pursuant to Rule 416, there are also being registered such indeterminable number of additional ordinary shares as may be issued under the warrants to the underwriters' representative to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(3) In accordance with Rule 457(p), $1,037.48 of the currently due registration fee has been offset by registration fees previously paid with respect to unsold shares under prior registration statements filed by the Registrant, including a Registration Statement on Form F-1 (No. 333-158562) filed on April 14, 2009 and a Registration Statement on Form F-1 (No. 333-158669) filed on April 24, 2009.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Subject to completion, dated August 3, 2010.

SEVEN ARTS PICTURES PLC

This is a firm commitment public offering of [--] ordinary shares. One of our shareholders has granted [--], the underwriters' representative, an option to purchase up to [--] additional ordinary shares to cover over-allotments. We have also granted the underwriters' representative warrants to purchase up to [---] of our ordinary shares.

Our ordinary shares are quoted on the NASDAQ Capital Market under the symbol "SAPX." On _______, the last reported market price of our ordinary shares was _____ per share.

| | Public offering price | Underwriting discount and commissions (1) | Proceeds to us, before expenses (2) |
|---|---|---|---|
| Per Share | $ | $ | $ |
| | | | |
| Total | $ | $ | $ |

(1) Does not include a non-accountable expense allowance equal to 1% of the gross proceeds of this offering payable to [--], the underwriters' representative.
(2) We estimate that the total expenses of this offering, excluding the underwriters' discount and non-accountable expense allowance, will be approximately $175,000.

The shares issuable upon exercise of the underwriter over-allotment option and the warrants are identical to those offered to the public by this prospectus and have been registered under the registration statement of which this prospectus forms a part.

Investing in our securities involves certain risks.See"RiskFactors"beginning on page [--]of this prospectus for a discussion of information that should be considered in connection with an investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver our shares to purchasers in the offering on or about ______, 2010.

[--]

The date of this prospectus is [ ], 2010

TABLE OF CONTENTS



You should rely only on the information contained or incorporated by reference to this prospectus in deciding whether to purchase our shares. We have not authorized anyone to provide you with information different from that contained in or incorporated by reference into this prospectus. Under no circumstances should the delivery to you of this prospectus or any sale made pursuant to this prospectus create any implication that the information contained in this prospectus is correct as of any time after the date of this prospectus. To the extent that any facts or events arising after the date of this prospectus, individually or in the aggregate, represent a fundamental change in the information presented in this prospectus, this prospectus will be updated to the extent required by law.

We obtained statistical data, market data and other industry data and forecasts used throughout this prospectus from market research, publicly available information and industry publications. Industry publications generally state that they obtain their information from sources that they believe to be reliable, but they do not guarantee the accuracy and completeness of the information. Nevertheless, we are responsible for the accuracy and completeness of the historical information presented in this prospectus, as of the date of the prospectus.

# PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus but may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire prospectus. In this prospectus, the words “Seven Arts”, “Company”, “we”, “our”, “ours” and “us” refer to Seven Arts Pictures PLC and its subsidiaries, u otherwise stated or the context otherwise requires. All references in this prospectus to the number of ordinary shares to be issued by us in the offering exclude any ordinary shares acquired by underwriters pursuant to their over-allotment option or underwriters’ warrants included elsewhere in this prospectus.

## Our Company

We are 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. We endeavor to release many of our motion pictures into wide-theatrical exhibition initially; however, certain of our motion pictures will either receive only a limited theatrical release, or may even be released directly to post theatrical markets, primarily DVD. Those pictures that receive either a limited theatrical release or a post theatrical release typically benefit from lower prints and advertising (“P & A”) costs and, in turn, may enjoy greater gross profit margins.

Our recent domestic theatrical releases include Deal (April 2008), Noise (May 2008) and Autopsy (January 2009), all three of which received limited US theatrical releases. We have completed the production of and expect to release for domestic theatrical exhibition three additional motion pictures prior to December 31, 2010, notably The Pool Boys, Nine Miles Down and Night of the Demons. We currently have six motion pictures in development that we anticipate will be released within the next two to three years (i.e., 2011 – 2013) Catwalk, Waxwork, Mortal Armor: The Legend of Galahad, Romeo Spy, The Winter Queen and Neuromancer. Catwalk is expected to commence production in 2010. We may supplement these motion pictures releases with certain lower cost pictures not yet fully developed, as well as with selected third party acquisitions.

Since 1996, we and our predecessors have produced 16 motion pictures (13 of which have been released) and have acquired rights to an additional 28 motion pictures. Ten of these motion pictures are controlled by ContentFilm. As a result we currently have a library of 33 completed motion pictures. Thirteen of these 33 motion pictures are controlled by a former hedge fund investor, which receives all of the revenues from these pictures. A substantial portion of our library revenues are derived from only a few of our library titles. Through a combination of new productions and selected acquisitions, we plan to increase our film library to 50 to 75 pictures over the next five years.

Our recent business model has focused on distribution in the post-theatrical markets for lower-cost, "genre" motion pictures. These pictures have enjoyed only a very limited theatrical release. However, as a result of both licensing of distribution rights prior to completion, as well as the use of tax-preferred financing, they have generated revenue from post-theatrical markets (i.e., video and television distribution). While we expect to continue to make such pictures, our goal is to obtain a wider theatrical release for the majority of the pictures we intend to release over the next two to three years.

We recorded total revenues of $2,982,977 and a profit after taxes of $536,790 during the six month interim period ended December 31, 2009 compared to total revenues of $1,700,905 and a loss after taxes of $(2,481,370) in the six month period ended December 31, 2008. We recorded total revenues of $10,232,223 and a profit after taxes of $4,736,965 in the fiscal year ended June 30, 2009 compared to total revenues of $3,265,808 and a loss after taxes of ($4,557,885) in the fiscal year ended March 31, 2008. During the three month “stub” period ended June 30, 2008 we recorded revenues of $2,792,836 and profits after taxes of $356,621, compared to revenues of $950,000 and a loss after taxes of ($852,000) in the comparable three month period ended June 30, 2007.

Our Business Strategy

Our current business strategy is:

To finance, produce and distribute two to four motion pictures in-house per year with budgets between $2 million and $15 million each. As previously stated, we expect that certain of these pictures will receive only a limited theatrical release, while others will be released more widely.

To supplement our core strategy by producing an occasional higher cost motion picture (production budgets of $30 - $50 million). We will, in all likelihood seek to co-produce such projects with a major studio to guarantee a studio-wide release and obtain a commitment to cover a portion or all of P&A costs.

To opportunistically acquire distribution rights to an additional two to five motion pictures produced by others, each year, for distribution in theatrical, video and television markets, as an agent, for a 15%-20% fee.

To maximize our current use of tax-preferred financing structures around the world to fund our motion picture productions.

2

To continue to reduce our financial risk on motion pictures we produce in-house, by pre-selling certain rights to distributors prior to and during production, although we recognize that, particularly in the last two years, the pre-sale market has become more difficult to access as a film financing tool.

To enter into partnerships with theatrical and video distributors, to gain more control over and increase our share of revenue from the distribution of our motion pictures.

To scale our business over time by modestly increasing the number of pictures we develop and produce in-house as well as by more aggressively seeking to acquire for distribution motion pictures produced by third parties.

We believe that this is a particularly opportune time to be producing and distributing moderately priced motion pictures as, according to their public announcements, the major studios plan to reduce the number of pictures that they finance and distribute, to concentrate instead resources on a limited number of high-priced, “franchise” productions. In addition, we believe that certain of the most successful independent motion picture companies have either been acquired or are focusing on higher budget films. We believe that these factors will make available exceptional levels of both talent and projects for lower budget motion pictures and independent film companies such as Seven Arts.

Our Competitive Strength

We believe our competitive strengths are:

- The experience of our management and our relationships with independent motion picture distributors. Our management has participated in the production and/or distribution of more than one hundred motion pictures since 1986.

- Our relationships with “key talent” and with independent motion picture distributors around the world.

- Cost-efficient budgets, low overhead, use of pre-sales to license our motion pictures for a fee to third-party distributors prior to completion of production, and use of third party equity investors.

- Our expertise in structuring tax-preferred financings in jurisdictions where such are made available.

Corporate Information

Seven Arts is a corporation organized under the laws of England and Wales. Our principal executive offices are located at 38 Hertford Street, London, UK W1J 7SG. Our telephone number is 44 (203) 006 8222. The US offices of our affiliate (Seven Arts Pictures Inc.) are located at 6121 Sunset Blvd., Suite 512, Los Angeles, CA 90028. Our US telephone number is (323) 634 0990.

Corporate Organization

The organization of the Company and its affiliates is set forth below:

THE OFFERING

| | |
|---|---|
| Securities Offered | [--] ordinary shares (or [--] if the underwriters' representative exercises its over-allotment option in full) |
| Ordinary Shares | |
| Number of ordinary shares outstanding before this offering | 7,817,300 ordinary shares |
| Number of ordinary shares outstanding after this offering(1) | [--] ordinary shares |
| Use of Proceeds | We intend to use the net proceeds of this offering to repay all, or a portion of, indebtedness of approximately $[--]. The remaining net proceeds will be used for working capital and general corporate purposes. |
| NASDAQ Capital Market | SAPX |
| Lock-Up Agreements | All of our officers and directors have agreed that, for a period of six months following completion of this offering, they will be subject to a lock-up agreement prohibiting any sales or hedging transactions of our securities owned by them. See "Lock-Up" on page [--]. |
| Risk Factors | The securities offered by this prospectus are speculative and involve a high degree of risk, and investors purchasing securities should not purchase the securities unless they can afford the loss of their entire investment. See "Risk Factors" beginning on page [--]. |

(1) Excludes 700,000 ordinary shares to be returned to us in connection with the repayment of a loan. See "Use of Proceeds."

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following sets forth a summary of consolidated profit and loss and balance sheet statements for the six month periods ended December 31, 2009 and December 31, 2008, for the fiscal years ended June 30, 2009 and March 31, 2008 and for the three month period ended June 30, 2008, prepared under International Financial Reporting Standards (“IFRS”). All of the foregoing except the summary of consolidated profit and loss and balance sheet statements for the six month periods ended December 31, 2009 and December 31, 2008, have been derived from our audited consolidated financial statements and related notes included elsewhere in this prospectus. The summary of consolidated profit and loss and balance sheet statements for the six month periods ended December 31, 2009 and December 31, 2008 have been derived from our unaudited condensed consolidated financial statements which are also included elsewhere in this prospectus. We have also included for informational purposes unaudited consolidated profits and loss for the three months ended June 30, 2007 extracted from audited consolidated financial statements prepared under United Kingdom Generally Accepted Accounting Principles. In addition we have included for informational purposes a summary of consolidated profit and loss statements for the fiscal years ended March 31, 2007 and March 31, 2006. In 2008, we adopted a fiscal year-end of June 30, and in 2009 we elected to report under IFRS. The summary consolidated historical financial and operating information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the related notes thereto and the other financial information included elsewhere in this prospectus.

The historical results included below and elsewhere in this prospectus are not indicative of our future performance.

Summary Financial Data
(in $ 000's, except per share data)

| Summary Profit and Loss Statements (1) | Six Months Ended December 31, 2009 (unaudited) | Six Months Ended December 31, 2008 (unaudited) | 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 (2) | $2,983 | $1,701 | $10,232 | $3,266 | $2,793 | $950 | $11,208 (3) | $13,168 |
| Gross Profit/(Loss) | $2,180 | $180 | $5,569 | $(822) | $1,491 | $339 | $5,939 (3) | $2,664 |
| Net Profit/(Loss) | $537 | $(2,481) | $4,737 (4) | $(4,557) | $357 | $(852) | $1,842 | $181 |
| Weighted Average Primary Shares Outstanding | 6,934.7 | 5,204.2 | 6,051.50 | 4,676.30 | 4,870.80 | 4,337.90 | 2,694.90 | 2,636.80 |
| Weighted Average Fully Diluted Shares Outstanding | 8,100.7 | 8,397.6 | 8,146.90 | 7,851.60 | 8,255.90 | 8,188.80 | 7,454.10 | 7,436.80 |
| Weighted Average Earnings Per Share (cents)(5) | 8 | (48) | 78 | (98) | 7 | (20) | 77 | 19 |
| Weighted Average Fully Diluted Earnings Per Share (cents) (5) | 7 | (48) | 58 | (98) | 4 | (20) | 28 | 7 |
| Summary Balance Sheet | | | | | | | | |
| Total Debt | $17,137 | $189,229 (6) | $17,828 | $261,656 (6) | $248,716 (6) | $30,976 | $20,198 | $16,253 |
| Total Assets | $29,014 | $196,117 (6) | $27,270 | $302,388 (6) | $400,853 (6) | $38,999 | $37,612 | $28,442 |
| Shareholders' Equity (7,8) | $2,217 | $(5,641) | $1,717 | $410 | $832 | $7,974 (9) | $8,938 (9) | $4,927 (9) |

7

(1) We changed our fiscal year-end from March 31 to June 30 during the period ending 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) Total revenues increased from $1,700,905 for the six month period ended December 31, 2008 to $2,982,976 in the six month period ended December 31, 2009. Revenues in the most recent period included $1,796,140 in net fee income derived from a structured film and distribution cost financing with UK investors and an additional producer fee of $487,397 associated with a film produced in Louisiana. Revenues derived from the exploitation of motion pictures decreased from $1,700,905 in the six month period ended December 31, 2008 to $699,439 in the most recent period.

(3) Under UK GAAP we 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.

(4) Net Profit includes other income of $5,601,683 recorded in the period ending June 30, 2009 reflecting 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 we no longer control the licensing of these motion pictures, we have removed all investment in and receivables relating to the pictures pledged to Arrowhead as assets, and have removed all limited recourse indebtedness and accrued interest related to the Arrowhead loan as liabilities from our balance sheet, resulting in a net gain in the above amount.

(5) The attached audited Consolidated Financial Statements for the fiscal years ended June 30, 2009 and March 31, 2008, and the three month period ended June 30, 2008, prepared under IFRS 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 December 31, 2008. The income per share figures in the table above have been adjusted from the figures shown in prior financial statements 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.

(6) In May 2008, we completed a transaction with Zeus Partners LLP that raised capital for investment into the production and distribution costs of our existing and future motion picture productions and acquisitions. The total investment raised was approximately $268,000,000. $10,917,087 of the $16,002,766 that we retained in net proceeds from the transaction was 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.

Accounting for the Zeus investments has resulted in the recognition of substantial assets and liabilities arising from the related financing arrangements for the six months ended December 31, 2008, 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, $112,394,240 and $164,127,416 as of March 31, 2008, June 30, 2008 and December 31, 2008, respectively, the creation of receivables from investors of $53,601,395, $247,322,586 and $0 the creation of deferred income of $27,247,893, $118,067,801 and $5,085,679 and the creation of short term bank loans aggregating $225,444,481, $225,478,399 and $162,528,954. 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

.

(7) Convertible Debentures with no redemption date owned by Langley Park Investment Trust PLC ("Langley") are treated as Shareholders' 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.

(8) Convertible Preference Shares owned by Armadillo Investment Plc until November 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. EBT converted 2,500,000 of the preference shares into 2,000,000 ordinary shares on November 20, 2008 and the remaining 500,000 preference shares into 400,000 ordinary shares on May 25, 2010.

(9) Shareholders' Equity for the periods previous to March 31, 2008 included $5,207,599 of goodwill arising from our reverse takeover of Cabouchon Collection Plc. This goodwill was written off when we converted to IFRS.

RISK FACTORS

You should carefully consider the risks described below, together with all of the other information included in this report, before making an investment decision with regard to our securities. The statements contained in or incorporated into this prospectus that are not historic facts are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements. If any of the following risks actually occurs, our business, financial condition or results of operations could be harmed. In that case, the trading price of our ordinary shares could decline, and you may lose all or part of your investment.

Risks Relating to Our Business

Our success depends on certain key employees.

Our success depends to a significant extent on the performance of a number of senior management and other key employees, including production and creative personnel. We particularly depend upon our Chief Executive Officer, Peter Hoffman, whose employment agreement grants him the right, as long as he is employed by us, to approve or control all artistic and business decisions regarding motion pictures that we acquire, produce or distribute. As a result, our success depends to a significant extent on Mr. Hoffman's creative and business decisions regarding the motion pictures we acquire, produce and distribute.

We do not have any "key person" insurance on the lives of any of our officers or directors. We have entered into employment agreements with our top executive officers. These agreements entitle us to possible injunctive relief for breach of the agreements, but do not include any "non-compete" covenants. These agreements cannot assure us 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 our entertainment content is intense and may grow in the future. Our inability to retain or successfully replace where necessary members of our senior management and other key employees could have a material adverse effect on our business, results of operations and financial condition.

Our interests may conflict with those of our Chief Executive Officer.

We have entered into a series of agreements with Mr. Hoffman and his affiliated companies that may result in our interests differing from theirs (see "Certain Related Transactions"). One of these agreements concerns a financing arrangement that Seven Arts Pictures, Inc. ("SAP"), a company controlled by Mr. Hoffman, entered into with Cheyne Specialty Finance Fund L.P. ("Cheyne") for the production of our movies, which has been secured with (i) six of our motion pictures and (ii) 1,607,000 of our ordinary shares beneficially owned by Mr. Hoffman. Satisfying our debts to Cheyne may provide divergent benefits to us and to Mr. Hoffman. Other agreements that we have entered into with Mr. Hoffman and his affiliates that may result in conflicts of interest include his employment agreement, which grants him rights to produce certain "remakes" and "sequels" to our 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 our account and provide other services for our account and according to which SAP has assigned to us any results and proceeds arising from services performed by SAP on our behalf. See "Certain Related Transactions."

Our failure to repay obligations under the Arrowhead Loan and Cheyne Loan has resulted in the loss of control of assets that we pledged and could result in the loss of our Chief Executive Officer's beneficial interest in our ordinary shares and ownership of these assets.

Seven Arts Future Flow I ("SFF"), a limited liability company owned by SAP, one of our affiliates and a company controlled by Mr. Hoffman, obtained financing from the Arrowhead Target Fund, Ltd. ("Arrowhead") of approximately $8,300,000 (the "Arrowhead Loan"). We secured the Arrowhead Loan with liens on twelve 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 had been recorded in our audited financial statements as an $8,300,000 liability as of June 30, 2008. Although the loan is secured by certain assets of Seven Arts Future Flows I, LLC, the Company is not required to repay the Arrowhead Loan from any of our other assets or revenues.

The Arrowhead Loan was due on March 31, 2009, and SFF did not pay the outstanding principal and interest due thereon. Arrowhead had the right to foreclose on the pledged film assets, but has not done so. SFF has, however, received a default notice to that 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 our rights to twelve motion pictures and related loss of revenues in amounts that are difficult to predict.

As a result of the foregoing, we have removed all investment in and receivables relating to the twelve motion pictures pledged to Arrowhead as assets and have removed all limited recourse indebtedness related to these motion pictures as liabilities from our consolidated balance sheet for the fiscal year ended June 30, 2009. Arrowhead has made a claim against us by reason of certain monies we have collected from distribution of these motion pictures and not paid to Arrowhead based on our interpretation of the transactional contracts. We have fully reserved in the attached consolidated financial statements the amount that management believes is the potential liability that may be claimed by Arrowhead.

Arrowhead has also advised us that it believes that we are liable for any deficiencies that may arise from SFF's not meeting its obligations under the loan agreement. While Arrowhead has not made a formal claim against us, we believe we have no obligation to guarantee SFF's financial performance under the loan agreement, and, should Arrowhead make a demand, we intend to vigorously defend our position. Due to the uncertainly of the potential claim, we 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.

We 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 our affiliates, which is controlled by Mr. Hoffman, our Chief Executive Officer, secured the ACG Loan and the Cheyne Loan with 1,607,000 of our ordinary shares beneficially owned by Mr. Hoffman (representing approximately 23% of our outstanding shares), and we secured the ACG Loan and the Cheyne Loan with liens on six motion pictures that generated revenues of approximately $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. A subsidiary of ours repaid all sums then due to Cheyne, a sum of approximately $6,500,000, on or about 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 and has filed suit therefore. (See Management's Discussion and Analysis of Results and Operations – Legal Proceedings) Failure to prevail in this litigation or to repay or refinance the ACG Loan could result in the loss of our rights to six motion pictures. In addition, our Chief Executive Officer, through his interest in SAP, could lose his equity position in our company.

We face substantial capital requirements and financial risks.

Our business requires substantial investments of capital. The production, acquisition and distribution of motion pictures require a significant amount of capital. A significant amount of time may elapse between our expenditure of funds and the receipt of commercial revenues or tax credits derived from the production of our motion pictures. This time lapse requires us to fund a significant portion of our capital requirements from various financing sources. We cannot be certain that we can continue to successfully implement these financing arrangements or that we will not be subject to substantial financial risks relating to the production, acquisition, completion and release of future motion pictures. We currently employ a variety of structuring techniques, including debt or equity financing, in efforts to achieve our investment objectives. We cannot be certain that we will be able to negotiate structures that accomplish our objectives. We intend to increase (through internal growth or acquisition) our production slate or our production budgets, and, if we do, we 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 our business, results of operations and financial condition.

The costs of producing and marketing feature films have steadily increased and may further increase in the future, making it more difficult for a film to generate a profit. 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 our 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 us more dependent on other media, such as home video, television, international markets and new media for revenue, which may not be sufficient to offset an increase in the cost of motion picture production. If we cannot successfully exploit these other media, it could have a material adverse effect on our business, results of operations and financial condition.

Budget overruns may adversely affect our business. Our business model requires that we be efficient in the production of our 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 our control. 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, we may have to seek additional financing from outside sources to complete production, which may not be available on suitable terms. We cannot assure you that such financing on terms acceptable to us will be available, and the lack of such financing could have a material adverse effect on our business, results of operations and financial condition.

In addition, if a motion picture production incurs substantial budget overruns, we cannot assure you that we will recoup these costs, which could have a material adverse effect on our business, results of operations and financial condition. 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 us to date, any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

A substantial number of our motion pictures did not generate enough revenue to satisfy financing obligations secured by those motion pictures and other obligations, and our future motion pictures may not generate enough revenue to satisfy obligations entered into to finance their production.

We have obtained financing for most of our motion pictures and secured those financings with the assets from those and other motion pictures. If we are unable to generate sufficient revenues to repay those obligations under the terms of the financings, we lose those motion picture assets and any future revenues that we could derive 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 our estimates, and, as a result, we have not been able to repay those loans in the periods set out in those loans. If we are unable to amend the terms of those loans or satisfy them otherwise, we could lose those motion picture assets.

Additionally, our revenues from certain tax advantaged transactions were not sufficient to enable us to satisfy a €1,000,000 convertible debenture loan from Trafalgar Capital Special Investment Fund (“Trafalgar”) that came due on June 30, 2009. As a result, we defaulted on a payment of €1,000,000 plus interest to Trafalgar Capital Special Investment Fund in June 2009. On September 2, 2009 we paid Trafalgar $1,000,000 as a partial payment against the convertible debenture. On June 22, 2010 we entered into an amended agreement with Trafalgar for an extension of the due date of the convertible debentures to December 31, 2010 and the issuance of 340,000 ordinary shares.

We entered into two senior financing loan and security agreements with Palm Finance Corp ("Palm") to finance the production costs of The 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. We have entered into a forbearance agreement with Palm extending the due date of these loans to June 30, 2010 and are negotiating for an additional extension to December 31, 2010. Failure to extend such forbearance agreement or to repay the Palm loan could result in Palm's foreclosure of its interests in these three motion pictures.

On August 27, 2007, we borrowed $1,650,000 from Blue Rider Financial ("Blue Rider") to pay for the domestic prints 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 us 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 us from MGM have not yet been sufficient to repay the Blue Rider Loan. We have 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.

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

Our revenues and results of operations may fluctuate significantly.

Revenues and results of operations are difficult to predict and depend on a variety of factors. Our revenues and results of operations depend significantly upon the performance of the motion pictures that we license for distribution, which we cannot predict with certainty. Accordingly, our revenues and results of operations 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, we may not be able to achieve analysts' projected earnings. Revisions to projected earnings could cause investors to lose confidence in us, which in turn could materially and adversely affect our business, our financial condition and the market value of our securities.

Accounting practices used in our industry may accentuate fluctuations in operating results. In addition to the cyclical nature of the entertainment industry, industry accounting practices may accentuate fluctuations in our operating results. While such fluctuations have not occurred to date, we 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, we amortize film and television programming 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 the film's 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.

We depend on a limited number of projects, and the loss or failure of a major project could have a material adverse effect on our business. Our revenue is generated from a limited number of films. Films that we develop, finance, or license for distribution vary due to the opportunities available to us 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 our results of operations and financial condition as well as on the market price of our securities. We cannot assure you that any project we undertake or participate in will be successful.

We rely upon pre-sales, advances and guarantees.

We attempt to minimize some of the financial risks normally associated with motion picture production by obtaining, at various stages prior to release of our 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 advances and guarantees reduce some of the financial risk of our motion pictures, they do not assure the profitability of our motion pictures or our Company's operations and, it may also result in our receiving lower revenues with respect to successful films. We believe that international "pre-sales" have become increasingly difficult to obtain resulting in fewer "pre-sales" with lower minimum guarantees, and this situation may continue for the indefinite future. As the international marketplace demands increasingly costly motion pictures, we cannot be certain that the amount of advances and guarantees which we anticipate generating on a given film project will exceed our 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 our direct cost of producing a specific film, will not be sufficient to provide us with a significant return on our invested capital. Should we incur higher than expected overhead or production expenses, that amount may not be sufficient to provide a return of all or substantially all of our invested capital. To the extent that we do not produce one or more films that generate overages for us, there may be a material adverse effect upon our Company and the potential for returns on, and even the return of, our capital.

We rely on tax preference and tax credit transactions for a substantial portion of our revenues and recovery of film costs.

We have received substantial monies as revenues and recovery of investments in motion picture production and distribution costs from tax preference and tax credit transactions in the United States and other countries. We cannot be certain that such revenues and cost recoveries will be available to us in future periods.

Our executive officers, directors and principal shareholders will continue to control our company after the offering.

After this offering, our directors, executive officers, entities affiliated with our directors and our executive officers and our principal shareholders owning more than 5% will beneficially own in the aggregate approximately 19.5% of our outstanding ordinary shares. Accordingly, these persons, acting together, will have the ability to substantially influence all matters submitted to our shareholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. These persons will also have the ability to control our management and affairs. Accordingly, the concentration of ownership may have the effect of delaying, deferring or preventing a change in control, impeding a merger, consolidation, takeover or other business combination involving us or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, even if that transaction would be beneficial to other shareholders.

Additionally, we have entered into an Intercompany Agreement with SAP, a company controlled by our Chief Executive Officer, Peter Hoffman. Pursuant to the Intercompany Agreement, we granted SAP the power and authority to enter into agreements on our behalf. Although under the terms of the agreement, SAP is not to take any actions on our behalf without our approval; in practice we have not required SAP to receive our prior approval. If our board of directors continues to allow SAP to take actions under this agreement without board approval, SAP and, indirectly, Peter Hoffman will have a level of control over our operations that exists outside of our management structure.

We have a limited operating history.

Our predecessor was formed in 1992, and later transferred all its motion picture assets to SAP in October, 2002. SAP acquired control of our company in September 2004 by a transfer of all its motion picture rights to Seven Arts Filmed Entertainment Limited, our wholly owned subsidiary. Although our predecessors have a more extensive operating history, our company began operations in its current form and business strategy in October, 2004. As a result, investors will have only a limited period of motion picture operations to evaluate our performance.

We currently lack a credit facility.

We do not have any credit facility with respect to financing production of our motion pictures. We have primarily depended upon financing arrangements tied to specific motion pictures for the funding of our productions. Given the tightening of credit markets, we are seeking to establish a credit facility to provide us with more flexibility in the funding of our productions or operations. We cannot assure you that we can secure a credit facility or that, if we secure a credit facility, the terms will be favorable to us. Without a credit facility, we will not have the same flexibility with our financing arrangements as some of our competitors and will need to continue to rely upon financing arrangements tied to specific motion pictures for the funding of our productions.

We face risks from doing business internationally.

We distribute motion pictures outside the United States through third-party licensees and derive revenues from these sources. As a result, our business is subject to certain risks inherent in international business, many of which are beyond our 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 our revenues from non-U.S. sources, which could have a material adverse effect on our business, financial condition and results of operations.

Amendments to current laws and regulations governing our operations could have a material adverse impact on our business.

Our 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. We receive a substantial portion of the financing for our 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 our business, including intellectual property and censorship laws, could increase our costs of operations, reduce our revenues, jeopardize the ownership of certain assets or increase the cost of financing our motion pictures. Tax regulations, intellectual property laws or other rules and regulations affecting our business may be changed in a manner which may adversely affect us and our ability to operate our business plan.

The production of a larger budget motion picture may adversely affect our operating results.

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

## Risks Relating to Our Industry

Our success depends on external factors in the motion picture industry.

Our 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 our motion pictures depends on many factors, including public reception, the formats of their initial releases, for example, theatrical or direct-to-video, the actors and other key talent, their genre and their specific subject matter. The commercial success of our motion pictures also depends upon the quality and acceptance of motion pictures that our 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 we do not control and all of which may change. We cannot predict the future effects of these factors with certainty, any of which factors could have a material adverse effect on our business, results of operations and financial condition.

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. Our success will depend on the experience and judgment of our management to select and develop new investment and production opportunities. We cannot assure you that our motion pictures will obtain favorable reviews or ratings, or that our 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 our business, results of operations and financial condition.

Changes in the United States, global or regional economic conditions could adversely affect the profitability of our business. The current severe decrease in economic activity in the United States or in other regions of the world in which we do business could adversely affect demand for our films, thus reducing our revenue and earnings. A decline in economic conditions could reduce performance of our 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 we offer, which could also adversely affect our revenues and, at the same time, increase our costs.

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

We could be adversely affected by strikes, potential strikes or other union job actions. We directly or indirectly depend 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 our 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 now been reached with the Directors Guild and SAG. A SAG or other union strike or action, depending on the length of time, could cause a delay or interruption in our production and release of new motion pictures, which could have a material adverse effect on our business, results of operations and financial condition.

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.

We face substantial competition in all aspects of our business.

We are smaller and less diversified than many of our competitors. As an independent distributor and producer, we constantly compete 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 we might also be interested in acquiring. Our inability to compete successfully could have a material adverse effect on our business, results of operations and financial condition.

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 our competitors may create an oversupply of product in the market, reduce our share of box office receipts and make it more difficult for our 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 our more limited production and advertising budgets, generally provided by third party distributors, we typically do not release our films during peak release times, which may also reduce our potential revenues for a particular release. Moreover, we cannot guarantee that we can release all of our films when they are otherwise scheduled. In addition to production or other delays that might cause us to alter our release schedule, a change in the schedule of a major studio may force us to alter the release date of a film because we 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 we cannot change our schedule after such a change by a major studio because we are too close to the release date, the major studio’s release and its typically larger promotion budget may adversely impact the financial performance of our film. The foregoing could have a material adverse effect on our business, results of operations and financial condition.

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 us when we want 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 our motion pictures may also decrease, which could have a material adverse effect on our business, results of operations and financial condition.

DVD sales have been declining, which may adversely affect our 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. We cannot assure you 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 effect on us and our results of operations as a number of our releases only have a limited theatrical release or are released direct-to-DVD.

We 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 our business. 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 our revenues. Other larger entertainment distribution companies will have larger budgets to exploit these growing trends. We cannot predict how we will financially participate in the exploitation of our motion pictures through these emerging technologies or whether we have the right to do so for certain of our library titles. If we cannot successfully exploit these and other emerging technologies, it could have a material adverse effect on our business, results of operations and financial condition.

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

Our ability to compete depends, in part, upon successful protection of our intellectual property. We do not have the financial resources to protect our rights to the same extent as major studios. We are not a member of the Motion Picture Association of America (“MPAA”) as are the major studios and as a result we cannot rely on MPAA resources to prevent piracy and copyright infringements. We attempt to protect proprietary and intellectual property rights to our 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. We also distribute our 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 our productions or certain portions or applications of our intended productions, which could have a material adverse effect on our business, results of operations and financial condition.

Litigation may also be necessary in the future to enforce our intellectual property rights, to protect our 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 our business, results of operations and financial condition. We cannot assure you that infringement or invalidity claims will not materially adversely affect our business, results of operations and financial condition. Regardless of the validity or the success of the assertion of these claims, we could incur significant costs and diversion of resources in enforcing our intellectual property rights or in defending against such claims, which could have a material adverse effect on our business, results of operations and financial condition.

Others may assert intellectual property infringement claims against us.

One of the risks of the film production business is the possibility that others may claim that our 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. We may receive in the future claims of infringement or misappropriation of other parties' proprietary rights, although we have had to date been served with only one such claim which was settled on favorable terms. Any such assertions or claims may materially adversely affect our business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and diversion of resources in defending against them, which could have a material adverse effect on our business, financial condition or results of operations. If any claims or actions are asserted against us, we may seek to settle such claim by obtaining a license from the plaintiff covering the disputed intellectual property rights. We cannot assure you, however, that under such circumstances a license, or any other form of settlement, would be available on reasonable terms or at all.

Our business involves risks of liability claims for media content, which could adversely affect our business, results of operations and financial condition.

As a licensor of media content, we 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 our business, results of operations, and financial condition.

Piracy of motion pictures, including digital and internet piracy, may reduce the gross receipts from the exploitation of our 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 our business, because these unauthorized pirated copies reduce the revenue we receive from our products. Additionally, to contain this problem, we may have to implement elaborate and costly security and anti-piracy measures, which could result in significant expenses and losses of revenue. We cannot assure you 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 us to enforce our 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, we cannot assure you 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 we realize from the international exploitation of motion pictures. If no embargoes or sanctions are enacted, or if other measures are not taken, we may lose revenue as a result of motion picture piracy.

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

There are risks of disputes and litigation with financiers, competitors, putative rights owners, unions, producers and other talent, and with distributors. We cannot assure you that we will prevail in the event of any disputes or litigation. We have failed to prevail in an arbitration regarding 9 ½ Weeks II, which could result in payment by us of as much as $850,000.of which $775,000 was provided for by December 31, 2009.

Risks Relating to this Offering and Our Shares

We have not paid dividends to date and do not intend to pay any dividends in the near future.

We have never paid dividends on our ordinary shares and presently intend to retain any future earnings to finance the operations of our business. You may never receive any dividends on our shares.

If you purchase ordinary shares, you will incur immediate and substantial dilution from the price you pay.

The offering price of our ordinary shares will be substantially higher than the net tangible book value per share of our outstanding ordinary shares immediately after the offering. If you purchase ordinary shares in this offering, you will incur immediate and substantial dilution in the net tangible book value per ordinary share from the price you pay. At an offering price of $_____ per ordinary share, you will experience a net asset value dilution per ordinary share of $____ in comparison to our net asset value per share at June 30, 2009 of $0.25.

The exercise of stock options, the conversion of redeemable debentures, or preference shares or the later sales of our ordinary shares may further dilute your ordinary shares.

We have granted approximately 247,500 stock options that have not been exercised, issued redeemable debentures convertible into a maximum of 700,000 ordinary shares. The due balance remaining on the Trafalgar debenture is convertible into approximately [--Dependent on stock price at time] 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 offering price in this prospectus and would dilute the interest of persons acquiring ordinary shares in this offering.

Our Board of Directors is authorized to sell additional ordinary shares, or securities convertible into ordinary shares, if in their discretion they determine that such action would be beneficial to us. Any such issuance below the offering price of the ordinary shares in this prospectus would dilute the interest of persons acquiring ordinary shares in this offering.

Our articles of association provide indemnification for officers, directors and employees.

Our governing instruments provide that officers, directors, employees and other agents and their affiliates shall only be liable to our 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 us. The governing instruments also provide that, under the broadest circumstances allowed under law, we must indemnify our 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 our Company, including liabilities under applicable securities laws.

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

We are a foreign private issuer, and the rules governing the information that we disclose differ from those governing U.S. corporations pursuant to the Securities Exchange Act of 1934. We are 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, we are exempt from the Section 14 proxy rules, and proxy statements that we distribute will not be subject to review by the U.S. Securities and Exchange Commission. Our exemption from Section 16 rules regarding sales of ordinary shares by insiders means that you will have less data in this regard than shareholders of U.S. companies that are subject to the Securities Exchange Act. As a result, you may not have all the data that you are accustomed to having when making investment decisions.

Our share price may be volatile, and you may not be able to sell your ordinary shares at or above the public offering price.

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 our ordinary shares, irrespective of our actual operating performance. Additional factors which could influence the market price of our ordinary shares include statements and claims made by us and other participants in our industry and public officials. The public offering price for the ordinary shares may not be above that which will subsequently prevail in the market.

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

The market price of our ordinary shares could fall substantially if our existing shareholders or existing creditors who levy on or convert into one ordinary share sell large amounts of our ordinary shares in the public market following this offering. These sales, or the possibility that these sales may occur, could also make it more difficult for us to sell equity or equity-related securities if we need 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. In addition, lock-up agreements that restrict us, our directors and officers and certain of our existing shareholders from selling or otherwise disposing of any ordinary shares for a period of 180 days after the date of this prospectus without the prior written consent of the underwriters' representative also restrict sales of our ordinary shares. The underwriters' representative may, however, in its sole discretion and without notice, release all or any portion of the ordinary shares from the restrictions in the lock-up agreements.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. These forward-looking statements include information about possible or assumed future results of our operations or our performance. Words such as “expects,” “intends,” “plans,” “believes,” “anticipates,” “estimates,” and variations of such words and similar expressions are intended to identify the forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to have been correct. These statements involve known and unknown risks and are based upon a number of assumptions and estimates which are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Although we have 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. We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, or the documents to which we refer you in this prospectus, to reflect any change in our expectations with respect to such statements or any change in events, conditions or circumstances on which any statement is based.

## USE OF PROCEEDS

We estimate the gross proceeds from the offering, prior to deducting underwriting discounts and commissions and the estimated offering expenses payable by us, will be approximately $[---] million (approximately $[---] if the representative's warrants are exercised in full). This estimate is based on an assumed offering price of $[---] per share. A $1.00 increase or decrease in the assumed offering price of $[---] per share would increase or decrease the gross proceeds to us from this offering by $[---] million.

Based on an assumed offering price of $[---] per share, we estimate that we will receive net proceeds of $[---] from the sale of [---] shares being offered at an assumed public offering price of $[---] per share, after deducting $[---] for underwriting discounts and commissions and our underwriters' non-accountable expense allowance and estimated expenses of approximately $[---], which includes legal, accounting, printing costs and various fees associated with the registration and listing of our shares. If the underwriters exercise their right to purchase an additional [---] ordinary shares from the selling shareholder to cover over-allotments, we will not receive any additional proceeds, and if the underwriters' representative exercises its warrants to purchase [---] ordinary shares, we will receive an additional $[---] after deducting estimated expenses.

Assuming no exercise of the representative's warrants, we intend to use the net proceeds of the offering as follows:

| | Application of Net Proceeds | Percentage of Net Proceeds |
|---|---|---|
| Reduction of Indebtedness | $ - | % |
| Working capital | $ - | % |
| Total | $ - | 100 % |

The amounts actually spent by us for any specific purpose may vary significantly. Accordingly, our management has broad discretion to allocate the net proceeds. Pending the uses described above, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities.

We intend to use $[--] of the net proceeds to reduce indebtedness by:

––•Advancing approximately $1,450,000 (£1,000,000) to the Seven Arts Employee Benefit Trust (the "EBT") (see "Management – Compensation – Seven Arts Employee Benefit Trust" for a description of the EBT), who will in turn repay the indebtedness owed by the EBT to a third party that we have guaranteed.

•Paying $1,650,000 in settlement to ApolloMedia which will also result in the return to us of an additional 700,000 of our ordinary shares. This amount is owed by SAP, an affiliate company controlled by our Chief Executive Officer, Peter Hoffman, and does not appear on our balance sheet as an obligation of ours. (See "Certain Related Transactions" for a discussion of the settlement with ApolloMedia).

–•Paying $9,000,000 of a portion of our loans due to Palm Finance in connection with the financings of American Summer (aka The Pool Boys), Autopsy, and Nine Miles Down.

None of this indebtedness was incurred after June 1, 2009. The interest rate payable on this indebtedness and maturity dates are as follows:

| Debt | Interest Rate | Maturity |
|---|---|---|
| Palm Finance | 15% | September 30, 2010 |
| ApolloMedia* | NA | Now due |
| Employee Benefit Trust* | 10% | Now due |

*These represent obligations of our shareholders Seven Arts Pictures Inc. and the EBT, respectively.

CAPITALIZATION

The following table sets forth our capitalization as of April 30, 2010 both on a current basis and on a pro forma as adjusted basis to give effect to the sale of [---] ordinary shares in this offering at an assumed initial public offering price of $____ per share, which is the midpoint of our expected offering range, after deducting the estimated underwriting discount and commissions and estimated offering expenses payable by us and application of net proceeds.

You should read this table together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

As of April 30, 2010

| Indebtedness: | Current - $ | As Adjusted - $(1) |
|---|---|---|
| Bank and other production loans | $16,091,065 | $[-- ] |
| Corporate Loans(2) | $3,801,687 | $0 |
| | | |
| | | |
| Shareholders’ Equity(3) | $2,480,567 | [-- ] |
| | | |
| Ordinary Shares | | |
| Total Shares Issued and Outstanding(4) | 7,447,300 | [-- ](5) |
| Total Shares Authorized | 102,636,800 | 102,636,800 |

(1) The “as adjusted” column does not assume the exercise of any of the representative’s warrants. A $1.00 increase (decrease) in the assumed offering price of $____ per share would increase (decrease) by approximately $____ million the as adjusted shareholder funds. Equity, assuming that the number of shares offered by us as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discounts and commissions payable to the underwriters and the estimated offering expenses payable by us.

(2) On September 2, 2009 we paid Trafalgar $1,000,000 as a partial payment against its debenture. As of May 31, 2010, Trafalgar converted £340,000 into an equivalent number of ordinary shares subject to a put, reducing the balance outstanding to approximately £350,000.

(3) As of December 31, 2008, Shareholders’ Equity includes the balance of the Langley Convertible Subordinated Debenture which has no redemption date. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation – Liquidity and Capital Resources” for a discussion of the Langley Convertible Subordinated Debenture.

(4) Includes 400,000 ordinary shares issued to the EBT in exchange for 500,000 preference shares and 340,000 ordinary shares issued to Trafalgar as a result of a partial conversion of its remaining debenture, both occurring in May of 2010.

(5) This “as adjusted” data assumes the return to us of 700,000 ordinary shares issued to SAP and thereafter pledged to ApolloMedia upon repayment of indebtedness. See “Certain Transactions” below for a description of the ApolloMedia transaction.

29

## DILUTION

As of December 31, 2009, we had a net tangible book value of $2,217,374 or $0.28 per share. Net tangible book value represents our total tangible assets (including investment in film rights and materials as per note 2 below), less all liabilities, and net tangible book value per ordinary share represents the net tangible book value divided by the number of ordinary shares outstanding. Without taking into account any changes in such net tangible book value after December 31, 2009, other than to give effect to our sale of [---] ordinary shares offered hereby, the pro forma net tangible book value per share at December 31, 2009 would have been $____. This amount represents an immediate increase in tangible net book value of $___ per share to our current shareholders and an immediate dilution in net book value of $____ per share to new investors purchasing shares in this offering as illustrated in the following table:

| | |
|---|---|
| Public offering price per share (1) | $--- |
| Net tangible book value per ordinary share before the offering (2) | $0.28 |
| Increase in tangible net book value per ordinary share attributable to new investors (after deduction of the estimated underwriting discount and other offering expenses) | $--- |
| Pro forma net tangible book value per ordinary share after the offering (3) | $--- |
| Dilution per share to new investors (determined by subtracting the adjusted net tangible book value after the offering from the amount of cash paid by a new investor for one ordinary share) | $--- |

(1) We use an offering price of $___ per share, which is the high point of our offering range, to give the most dilutive effect to the offering.

(2) Although investment in film rights and materials are considered intangible assets for accounting purposes in the United Kingdom, our directors believe that these rights can be sold separately from our business and that the recovery of the book value of these assets is not subject to significant uncertainty or illiquidity. As a result, the investment in film rights and materials are considered tangible assets for dilution purposes which is consistent with IFRS.

(3) Does not include [---] ordinary shares issuable upon the exercise of the representative's warrants.

The following table sets forth, on a pro forma basis as of December 31, 2009, the number of ordinary shares we have issued, the total consideration paid and the average price per share paid by the existing shareholders and by the new investors, assuming in the case of new investors a public offering price of $____, before deductions of the underwriting discount and other offering expenses:

| | Shares Purchased | Percent | | Total Consideration Amount (in 000's) | Percent | | Average Price Per Share (1) |
|---|---|---|---|---|---|---|---|
| Existing Shareholders | -- | -- | % | $ -- | -- | % | $ -- |
| New Investors (2) | -- | -- | % | $ -- | -- | % | $ -- |
| Total | | 100 | % | $ -- | 100 | % | $ |

(1) We use an offering price of $___ per share in order give the most dilutive effect to the offering.

(2) Does not include [---] ordinary shares issuable upon the exercise of the representative's warrants.

## SELECTED HISTORICAL FINANCIAL INFORMATION

The following sets forth a summary of our consolidated profit and loss and balance sheet information for the six month periods ended December 31, 2009 and December 31, 2008, for the fiscal years ended March 31, 2008 and June 30, 2009 and the three month period ended June 30, 2008, all of which have been derived from our audited consolidated financial statements and related notes included elsewhere in this prospectus except the summary of consolidated profit and loss and balance sheet statements for the six month periods ended December 31, 2009 and December 31, 2008. The summary of consolidated profit and loss and balance sheet statements for the six month periods ended December 31, 2009 and December 31, 2008 have been derived from our unaudited condensed consolidated financial statements which are also included elsewhere in this prospectus. We have also included for informational purposes unaudited consolidated profit and loss and balance sheet information for the three month period ended June 30, 2007 extracted from audited consolidated financial statements prepared under United Kingdom Generally Accepted Accounting Principles. In addition we have also included for informational purposes a summary of consolidated profit and loss statements and balance sheet information for the fiscal years ended March 31, 2007 and March 31, 2006. In 2008, we adopted a fiscal year-end of June 30. The summary consolidated historical financial and operating information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the related notes thereto and the other financial information included elsewhere in this prospectus.

The historical results included below and elsewhere in this prospectus are not necessarily indicative of our future performance.

Selected Financial Data
(in $ 000's, except per share data)

| Summary Profit and Loss Data (1) | Six Months Ended December 31, 2009 (unaudited) | Six Months Ended December 31, 2008 (unaudited) | 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 | $2, 983 (2) | $1,701 (2) | $10,232 | $3,266 | $2,793 | $950 | $11,208 (3) | $13,168 |
| Cost of Sales | $803 | $1,520 | $(4,663 ) | $(4,088 ) | $(1,302 ) | $(611 ) | $(5,269 ) | $(10,504) |
| Gross Profit | $2,180 | $180 | $5,569 | $(822 ) | $1,491 | $339 | $5,939 | $2,664 |
| Other operating expenses | $(1,455 ) | $(1,746 ) | $(4,125 ) | $(4,837 ) | $(711 ) | $(1,383 ) | $(2,323 ) | $(1,723 ) |
| Other Income | $150 | - | $5,602 (4) | - | - | - | - | - |
| Net interest expense/income | $(349 ) | $(916 ) | $(2,308 ) | $(206 ) | $(423 ) | $(310 ) | $(675 ) | $(128 ) |
| Profit Before Taxes | $536 | $(2,481 ) | $4,737 | $(5,044 ) | $357 | $(1,354 ) | $2,940 | $813 |
| Provision for Taxes | $0 | $0 | $0 | $486 | $0 | $502 | $(1,099 ) | $(632 ) |
| Net Profit/(Loss) | $537 | $(2,481 ) | $4,737 | $(4,557 ) | $357 | $(852 ) | $1,842 | $181 |
| Weighted Average Primary Shares Outstanding | 6,934.7 | 5,204.2 | 6,051.5 | 4,676.3 | 4,870.8 | 4,337.9 | 2,694.9 | 2,636.8 |
| Weighted Average Fully Diluted Shares Outstanding | 8,100.7 | 8,397.6 | 8,146.9 | 7,851.6 | 8,255.9 | 8,188.8 | 7,454.1 | 7,436.8 |
| | | | | | | | | |
| Weighted Average Earnings Per Share (cents)(5) | 8 | (48 ) | 78 | (98 ) | 7 | (20 ) | 77 | 19 |
| Weighted Average Fully | 7 | (48 ) | 58 | (98 ) | 4 | (20 ) | 28 | 7 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Diluted Earnings Per Share (cents) (5) | | | | | | | | |
| Balance Sheet Data | | | | | | | | |
| Total Debt | $17,137 | $189,229 (6) | $17,828 | $261,656 (5) | $248,716 (6) | $30,976 | $20,198 | $16,253 |
| Total Assets | $29,014 | $196,117 (6) | $27,270 | $302,388 (5) | $400,853 (6) | $38,999 | $37,612 | $28,442 |
| Shareholders' Equity (7,8) | $2,217 | $(5,641) | $1,717 | $410 | $832 | $7,974 (9) | $8,938 (9) | $4,927 (9) |

(1) We changed our 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) Total revenues increased from $1,700,905 for the six month period ended December 31, 2008 to $2,982,976 in the six month period ended December 31, 2009. Revenues in the most recent period included $1,796,140 in net fee income derived from a structured film and distribution cost financing with UK investors and an additional producer fee of $487,397 associated with a film produced in Louisiana. Revenues derived from the exploitation of motion pictures decreased from $1,700,905 in the six month period ended December 31, 2008 to $699,439 in the most recent period.

(3) Under UK GAAP we recorded the $1,623,000 gain attributable 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.

(4) Other income of $5,601,683 recorded in the period ended June 30, 2009 reflects cancellation of indebtedness arising from the decision of a lender, Arrowhead Target Fund Ltd, 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 we no longer control the licensing of these motion pictures, we have removed all investment in and receivables relating to the pictures pledged to Arrowhead as assets, and have removed all limited recourse indebtedness and accrued interest related to the Arrowhead loan as liabilities from our balance sheet, resulting in a net gain in the above amount.

(5) 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 December 31, 2008. 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.

(6) In May 2008, we completed a transaction with Zeus Partners LLP that raised capital for investment into the production and distribution costs of our existing and future motion picture productions and acquisitions. The total investment raised was approximately $268,000,000. Approximately $10,917,087 of the net proceeds from that transaction received by the Company 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 six months ended December 31, 2008, 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, $112,394,240 and $164,127,416 as of March 31, 2008, June 30, 2008 and December 31, 2008, respectively, the creation of receivables from investors of $53,601,395, $247,322,586 and $0, the creation of deferred income of $27,247,893, $118,067,801 and $5,085,679 and the creation of short term bank loans aggregating $225,444,481, $225,478,399 and $162,528,954. 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.

(7) 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 principal amount 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

(8) Convertible Preference Shares owned by Armadillo Investment PLC until November 20, 2008, and then by the Company's Employee Benefit Trust, are treated as Shareholders' Equity under IFRS and as Shareholders' Funds under UK GAAP. As of June 30, 2009, the par 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 and the remaining 500,000 preference shares into 400,000 ordinary shares on May 25, 2010.

(9) Shareholders' Equity for the periods previous to March 31, 2008 included $5,207,599 of goodwill arising from our reverse takeover of Cabouchon Collection plc. This goodwill was written off when we converted to IFRS accounting.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the preceding financial statements and footnotes thereto contained in this report. This discussion contains forward-looking statements, which are based on our assumptions about the future of the Company’s business. The Company’s actual results may differ materially from those contained in the forward-looking statements.

Overview

Seven Arts Pictures PLC (the “Company”) is 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. The Company endeavors to release many of its motion pictures into wide-theatrical exhibition initially; however, a portion of the Company’s pictures will either receive only a limited theatrical release, or may even be released directly to post-theatrical markets, primarily DVD.  The Company’s pictures that receive limited theatrical release or post-theatrical release typically benefit from lower prints and advertising (“P & A”) cost and, in turn, improved gross profit margins.

No one picture had a principal or controlling share of gross revenues or operating profits in these periods.

Results of Operations

The principal factors that affected the Company’s results of operations have been the number of motion pictures delivered in a fiscal period, the distribution rights of motion pictures produced by others acquired in a fiscal period, the choice of motion pictures produced or acquired by Seven Arts, management’s and talents' execution of the screenplay and production plan for each picture, the distribution and market reactions to the motion pictures once completed, management's ability to obtain financing and to re-negotiate financing on beneficial terms, the performance of our third-party distributors and our ability to take advantage of tax-incentivized financing.  These factors will continue to be, in management’s opinion, the principal factors affecting future results of operation and our future financial condition.  No particular factor has had a primary or principal affect on the Company’s operations and financial condition in the periods discussed below.

The Company’s revenues principally consist of amounts we receive from third-party distributors of its motion pictures. The Company recognizes revenue from license fees as and when a motion picture is delivered to the territory to which the license relates.  A motion picture is “delivered” when the Company has completed all aspects of production and may make playable copies of the motion picture for exhibition in a medium of exhibition such as theatrical, video, or television distribution.

The Company also generates revenue beyond an initial license fee from the Company’s share of gross receipts on motion pictures which the Company recognizes as revenue when the Company is notified of the amounts that are due to he Company. In some fiscal periods, a significant portion of the Company’s revenue derived from sources other than motion picture distribution, including the cancellation of debt and interest income on a financing transaction, but the Company has not derived any such income in the successive comparative financial periods described below.

The Company has also benefited significantly from i ability to raise third party film equity investments in the form of structured financings that have enabled the Company to substantially reduce the cost basis of the Company's motion pictures and even to record significant fee-related revenues, particularly in the fiscal year ended June 30, 2009.

Six Months Ended December 31, 2009 Compared To Six Months Ended December 31, 2008

Company's total revenues increased from $1,700,905 for the six month period ended December 31, 2008 to $2,982,977 in the six month period ended December 31, 2009. The Company's revenues in the most recent period included $1,796,140 in net fee income derived from a structured film and distribution cost financing with UK investors and an additional producer fee of $487,397 associated with a film produced in Louisiana. The Company's revenues derived from the exploitation of motion pictures decreased from $1,700,905 in the six month period ended December 31, 2008 to $699,439 in the most recent period. The majority of the film revenues recognized in the prior period were derived from the ancillary market releases of the films "Deal", "Supercross" and "Noise" while most of the revenues recorded in the most recent period arose from the distribution by third parties of the motion picture "Deal" in overseas television markets.

Amortization of film costs decreased from $572,499 to $461,092 in the most recent six month period and costs of sales, including distribution costs and third party payments, fell from $947,925 to $341,448. Consequently, the Company recorded a gross profit of $2,180,437 in the six month period ended December 31, 2009 compared to a gross profit of $180,481 in the six month period ended December 31, 2008. Non-capitalized general and administrative expenses fell from $1,746,187 to $1,445,133 in the most recent six month period, as less third party costs were incurred and the Company's net interest expense also dropped from $915,664 to $348,534, reflecting the partial pay down of the Trafalgar Loan.

No tax provision or reversal was recorded in either period, as the Company has significant tax loss carry forwards, so the Company recorded a net profit in the six month period ending December 31, 2009 of $536,790 as compared to a net loss of $2,481,370 in the six month period ended December 31, 2008.

Fiscal Year Ended June 30, 2009 Compared To Fiscal Year Ended March 31, 2008

Our total revenues increased from $3,265,808 for the fiscal year ended March 31, 2008 to $10,232,223 in the fiscal year ended June 30, 2009, although revenues derived from the licensing of motion pictures only increased to $4,217,910, principally reflecting the recording of certain initial guaranteed contracts on Nine Miles Down, as well as ancillary revenues on Deal and Noise, among others. Revenues derived from motion pictures released in prior periods amounted to $4,217,910 in the period ended June 30, 2009 as compared to revenues derived from pictures released in the period ended March 31, 2008 of $3,265,808. No new pictures were released in the fiscal year ended March, 31, 2008, although three pictures were released in the subsequent quarter ended June 30, 2008 (See the discussion below comparing the three month periods).

Fee-related revenues in the fiscal year ended June 30, 2009 derived from (i) $5,085,679 of net fee income which was the balance left over from $16,002,766 received from the Zeus transaction, a structured film and distribution cost financing with UK investors, the majority of which was applied as a reduction of the costs of the films in which they invested, and (ii) $928,634 of tax credit revenues deriving from our receipt of certain infrastructure tax credits from the State of Louisiana as a result of its construction of certain production and post-production facilities in that State. No such fee-related revenues were received in the fiscal year ended March 31, 2008.

Amortization of film costs was $2,559,932 in the fiscal year ended June 30, 2009, or approximately 66% of the film revenues recognized from films currently in release and included a write down of $550,000 taken on a previously released motion picture. All of our library pictures released before June 30, 2008 have now been written down to a zero carrying value. Other cost of sales of $2,103,391 included certain distribution costs, producers' costs and other third part payments. For the fiscal year ended March 31, 2008 we recorded amortization costs of $490,239 and other costs of $3,597,469, including $1,370,000 expended on the domestic theatrical distribution of the motion picture Deal, and various other third party payments.

General and administrative expenses amounted to $3,582,348 in the fiscal year ended June 30, 2009, compared to $4,015,533 in the fiscal year ended March 31, 2008. Both of these numbers were significantly inflated by payments to third party professional consultants, including accountants, lawyers and tax advisors and also reflected significant reserves for litigation-related expenses. Management also set up a reserve for doubtful accounts of $542,811 during the fiscal year ended June 30, 2009.

Net interest paid increased from $206,086 in the fiscal year ended March 31, 2008 to $2,308,459 in the most recent fiscal year, reflecting significantly higher interest on certain film related loans and corporate debts as well as penalty interest accruals on certain debts, not capitalized to film costs.

We recorded $5,601,683 in "other income" in the fiscal year ended June 30, 2009, reflecting the net gain realized from removing all investments in and receivables relating to the twelve motion pictures owned by Seven Arts Future Flow I, LLC ("SFF") which were pledged to secure an $8,300,000 loan made by Arrowhead Target Fund, Ltd. ("Arrowhead") on a non recourse basis. Since Arrowhead made the decision to take control of the distribution of these pictures, we have removed both the debt and the related assets from our books, resulting in the gain booked as other income.

We recorded no tax provision in the fiscal year ended June 30, 2009, because we have an excess of tax-loss carry forwards against which we can offset any taxes that might be currently accruable. In the fiscal year ended March 31, 2008, we reversed $485,634 in deferred tax charges that had been previously provided for on account of the significant losses sustained in that year.

As result of the aforementioned results, we recorded net income of $4,736,965 in the period ended June 30, 2009 compared to a loss of ($4,557,885) in the period ended March 31, 2008.

Three Month Period Ended June 30, 2008 Compared To Three Month Period Ended June 30, 2007

Our total revenues, which consisted only of revenues derived from the licensing of motion pictures, increased from $950,000 for the three month period ended June 30, 2007 to $2,793,000 for the three month period ended June 30, 2008. The increase was primarily attributable to the delivery and accrual of revenues for accounting purpose of three motion pictures in the three month period ended June 30, 2008, namely Autopsy, Knife Edge and A Broken Life, compared to none delivered in three months ended June 30, 2007.

Cost of sales increased from $611,000 in the three months ended June 30, 2007 to $1,302,000 in the three months ended June 30, 2008.

Amortization of film costs in the three months ended June 30, 2008 increased to $781,000 as compared to $103,000 in the three months ended June 30, 2007, and included a write off taken on the motion picture “Pool Hall Prophets.” Distribution costs and producers’ fees for the three months ended June 30, 2008 were $521,000 as compared to $508,000 for the three months ended June 30, 2007.

Other operating expenses decreased to $711,000 in the three months ended June 30, 2008 from $1,383,000 in the three months ended June 30, 2007, reflecting a great allocation of overhead costs to specific projects as a result of our increased level of production and distribution activities. Virtually all of these expenses were comprised of general overhead and selling expenses for employees, consultants, sales conventions, professional fees, marketing materials and office costs.

Net interest expense for the three months ended June 30, 2008 increased to $423,000 compared to $310,000 in the three months ended June 30, 2007.

As a result of the above, we recorded net income of $357,000 in the three months ended June 30, 2008 compared to a loss of ($852,000) in the three months ended June 30, 2007.

Fiscal Year Ended March 31, 2008 Compared to Fiscal Year Ended March 31, 2007

Our total revenues decreased to $3,265,808 in the fiscal year ended March 31 2008 from $11,208,000 recorded in fiscal year 2007.

Revenues derived from the licensing of motion picture revenues decreased to $3,266,000 from $6,590,000 in the prior year, as no new motion pictures were delivered with recognition of revenues in the fiscal year ended March, 31, 2008, while two motion pictures (Noise and Deal), were delivered in fiscal year 2007, resulting in recorded revenues from those pictures of $3,102,000 in that year. Revenues derived from motion pictures delivered prior to the recorded period were $3,266,000 in the fiscal year ended March 31, 2008 compared to $3,488,000 recorded in fiscal year ended March 31, 2007.

Other revenue for fiscal year 2007 of $4,618,000 derived, in large part, from the cancellation of indebtedness related to two motion pictures previously produced by us (Stander and Pool Hall Prophets) and, to a lesser extent, from commission income earned during the period.

Cost of sales for the twelve month period ended March 31, 2008 decreased to $4,087,708, compared to $5,269,000 for fiscal year 2007, on significantly lower revenues, principally because no new motion pictures were delivered in the period ended March 31, 2008. Included in cost of sales in fiscal year 2008 was $1,370,000 of prints and advertising expenditures on the domestic theatrical release of the motion picture Deal.

Other operating expenses increased from $2,323,000 in fiscal year 2007 to $4,015,000 in the fiscal year ended March 31, 2008, reflecting an increased level of production and distribution activities and a high level of third party professional costs incurred.

Net interest expense for the twelve month period ended March 31, 2008 decreased to $206,000 as compared to $675,000 in fiscal year 2007, as a greater proportion of the interest incurred in the later period was capitalized to film costs, reflecting a greater level of film production in the period.

As a result of the above, we incurred losses before taxes of $5,043,000 for the year ended March 31, 2008 as compared to a profit of $2,940,000 for the year ended March 31, 2007. Because of these losses, the Company was able to partially reverse the tax charge of $1,099,000 recorded in the prior year, resulting in a net loss for the fiscal year ended March 31, 2008 of ($4,557,000) compared to a profit for the prior fiscal year ended March 31, 2007 of $1,842,000.

Liquidity and Capital Resources

During the year ended March 31, 2005, we 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. We 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 we received from the sale of a portion of our Armadillo shares and all of our 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 our ordinary shares on November 20, 2008. The remaining 500,000 preference shares were converted into 400,000 ordinary shares on May 25, 2010.

On October 30, 2008, the Seven Arts Employee Benefit Trust acquired 3,000,000 of our 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 purchase price was to be loaned to the EBT by us at a nominal interest rate and to date we have advanced £500,000 as the first of the installments, together with the 1,600,000 ordinary shares of Armadillo to the EBT, which has paid them over to Armadillo. We have guaranteed the remaining £1,000,000 due to Armadillo, but have not made any further advances to EBT, so that it is in default on the second and third payments. Our guarantee obligations are secured by 1,333,333 ordinary shares of the Company per a charging instrument between the Company and the EBT (acting through its trustee). We expect to pay the remaining amount due to Armadillo from the proceeds of this offering. The EBT currently owes us £1,475,000 ($2,436,110 at the year-end exchange rate) and this amount has been booked as a contra asset under share premium, which is a deduction from shareholders' equity. The EBT will owe us an additional £1,000,000 when we have made good on our obligation.

Seven Arts Future Flow I ("SFF"), a limited liability company owned by SAP, one of our affiliates and a company that is owned by Peter Hoffman, our Chief Executive Officer, 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. Although the loan is secured by certain assets of Seven Arts Future Flows I, LLC, we are not required to repay the Arrowhead Loan from any of our other assets or revenues. The specific film assets which secure the Arrowhead Loan were our distribution rights in the following motion pictures: Asylum, Stander, I'll Sleep When I'm Dead, No Good Deed, Supercross, Popstar, Red Riding Hood, Johnny Mnemonic, Shattered Image, Never Talk to Strangers, The Hustle, and A Shot at Glory. Our 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 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. As a result of the foregoing, we have removed all investment and receivables related to the twelve motion pictures pledged to Arrowhead as assets and have removed all limited recourse indebtedness relating to these motion pictures as a liability.

We borrowed an aggregate of $7,500,000 from (i) ACG for $1,000,000 (“ACG Loan”) and (ii) Cheyne for $6,500,000 (“Cheyne Loan”) in December 2006, secured by certain of our motion picture assets. The ACG Loan and Cheyne Loan bear interest at 19% and 18% per annum, respectively. The Cheyne Loan matured on September 30, 2007, and a subsidiary 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 ACG Loan of $1,000,000 is now due and is secured with a pledge of 1,607,000 of our ordinary shares owned by SAP. Our 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, we 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. ACG has now filed suit to collect the ACG Loan (see Legal Proceedings).

On October 15, 2008 we borrowed £1,000,000 from Trafalgar Capital Special Investment Fund (“Trafalgar”) a portion of which we advanced to the EBT for it to use as the first installment that it paid to Armadillo for the acquisition of all the Preference Shares owned by Armadillo. On September 2, 2009 we repaid Trafalgar $1,000,000 as a partial payment of its loan. We still owe Trafalgar a similar amount (the exact balance is dependent on certain exchange ratios at the time of the eventual payoff and cannot be exactly determined). On June 22, 2010 we entered into an amended agreement with Trafalgar for an extension of the due date of the convertible debentures to December 31, 2010 and the issuance of 340,000 ordinary shares. Trafalgar agreed to convert £340,000 of their remaining debt into 340,000 shares of common stock, subject to a put to our Company for like amount, reducing the balance due to Trafalgar to approximately £350,000.

We entered into two senior financing loan and security agreements with Palm Finance Corp (“Palm”) to finance the production costs of The 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. We have entered into a forbearance agreement with Palm extending the due date of these loans to June 30, 2010 and are negotiating for an additional extension to December 31, 2010.

On August 27, 2007, we borrowed $1,650,000 from Blue Rider Financial (“Blue Rider”) to pay for the domestic prints 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 us 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 us from MGM have not been sufficient to repay the Blue Rider Loan. We have 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.

Management believes that, as a result of the proceeds derived from this offering and based on historical revenues generated from the licensing of the distribution rights on our motion pictures, we will have sufficient working capital to operate for the next twelve months.

We currently borrow funds for the financing of each of our motion pictures from several banks and other production lenders. We are currently seeking a revolving credit facility for the financing of our future motion picture productions. Our cash flow is derived from license fees earned from the delivery and distribution of our motion pictures in the United States and territories around the world.

Contractual Obligations (as of April 30, 2010)
The following table sets forth our obligations and commitments to makes future payments under contracts and other commitments.

| | | Payments Due ByPeriod | | | |
|---|---|---|---|---|---|
| | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| 1. Bank and Other Production Loans (1) | $ 16,091,065 | $ 16,091,065 | | | |
| 2. Post Production Facility Line of Credit (2) | $ 3,700,000 | | | $ 3,700,000 | |
| 3. Armadillo Investments plc/EBT (3) | $ 1,450,000 | $ 1,450,000 | | | |
| 4. Trafalgar Capital Special Investment Fund (3) | $ 1,152,898 | $ 1,152,898 | | | |
| 5. Lion House | $ 281,322 | $ 281,322 | | | |
| 6. Sums Due To Producers (4) | $ 717,467 | $ 717,467 | | | |
| 7. Langley Debenture(5) | $ 3,432,500 | | | | $ 3,432,500 |
| 8. M Garstin | $ 200,000 | $ 200,000 | | | |
| Total | $ 27,025,252 | $ 19,892,752 | | $ 3,700,00 | $ 3,432,500 |

(1) The current and long-term bank and production loans include (i) approximately $1,000,000 of the ACG Loan described in "Liquidity and Capital Resources" above, (ii) approximately $9,200,000 in special purpose financing arranged for six motion pictures produced by us, and (iii) $4,000,000 owed to Palm Finance Company for production of the motion picture Nine Miles Down. The limited recourse Arrowhead Loan of $8,300,000 and all assets pledged to secure this Arrowhead loan have been removed from our consolidated balance sheet as of June 30, 2009.

(2) Seven Arts Pictures Louisiana LLC ("SAPLA"), a subsidiary of SAP (one of our affiliates and a company controlled by Peter Hoffman, our Chief Executive Officer), entered into a Credit Agreement with Advantage Capital Community Development Fund, L.L.C. ("Ad Cap") dated October 11, 2007 for the acquisition and improvement of a production and post production facility located at 807 Esplanade Avenue in New Orleans, Louisiana. The aggregate borrowing amount under this facility is $3,700,000, all of which was drawn down as of April 30, 2010. SAPLA has entered into a term sheet with Ad Cap for additional financing necessary to complete this facility up to an additional $3,100,000. We expect this facility will be completed for a cost not to exceed $1,500,000. We have guaranteed this indebtedness and have not included it in our total indebtedness. We do not anticipate the use of any material amount of our working capital to complete and operate this facility, and we expect to realize substantial film production, film infrastructure, historic rehabilitation and other state and federal tax credits and other tax incentives from the acquisition, renovation, and operation of this property as a post production facility. Management believes that expenditures by SAPLA for this facility would generate approximately $4,000,000 in Louisiana Film Infrastructure tax credits, approximately $3,000,000 in Louisiana State Rehabilitation tax credits and $3,000,000 in Federal Historic Preservation tax credits.

(3) A portion of the loan due to Trafalgar Capital Special Investment Fund was advanced by us to the Seven Arts Employee Benefit Trust ("EBT") for the partial acquisition of the Preference Shares owned by Armadillo Investments plc ("Armadillo"). The loan to Trafalgar came due on June 30, 2009 and we have made a partial payment of $1,000,000 on September 2, 2009. On June 22, 2010 we entered into an amended agreement with Trafalgar for an extension of the due date of the convertible debentures to December 31, 2010 and the issuance of

340,000 ordinary shares. We have guaranteed an additional $1,450,000 due from the EBT to Armadillo, which is booked as an “accrued liability” on our Balance Sheet. This liability will be met by the EBT from the funds that we advance to it from the proceeds of this offering. See “Use of Proceeds”. The second and third payments to Armadillo were due in April and October 2009, and the EBT did not make those payments, but they will be made from advances that we make to the EBT from the proceeds of this offering.

(4) Includes estimated amounts due to producers of motion pictures as well as $775,000 due on litigation surrounding the picture 9 ½ Weeks II. These amounts are not included in Total Debt in the Summary and Selected Financial Data Tables. As of December 31, 2009 $775,000 had been provided for.

(5) Langley's remaining Debentures have a face value of £1,750,000 (approximately $3,432,500 at the exchange rate prevailing at the time of the financing) and are convertible into an aggregate of 700,000 ordinary shares. There is no due date or required due date on our Debentures. The Debentures rank junior to all our indebtedness and senior only to our ordinary or preference shares and they are included as a part of Shareholders' Equity.

Legal Proceedings

Together with our subsidiary, Seven Arts Filmed Entertainment Limited ("SAFE") and SAP, one of our affiliates and a company controlled by Peter Hoffman, our Chief Executive Officer, we were the subject of an arbitration award of approximately $775,000 against us for legal fees (and interest thereon) relating to a dispute regarding a participation in the motion picture entitled 9 ½ Weeks II, even though the arbitration found no additional sums due to the complaining party. This award also terminated our distribution rights in this motion picture. The award was affirmed by the Ninth Circuit Court of Appeals. We fully reserved for the eventual payment of this award in the period ended June 30, 2009.

Together with SAFE and SAP, we are plaintiffs in an action against Fireworks Entertainment and certain of its affiliates ("Fireworks"), as well as ContentFilm plc, for copyright infringement ("Copyright Action") relating to the following motion pictures: Rules of Engagement, Onegin, The Believer, Who Is Cletis Tout and American Rhapsody. We believe that we are the assignee of copyright interests in each of these motion pictures. Fireworks and ContentFilm have repudiated any and all agreements with our predecessors regarding these motion pictures. The Copyright Action was stayed by the United States District Court in Los Angeles, California by reason of a prior action filed by CineVisions and its successor (themselves predecessors of the Company) for breach of contract against Fireworks in the courts of Ontario, Canada, ("Canadian Action") with respect to the motion pictures listed above (plus Interstate 60, Rat Race, and Hardball) that were produced, acquired, or funded by SAPL. The Federal District Court later dismissed the Copyright Action. CineVisions is currently pursuing the Canadian Action on our behalf. We believe that whether based on copyright infringement or contract, Fireworks has substantial liability to us or our predecessors with respect to Fireworks' conversion of our and our predecessors' interest in the Fireworks Pictures, all of which were all produced or acquired by our predecessors. We record no value in our financial statements for our interests in the Fireworks Pictures, other than immaterial amounts of legal fees. Should we not prevail, we may have a liability for our own or Fireworks' legal fees and would lose the interest we claim in the Fireworks Pictures. We may not prevail in the Fireworks litigation. Loss of this litigation where we are a plaintiff will cause no liability to us other than possible payment of up to $200,000 in legal fees to defendants.

We have obtained a final judgment from the Queen's Bench in England for approximately $300,000 converted by a Hungarian co-producer on the motion picture Nine Miles Down which we are seeking to collect through enforcement by Hungarian courts.

We and several affiliates were named as defendants in an action by Arrowhead Capital Partners Ltd filed in the Supreme Court of New York County of New York State purportedly served on us on May 24, 2010, seeking to collect $1,000,000 plus interest (the "ACG Loan") due to Arrowhead Consulting group LLC ("ACG") as well as foreclosure on the collateral granted as part of the Cheyne Loan described above in Liquidity and Capital Resources. The ACG Loan is fully subordinated to repayment of the Cheyne Loan, which has not been repaid, and a subsidiary of ours has been assigned all Cheyne's rights under the subordination provision of the Cheyne Loan. As a result we do not believe that ACG has the right to maintain this action to collect any monies or to foreclose on any collateral pursuant to the Cheyne Loan. We intend to vigorously defend against this action.

One of our affiliates has filed a derivative action against Zeus Partners Limited and two of its executives for indemnity in relation to Value Added Tax due with respect to the Zeus Transaction described in Summary Financial Information note 5 above. The purpose of this action is to protect our rights with respect to any potential liability to us with respect to Value Added Tax arising out of the Zeus Transaction.

Critical Accounting Policies

Management is required to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On a regular basis, management evaluates our estimates and assumptions and bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Basis of accounting: The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), the Companies Act 2006 of England and Wales and Article 4 of the International Accounting Standard ("IAS") Regulations. In addition, we also complied with IFRS as issued by the International Accounting Standards Board ("IASB").

We produce and acquire motion pictures for distribution in theatres, in home entertainment and/or for television exploitation. We operate in one principal business segment as a motion picture producer and distributor. Whether considered individually or in combination, our business as both a motion picture producer and distributor, do not constitute separate segments under SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. We believe that all our businesses are functionally and financially similar.

IFRS does not specifically address amortization of film costs, or participations and residuals. As a result, companies reporting under IFRS record these costs using principles similar to those provided by US GAAP. In accordance with SOP 00-2: Accounting by Producers or Distributors of Films, an entity is required to amortize film costs and to accrue participation costs using the individual-film-forecast method. The method amortizes film costs as the ratio of current period actual revenue to estimated remaining unrecognized ultimate revenue (as of the beginning of the current fiscal year). At each reporting date, the estimated remaining unrecognized ultimate revenue is updated with any changes being charged to the income statement in the fiscal year of revision.

We have engaged in various transactions under which we have received cash benefits either from the sale of tax credits that we earn from the production of our motion pictures in certain US states or foreign locations, or from tax advantaged investments made by third parties in our motion pictures. Any such proceeds are treated as a reduction in the production cost of the applicable motion picture up to the amount of the capitalized cost. To the extent such proceeds would exceed the capitalized cost of the film or represent fee income not applied to production cost, such proceeds are treated as film revenue. To the extent that we were to receive benefits from tax advantaged investments relating to a picture that has not commenced production by a particular date and that investment is forfeited, then such benefits are recorded as fee income.

Basis of consolidation: Our financial statements consolidate the financial statements of Seven Arts Pictures Plc and our subsidiaries. The results of subsidiaries acquired and sold are included in the profit and loss account from or up to the date control passes on the acquisition basis. Intra group sales and profits are eliminated on consolidation.

The results and net assets/liabilities of the associate are accounted for using the equity method, whereby the investment is initially recorded at cost and, thereafter, is adjusted for the post-acquisition change in the investor's share of net assets/liabilities. The profit and loss reflects the investor's share of the results of the operations of the associate.

Total Revenues: In accordance with ASC 926-20: Accounting by Producers or Distributors of Films, our film revenue recognition policies recognize revenue from a sale or licensing arrangement of a film when all of the following conditions are met:

a. Persuasive evidence of a sale or licensing arrangement with a customer exists.

b. The film is complete and, in accordance with the terms of the arrangement, has been delivered or is available for immediate and unconditional delivery.

c. The license period of the arrangement has begun and the customer can begin its exploitation, exhibition, or sale.

d. The arrangement fee is fixed or determinable.

e. Collection of the arrangement fee is reasonably assured

A written agreement with clients (purchase order, letter, contract, etc.) indicating the film name, territory and period is required for the recognition of revenue. Revenue is recognized when the performance criteria have been met and the customer has confirmed its agreement.

Our revenue recognition policies are summarized below:

1) License fee revenue (i.e. non-refundable advances) is recognized as and when the film in question is available for delivery to the respective territories. However, where an advance is paid upon the signing of an agreement, and this is non-refundable, it is recognized upon the signing of the agreement if the film is then available for delivery

2) Revenue that equates to a share of gross receipts of films is recognized as income as and when we are notified of the amounts when earned.

3) Revenue that relates to 3rd party investor interest income that is directly related to financing and producing films is recognized when earned.

We will not recognize any revenues relating to minimum guarantee on any motion picture or amortization expenses on that picture until United States theatrical release if we have agreed with the licensees that delivery or payment of minimum guarantee will be delayed for any material period of time to permit such a theatrical release.

Total revenues represent the earned revenue of goods sold and services provided to customers. Cash payments received are recorded as deferred income until all the conditions of revenue recognition have been met.

Production Costs: Film costs include the unamortized costs of completed films which have been produced by us or for which we have acquired distribution rights, libraries acquired as part of acquisitions of companies and films in progress and in development.

For films we produce, capitalized costs include all direct production and financing costs, capitalized interest and production overhead.

Costs of acquiring and producing films are amortized 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.

Films in progress include the accumulated costs of productions in films which have not yet been completed.

Films in development include costs of acquiring film rights to books, stage plays or original screenplays and costs to adapt such projects. Such costs are capitalized and, upon commencement of production, are transferred to production costs. Projects in development are written off at the earlier of the date they are determined not to be recoverable or when abandoned, or three years from the date of the initial investment.

Investments: Investments are held at the lower of cost or net realizable value, and reviewed annually for any impairment charges.

Property and Equipment: Property and Equipment are stated at cost less accumulated depreciation. Depreciation is provided for using the following rates and methods:

| | |
|---|---|
| Computer equipment and software | 2- 5 years straight line |
| Furniture and equipment | 2- 5 years straight line |

Accounts Receivables: Receivables are recognized at the initial amount of the invoice. As a result of the nature of our activities, accounts receivable are generally of a short-term nature. However, any receivable whose recovery date was distant would be measured at its present value. We do not charge interest on late payment of trade receivables and loans.

Any receivable outstanding is only written off after management has deemed the debt to be uncollectible, under the terms of the agreement. As of June 30, 2009, we had set up a reserve of $542,811 to cover any future uncollectible receivables, in addition to writing off an additional $687,438 of doubtful accounts during the period ended June 30, 2009. We determine an allowance by considering a number of factors, including the length of time receivables are past due, our previous loss history, the customer’s current ability to pay its obligation to us, and the condition of the general economy and the industry as a whole.

Substantially all of the trade receivables at face value as reflected in the consolidated financial statements are pledged as security for borrowings by us.

Accounts Payables: All operating trade payables (including notes payable and accrued supplier invoices) relate to the purchase of goods and services including those related to media space purchases as an agent. These payables are due within less than one year. However any payable whose due date was more than one year would be measured at its present value.

Income taxes: Income taxes are accounted for under SFAS No. 109, Accounting for Income Taxes ("SFAS No. 109"). SFAS No. 109 requires an asset and liability approach for financial accounting and reporting for income taxes and allows recognition and measurement of deferred assets based upon the likelihood of realization of tax benefits in future years.

Under this method, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are established when management determines that it is more likely than not that some portion or all of the net deferred tax asset will not be realized.

The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

We are not a part of any consolidation return filed in the United States.

VAT sales and purchase tax: Included within the receivables and payables is VAT charged at the rate applicable. This is a sales tax on all UK sales and purchases and for all periods presented this was calculated at the applicable tax rate of either 17.5% or 15% for all UK sales. Foreign sales are exempt from UK VAT.

Interest capitalized: Directly attributable interest is capitalized as part of intangible fixed assets and is based on interest charged as a result of obtaining bank and other borrowings to finance these assets.

Fair value of financial instruments: The carrying amount of cash, trade accounts receivable, other accounts receivable, receivables due from and payable to related parties, trade accounts payable, other accounts payable and accrued expenses, as well as short-term debt, approximate their corresponding estimated fair values due to the short-term maturity and revolving nature of these financial assets and liabilities. Cash equivalents are recognized at fair value considering quoted market prices for the same or similar instruments. Long-term debt is based on estimated market prices for similar instruments, considering interest rates currently available in connection with bank loans with similar terms and due dates.

Share based payments: The fair value of the employee services received in exchange for the grant of options is recognized as an expense in accordance with FRS 20 Share Based Payments. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options determined at the grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets) by use of an option-pricing model. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. This estimate is revised at each balance sheet date and the difference is charged or credited to the profit and loss account.

Inflation

We believe that inflation has not had a material effect on our operations to date.

Related Party Transactions

For a description of our related party transactions see the section of this prospectus entitled “Certain Related Transactions.”

## MOTION PICTURE INDUSTRY

The United States motion picture industry encompasses the production and theatrical exhibition of feature-length motion pictures and the subsequent distribution of such pictures in home video, digital media, television and other ancillary markets.

The industry is dominated by the major film studios, including Paramount Pictures, Universal Pictures, Warner Bros., Twentieth Century Fox, Sony Pictures Entertainment (including Columbia Pictures), and The Walt Disney Company. These studios have historically produced and distributed the majority of theatrical motion pictures released annually in the United States. The six "majors" generally self-finance some or all of their film production and have domestic or worldwide distribution organizations. Major studios typically release films with direct production costs ranging from $10 million to $100 million or more, and provide a continual source of motion pictures to the domestic theatrical exhibitors.

For over a decade, "independent" motion picture production companies such as Summit Entertainment, LLC, The Weinstein Company and many smaller production companies, like ours, have played an important role in the production and distribution of motion pictures for the worldwide feature film market. While the independents may generally have more flexibility and less corporate restraints than the major studios, they also operate at a certain disadvantage to major studios in that independents generally:

- do not self-finance their productions and must spend time and resources securing financing and incur interest and other expense in connection with such financings,
- have far more limited distribution capabilities than the major studios making a wider release in any format more difficult,
- do not self-distribute and, as a result, must share revenues derived from their motion pictures with distributors,
- face greater competition from other independents due to an increase in the production of independent motion pictures,
- annually produce less films and, as a result, are not able to spread the risk of any of their films underperforming among a larger pool of releases, and
- produce fewer motion pictures at substantially lower average production costs than major studios and generate significantly lower per-film revenue and profits.

Many independent motion picture companies have failed and ceased operations in recent years. Recent examples of failed independent motion companies include Miramax Pictures, New Line Entertainment, Carolco Pictures, Orion Pictures, Weintraub Entertainment, DeLaurentiis Entertainment Group, Hemdale, IRS Media, IRS Releasing and Prism Entertainment. Other independent motion picture companies have recently substantially curtailed their motion picture production activities due to poor results, including Savoy Pictures, The Samuel Goldwyn Company and Cinergi Pictures. Numerous smaller independent film production and/or distribution companies have failed to achieve their business objectives.

Motion Picture Development

Motion picture production begins with the development of a screenplay derived from an original idea conceived or acquired by the producer or with the adaptation of a popular novel or other type of media acquired by a writer or a producer.

During the development phase, the studio engages writers to draft and revise the screenplay and begins to obtain tentative commitments from a director and principal cast. A proposed production schedule and budget may also be prepared during this phase.

Upon completing the screenplay, if deemed good enough to produce, agreements with principal talent are negotiated and the film is "green lit" based on a viable production budget and estimate of ultimate profitability. At this stage, the film enters the pre-production phase. During pre-production, the production company: (i) employs creative personnel as needed; (ii) creates scene plans and the filming schedule; (iii) finalizes a detailed production budget; (iv) establishes filming locations, secures necessary studio facilities, completes required set design and construction; and (v) prepares for the start of principal photography.

Principal photography is the actual filming of the screenplay and may take from four to twelve weeks or more, depending upon such factors as budget, location, and the complexities in the screenplay. Following completion of principal photography, post-production work begins. The film is edited, visual effects are added, and voice and music soundtracks are synchronized with the picture. This results in the completion of the film negative that is duplicated to create the release prints for shipment to theatrical exhibitors. Since independent production companies are not able to absorb the costs of abandoned productions to the same extent as studios can, they are less likely to abandon green lit motion pictures. The consequence of abandoning a production has a greater negative effect on that independent's results of operations.

Production Costs, Financing, Co-Financing and Participations

In 2009, the production cost of a motion picture produced by a major studio for worldwide distribution averaged approximately $65 million (MPAA 2009 Theatrical Market Statistics) as compared to the production costs of a motion picture produced by us in the range of $2 million to $15 million. Direct production costs, sometimes referred to as "negative costs," consist of acquiring and/or developing the screenplay, film studio rental, cinematography, post-production costs and the compensation of creative talent and other production personnel. Distribution expenses, which consist primarily of the costs of advertising and release prints, or P&A, are not included in direct production costs.

The major studios generally fund production costs from cash flow from their motion picture and related activities or, in some cases, from unrelated businesses, and through co-financing activities. Substantial overhead costs, consisting largely of salaries and related costs of the development, production, distribution and marketing staff and physical facilities maintained by the major studios, also must be funded.

The independent production company normally finances production of the motion picture pursuant to financing arrangements with banks or other lenders in which the lender is granted a security interest in both the film and the independent production company's rights under its arrangement with the studio or independent distribution. In today's rapidly changing and competitive marketplace for motion pictures and with the current tightening of the credit markets, independent production companies have been utilizing additional forms of funding to finance their motion pictures, including "tax-preferred" financing (e.g., tax credits, sale/lease back transactions and direct subsidies), "mezzanine" or "gap" funds (which are senior to equity), government subsidies and the sale of equity. To minimize some of the financial risks normally associated with financing motion picture production, independent production companies often obtain, at various stages prior to the release of a motion picture, advances and guarantees from distributors in exchange for distribution rights to such pictures in particular territories. We believe that international "pre-sales" have become increasingly difficult to obtain resulting in fewer "pre-sales" with lower minimum guarantees, and this situation may continue for the indefinite future.

In recent years, studios have established co-production relationships on selected films. Under this arrangement, two studios agree to co-fund, co-produce and co-distribute a specific film, dividing film profit (or losses) earned from their respective distribution responsibilities. Co-productions typically reflect a studio's desire to mitigate risk on high cost films or to access specific material or talent. We intend to produce occasional larger budget motion pictures and will seek to co-produce any such motion pictures either with a major studio or with one or more other independents.

Both major studios and independents generally incur various third-party participations in connection with the distribution of a motion picture. These participations are contractual rights of actors, directors, screenwriters, or producers, entitling them to share in net revenue or profits from a particular motion picture. Each participation is different and terms are defined in the agreements governing the participation. Except for the most sought-after talent, participations are generally payable only after revenue collected exceeds all distribution and marketing fees and expenses, direct production costs and financing costs.

Motion Picture Distribution and Acquisition

Motion picture distribution encompasses the exploitation of films in theaters and in post-theatrical markets such as home video, pay-per-view, pay television, broadcast television and other markets.

Motion pictures are generally made available for distribution in markets subsequent to domestic theatrical release as follows:

| | Months After Initial U.S. Theatrical Release | Approximate Release Period |
|---|---|---|
| International Theatrical | 0-6 months | 0-12 months |
| Domestic home video | 4-6 months | --- |
| Domestic pay-per-view/video-on-demand | 4-6 months | 3 months |
| International home video | 6-12 months | --- |
| Domestic pay TV | 10-18 months | 12-21 months |
| International television | 18-24 months | 3-12 years |
| Domestic network or Basic cable | 30-36 months | 24-36 months |
| Domestic syndication | 48-70 months | 3-15 years |

Those of our motion pictures which receive a theatrical release are generally released in the DVD market four to six months after their theatrical release. We are aware that given the rapidly changing nature of the entertainment industry, these time frames for subsequent releases may soon change. Some in the industry believe that increased piracy, demand for pay-for-view, and changes in international markets are creating pressure to reduce these time frames. If these time frames shrink, there will be less time to generate revenues from motion pictures in each of those markets.

Forms of Distribution

Theatrical Distribution

Theatrical distribution of a motion picture involves the licensing of the motion picture to theaters, the manufacture and transportation of release prints or digital hard drives to theaters, and the promotion of the picture through advertising and publicity campaigns. The size and success of the promotional advertising campaign can materially affect the revenues realized from the theatrical release of a motion picture. The costs incurred in connection with the distribution of a motion picture can vary significantly, depending on the number of screens on which the motion picture is to be exhibited and the competition among distributors for theaters during certain seasons.

The distributor and theatrical exhibitor generally enter into an arrangement providing for the exhibitor's payment to the distributor of a percentage of the box office receipts for the exhibition period. The distributor's percentage of box office receipts generally ranges from an effective rate of 35% to over 50%, depending upon the success of the motion picture at the box office. The distributor's percentage of box office receipts generally decreases the longer a film plays in a theater. Distributors carefully monitor theater gross receipts to ensure that the exhibitor promptly pays all amounts due.

Many independent production companies will enter into "rent-a-system" arrangements under which a major studio will provide them with distribution services for a percentage distribution fee. These types of arrangements may be entered into before, during or after production of a particular motion picture. While rent-a-system arrangements can allow for a greater release, the costs of such an arrangement can be greater and the margins smaller than in the absence of such an arrangement. Under rent-a-system arrangements, the independent film company generally is responsible for half to all of P&A costs and the effective rate of the distributor's percentage of box office receipts is generally less than in the absence of such an arrangement. Although we prefer to handle our arrangements directly with distributors so that we negotiate terms directly and avoid sharing revenues from these motion pictures with a studio, we entered into a rent-a-system arrangement for the first time with our motion pictures Noise and Deal and may continue to do so with future motion pictures.

Historically, films have typically been released theatrically in international territories between one and three months after initial domestic release. In recent years, studios have begun to capitalize on global media saturation and are releasing films in many of the larger international territories within the first month following domestic release. International release patterns depend on local holidays and school schedules as well as the timing of competitive releases. Generally, our motion pictures have had an earlier release into international markets.

The majority of international theatrical revenue on all motion pictures is earned from Japan, Germany, United Kingdom, France, Spain and Australia. Live action films are generally dubbed in French, German, Spanish and Italian and subtitled for the smaller territories. Animated films are dubbed in as many as 25 or more languages.

Home Entertainment

The home entertainment distribution business involves the promotion and sale and/or license of DVDs, and more recently Blu-ray Discs (see below). Traditionally, such sales or rentals for private viewing occurred at local, regional and national video retailers (e.g., video specialty stores, convenience stores, record stores and other outlets). More recent forms of motion picture sales and rentals for private viewing, provided by companies like Netflix and Blockbuster, allow subscribers to rent or purchase motion pictures by mail or by direct download onto their computers or televisions.

In order to leverage the advertising and publicity costs associated with theatrical distribution, feature films are generally released in the home video market four to six months after their initial theatrical release. Our motion pictures that receive a theatrical release are generally released in the DVD market within this time frame.

DVD's of feature films may be sold or licensed to domestic wholesalers and retailers for either a sales price or a percentage share of the rental revenue (“revenue sharing”). Selected titles, including certain direct-to-video programs, are priced significantly lower to encourage direct purchase by consumers. Direct sale to consumers is referred to as the “priced-for-sale” or “sell-through” market. Generally, after the rental market, DVD's are re-released on the sell-through market at reduced “sell-through pricing.” 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.

While traditional retail, particularly the big box stores such as Wal-Mart, Target, Best Buy and Costco dominate the "sell through" market, Netflix and other non-traditional forms of video distribution are increasing their market share, and represent an increasing and important source of revenue.

Blu-ray

In January 2008, Toshiba withdrew from the HD-DVD player manufacturing business, thus ending its format competition in high definition video with Blu-ay. According to the Digital Entertainment Group ('DEG") a Los Angeles-based, industry-funded nonprofit corporation that advocates and promotes the many consumer benefits associated with various home entertainment products, including both physical and digital media on a variety of platforms, 2009 sales of Blu-ray Disc playback devices – including set-top box and game consoles – sold through 17.3 million units since launch. Some 4.5 million devices sold in the fourth quarter alone, bringing total units sold to nearly 8 million in 2009. The DEG also announced that Blu-ray Disc hardware sales experienced remarkable growth, with set-tops up an astounding 125% versus first quarter 2009.

The DEG estimates that more than 71 million HDTV sets have been sold to consumers, bringing the number of HDTV households to nearly 48 million. The DEG further estimates that 33% percent of these households have more than one HDTV. An HDTV provides the ideal medium for consumers to enjoy Blu-ray players and achieve the best HD experience.

Blu-ray disc players are available at more than 10,000 storefronts and are marketed by all of the leading manufacturers. There are nearly 80 different Blu-ray playback devices available The DEG also announced that Blu-ray Disc hardware sales experienced remarkable growth in first quarter of 2010, with set-tops up an astounding 125 percent versus first quarter 2009.

As a part of the earnings conference call for the fourth quarter of 2009, Netflix CEO Reed Hastings announced: "Now over 10% of our subscribers are Blu-ray enabled." In other words, over 1.2 million Netflix subscribers now pay the $1-$9 Blu-ray access charge over their monthly subscription rate. This represents over 70% growth year-on-year, despite the 20% rate increase during 2009.

While the motion picture industry as a whole faced tough comparisons to the first quarter of 2009, the home entertainment category performed extremely well in March 2010 compared to March 2009, with consumer spending on home entertainment up two percent for the month, consumer spending on sell-through up four percent, consumer spending on digital up 35 percent, and Blu-ray Disc software sales up a staggering 124 percent. The DEG also noted that the Easter holiday often sees a spike in gift buying, which helped to fuel March sales.

Pay-Per-View, Video-On-Demand

Pay-per-view ("PPV") television allows cable and satellite television subscribers to purchase individual programs, including recently released motion pictures and live sporting, music or other events, on a "per use" basis. The subscriber fees are typically divided among the program distributor, the pay-per-view operator and the cable system operator.

An evolved form of PPV technology is video-on-demand ("VOD"). This method of content delivery allows consumers to view a film or television program whenever they choose, "on demand". VOD use and revenue is expected to increase due to increased VOD subscriber penetration and the availability of more programming. We typically tie any PPV or VOD distribution arrangements into distribution arrangements that we make for pay television.

Pay TV

Pay Television allows subscribers to view premium channels such as HBO, Showtime, and Starz/Encore that are offered by cable and satellite system operators for a monthly subscription fee. The pay television networks acquire a substantial portion of their programming from the major studios. Most studios have negotiated output agreements with the major subscription pay services whereby the service provider must license for distribution all qualifying film product from the studio for a guaranteed fee typically dependent on domestic theatrical performance. Unless a major studio distributes its motion pictures and decides to include that motion picture in its output arrangements, most independents directly negotiate with pay television networks by individual title, a process that often leads to deal terms that are not as appealing as those offered to major studios with output deals. The initial pay television window for theatrical product generally follows home video availability and precedes broadcast (free) television. We believe that our motion pictures are well suited for pay television.

Broadcast and Basic Cable Television

Broadcast television allows viewers to receive, without charge, programming broadcast over the air by major networks (ABC, CBS, NBC and Fox), more recently formed networks (CW Network), independent television stations and cable and satellite networks. In certain areas, viewers may receive the same programming via cable transmission for which subscribers pay a basic cable television fee. Broadcasters or cable systems pay fees to distributors for the right to air programming a specified number of times.

Television networks, television stations, and cable and satellite networks generally license films and film packages (consisting of theatrically released feature films and made-for-television movies) pursuant to agreements with distributors or syndicators that allow a fixed number of telecasts over a prescribed period of time for a specified cash license fee or for barter of advertising time.

Pay and cable television services usually license pictures for initial exhibition commencing approximately 10 to 18 months after initial domestic theatrical release or six months after domestic home video release. Although many of our motion pictures are better suited for pay television, we have reached distribution with basic cable television for some of our recent releases.

New Media

While internet and new media have been slow to develop, there are increasing indications that the delivery of motion pictures via the Internet and other non-traditional distribution systems will begin to generate meaningful revenues. Netflix currently represents a non-trivial portion of total DVD revenues. Verizon’s FIOS and AT&T’s U-Verse fiber optic distribution offerings have completed their test market phase and are being introduced across the country, with aggressive marketing in major metropolitan areas.

New distribution platforms and business models are being explored in the motion picture and other industries. Major cellular operators are exploring the delivery of content to cell-phones. Apple has expanded its iTouch and iPhone platforms to deliver movies via iTunes and will be releasing the iPad platform at the time of this offering. Consumers can now order movies through their Playstations and Xbox's. Cinema Now, Dell and HP are introducing programs which allow consumers to preload movies on their new computers. Amazon.com's digital service delivers movies, purchased on their Unbox website, directly to the Now Playing list on TIVO players. Similar services are being introduced by DirecTV and major cable operators. Hulu – a joint venture of Fox and NBC – is exploring ad-supported revenue models for the delivery of television programs and feature films.

Other Markets

There are multiple sources of revenues from non-theatrical distribution of motion pictures. The most common are distribution to hotels, airlines, schools, libraries, hospitals and the military. Soundtrack albums and licensing of rights to perform musical works from film music can be an additional source of ancillary income. Other revenues may be generated from the licensing of rights to manufacture and distribute games, toys and action figures, clothing and similar commercial articles derived from characters or other elements of a motion picture. To date, our motion pictures have not generated any significant revenue from these markets.

General Market Information

The principal motion picture industry association, the Motion Picture Association of America or MPAA, collects statistics on the size and composition of the theatrical, video, digital and television markets for the motion pictures distributed by its members, which are generally the six "major studio" distributors. Accordingly, the information compiled by the MPAA does not reflect information that includes motion pictures similar to those that we have produced if they were not distributed by a major studio and might not be relevant for the purposes of understanding the independent production company industry. Some of these statistics ("MPAA Data") may be found at www.MPAA.org. We did not compile the MPAA Data and take no responsibility for its accuracy, or the applicability of this MPAA Data to our business.

Theatrical

- Worldwide box office for all films reached $29.9 billion in 2009, up 7.6% over 2008. International box office reached $19.3 billion and accounted for 64% of the worldwide total.

International box office increased 6.3% in 2009. Asia Pacific saw the largest growth with 12.3% over the previous year.

–Domestic (i.e., US and Canadian) theatrical box office in dollars increased by 10.1% over 2008 to $10.6 billion and by 20.3% over 2005 numbers. 3D pictures were a key contributor, accounting for $1.1 billion, or 11% of box office.

Domestic theatrical admissions increased by 5.5% over 2008 to 1.4 billion, the first increase since 2002. Admissions per capita increased to 4.3, also the first significant increase since 2002.

The number of screens in the United States decreased to 39,717 from 40,077 in 2008, with a substantial increase to 7,736 (from 5,659) in screens projecting digital copies of film. The number of worldwide screens stayed relatively constant though the number of digital projections has increased by 86% to 8,669 which now accounts for 55% of all digital screens.

The Digital Entertainment Group ("DEG") is a Los Angeles-based, industry-funded nonprofit corporation that advocates and promotes the many consumer benefits associated with various home entertainment products, including both physical and digital media on a variety of platforms. The DEG helps provide information and perspective about the home entertainment industry. Accordingly, the information compiled by the DEG reflects information that includes motion pictures similar to those that we have produced whether or not they were distributed by a major studio. The preponderance of their information is on and ht not be relevant for the purposes of understanding the independent production company industry. Some of these statistics ("DEG Data") may be found at www.degonline.org We did not compile the DEG Data and take no responsibility for its accuracy, or the applicability of this DEG Data to our business.

DVD/Blu-Ray

The number of United States households owning a television which also own a DVD player in 2009 increased to 92 million (adjusted for households with more than one player). The DEG estimates that 67% of DVD owners have more than one player. The number of United States households owning a television which also own a Blu-Ray disk player jumped by 76% to 17.3 million..

Total DVD/Blu-Ray unit sales (including units shipped to rental outlets) in the United States decreased to $8.7 billion, down 13% from2008, but Blu-Ray sales . In management's opinion this downturn in the overall market can be attributable to a marked increase in the rentals from companies such as Netflix and Redbox.

Most Blu-ray Disc consumers are paying between $20 and $30 for titles, marking about a $10 difference between the majority of standard-definition discs bought at $10 to $19.99 pricing, according to the NPD Group. Neither the DEG nor the MPAA issue statistics on the total size of the DVD market in the United States either for rental revenue from consumers, sales to consumers or revenues to distributors from rental and sales outlets. Management believes that the average wholesale price received by distributors is approximately 60% of retail revenues.

Television

Basic and pay cable television connections to all United States households with televisions (112.8 million) decreased to 34.4 million (basic cable) and 34.8 million (pay cable) from, respectively, 35.8 million and 35.6 million in 2006. However, satellite subscribers increased to 29.6 million households (2007) from 27.4 million households (2006).

OUR BUSINESS

Corporate History and Current Corporate Structure

In September 2004, one of our predecessor companies and an affiliate, SAP, a company owned by Peter Hoffman, our Chief Executive Officer, transferred to us all of its interests in certain motion picture assets, which included (i) 12 completed films, eight of which were co-produced through a joint venture between Seven Arts Pictures Ltd., a UK corporation (“SAPL”) and Fireworks Pictures Inc., and four of which were produced by CineVisions, and (ii) the rights to certain development projects then owned by SAP. SAP, its predecessor CineVisions, and SAPL were founded by our Chief Executive Officer and Director, Peter Hoffman, to produce and license for distribution independent motion pictures, as well as to provide consulting and financing services within the motion picture industry. SAP was incorporated on October 1, 2002 and assumed all the assets and liabilities of CineVisions, which had been incorporated in May, 1992.

On June 11, 2010, our shareholders approved the sale of all of our assets, underlying the ordinary shares of our subsidiaries to a newly formed Nevada Corporation, Seven Arts Entertainment Inc. (“SAE”), which will be the new holding company for all operations described herein. The transfer of assets and the Company’s membership on NASDAQ and issuance of ordinary shares of SAE is expected to be completed by August 31, 2010. We do not believe that this reincorporation will have any material effect on the Company’s business or operation. We believe that a United States holding company which is not a foreign issuer will be in the best interests of our shareholders.

Films Produced and Distributed from 1994-1998

Between 1996 and 1998, our predecessor CineVisions produced and licensed the distribution rights for Johnny Mnemonic, Never Talk To Strangers, 9 ½ Weeks II, and Shattered Image, which were transferred to us by SAP. CineVisions transferred the rights to distribute these films to SAP, which in turn transferred them to us. Subsequently, all rights to 9 ½ Weeks II were transferred by court order to a third-party in final judgment.  We own the copyright to the other motion pictures either directly or through grants of all rights in perpetuity.

Films Produced and Acquired by SAPL and Fireworks

In 1998, SAPL entered into a joint venture agreement for the production and distribution of motion pictures with Fireworks. Fireworks is a subsidiary of CanWest Global Entertainment, Inc., a large diversified Canadian media company.   Pursuant to that joint venture, Fireworks and SAPL produced, acquired and distributed 11 motion pictures (the "Fireworks Pictures"), one of which was returned to the owner and two of which are among the motion pictures now controlled by the Company. The interest in the Fireworks Pictures (but no liability), were also transferred to us in 2004 by SAP.

Through SAPL, Mr. Hoffman produced and acquired Fireworks Rules of Engagement, Onegin, The Believer, Who Is Cletis Tout and American Rhapsody.  These motion pictures are the subject of copyright infringement and contract claims that we, together with SAP and SAFE, have brought against Fireworks and Content Film, as described below.

Films Co-Financed by SAPL

Through SAPL, Mr. Hoffman co-financed three motion pictures in conjunction with Fireworks and Paramount. Of these motion pictures, we claim that one of them, Rules of Engagement, was transferred to us by SAP in 2004. As set out below, this motion picture is the subject of copyright infringement and contract claims that we, together with SAP and SAFE, have brought against Fireworks and Content Film. See Management's Discussion and Analysis of Financial Condition and Results of Operations – Legal Proceedings.

Our Business Strategy

Our current business strategy is:

- To finance, produce and distribute two to four motion pictures in-house per year with budgets of between $2 million and $15 million each. As previously stated, certain of these pictures will receive only a limited theatrical release while others will be released more widely.

- To supplement our core strategy by producing an occasional higher cost motion picture (production budgets of $30 - $50 million). We will seek to co-produce such projects with a major studio to guarantee a studio-wide release and obtain a commitment to cover a portion or all of prints and advertising ("P&A") costs.

- To opportunistically acquire distribution rights to an additional two to five motion pictures produced by others, each year, for distribution in theatrical, video and television markets, as an agent, for a 15%-20% fee.

- To maximize our current use of tax-preferred financing structures around the world to fund our motion picture productions.

- To continue to reduce our financial risk on motion pictures we produce in-house by pre-selling certain rights to distributors prior to and during production, although we recognize that, particularly in the last year, the pre-sale market has become more difficult to access as a film financing tool.

- To increase our share of distribution revenues by entering into partnerships with theatrical and video distributors, to gain more control over the distribution of our motion pictures and to obtain a greater share of the revenues from distribution of our motion pictures.

- To scale our business over time by modestly increasing the number of pictures we develop and produce in-house as well as by more aggressively seeking to acquire for distribution motion pictures produced by third parties.

We believe that this is a particularly opportune time to be producing and distributing moderately priced motion pictures as, according to their public announcements, the major studios plan on reducing the number of pictures that they finance and distribute, preferring instead to concentrate resources on a limited number of high-priced, “franchise” productions. In addition, we believe that certain of the most successful independent motion picture companies have either been acquired or are focusing on higher budget films. We believe that these factors will attract exceptional levels of both talent and projects for lower budget motion pictures and independent film companies such as Seven Arts.

We are discussing distribution partnership possibilities in the United Kingdom and Scandinavian territories (Sweden, Denmark, Norway, and Finland) and intend to explore similar distribution opportunities in other territories including the United States.

Our Competitive Strength

Our competitive strengths include:

- The experience of our management and our relationships with independent motion picture distributors. Our management has participated in the production and/or distribution of more than one hundred motion pictures since 1986.

    - Our relationships with “key talent” and with independent motion picture distributors around the world.

    - Our attractive profit margins which result from adherence to cost efficient budgets, a low overhead structure, the use of pre-sales to license our motion pictures for a fee to third-party distributors prior to completion of production, and of tax-preferred financing.

- Our expertise in structuring non-overlapping tax-preferred financings in jurisdictions where such are made available.

Production

Since 1996, we and our predecessors have developed, financed, produced, and licensed 16 motion pictures, primarily with budgets in range of $2 million to $15 million, for domestic and international markets. While most of our pictures have either received only limited theatrical releases or were released directly to post-theatrical markets, primarily DVD, we believe these pictures have substantial DVD, home video, pay-per-view, and free television potential. We may produce the occasional higher cost motion picture (production budgets of $30 - $50 million), and if we do so, we will most likely choose to co-produce any such project with a major studio if they guarantee a studio-wide release and provide a commitment to cover a portion or all of P&A costs or with one or more other independent production companies. The number of pictures that we are able to produce and the size of the budget of those films depend upon the funds available to us.

We receive between 50 and 100 submissions of potential film projects or completed films every year, which generally include a "package" of a screenplay and certain talent elements (e.g. producer, director and cast). In certain limited cases, we will arrange for the creation of a screenplay and the "packaging" of creative elements. We commission independent production budgets of certain projects to evaluate the project's suitability for production or distribution. The pictures we produce are selected according to several key criteria formulated to maximize the profit potential of our films, including the potential to license the worldwide distribution rights to the film for an amount greater than the projected production budget (e.g. a minimum profit margin of at least 20%), the potential for the film to be widely accepted as a “quality” or “good” film, whether the key creative talent, including directors and two most prominent cast members, are likely to be both responsible and artistically gifted in creating the motion picture. There are no "rules" or specific strategic limitations on our choice of motion pictures to produce. The decision to move forward with a project is our Chief Executive Officer’s decision based on highly subjective factors. However, we believe that the vast experience of our management team is critical to this decision-making process. We will, however, only consider a motion picture with a production cost in excess of $15,000,000 if we are able to manage the risks of production through “pre-sales” or equity contribution to production of that picture.

In 2007, Seven Arts Pictures Louisiana LLC (“SAP LA”), a subsidiary of SAP, acquired real property in New Orleans, Louisiana, which they are in the process of developing as a production and post production facility for motion pictures in Louisiana. Over the past five years, Louisiana has become a popular destination for the production of motion pictures due to very favorable tax incentives. Since 2005, we have produced or acquired the distribution rights to six motion pictures produced under the Louisiana Motion Picture Incentive Act (the “Louisiana Incentives”), which provides substantial transferable tax credits for film production activities in Louisiana accredited to us whether we produce or acquire a motion picture. The Louisiana Incentives provide generally that the producer will receive both a 25% transferable investment tax credit on all film expenditures on Louisiana vendors and a 10% transferable labor tax credit on all expenditures for labor performed in Louisiana by Louisiana residents. We generally obtain loans during production of a motion picture in Louisiana secured by these tax credits after a “pre-certification” by the Louisiana Film Office that the applicable motion picture qualifies for the Louisiana Incentives. We are then able to transfer these tax credits at a discount to third parties upon completion of the motion picture, audit by independent accountants of the applicable expenditures and “certification” by the Louisiana Film Office of tax credits payable based on the audited expenditures. We use the proceeds from the transfer of the tax credits to third parties to repay the loan secured by the tax credits, at which time the lender releases its security interest in the tax credits. We take advantage of similar refundable (but not transferable) tax credits available for film production expenditures in the United Kingdom, Canada, Ireland, Italy and Hungary.

We expect the post production facility in Louisiana will open for operation by December 31, 2010. When completed, we anticipate that this facility will be leased to our motion picture productions in Louisiana and to other motion picture productions produced by unrelated parties. In accordance with the Intercompany Agreements any and all such engagements with the Company will be on an arm's length basis. SAP LA secured a credit facility in the aggregate principal amount of $3,700,000, which has been used to acquire and begin the improvements on the property and SAPLA has increased this credit facility by up to an additional $3,100,000 to complete the facility. This credit facility carries an annual interest rate of 2% plus the Prime Rate as published in The Wall Street Journal. We have guaranteed the amounts that SAP LA borrows under this facility and no additional consideration is provided for this guarantee beyond the existing agreement between SAP LA and us. We do not anticipate the use of any material amount of our working capital to complete and operate this facility, and we expect to realize substantial film production, film infrastructure, historic rehabilitation and other state and federal tax credits and other tax incentives from the acquisition, renovation, and operation of this property as a post production facility. In particular SAP LA has submitted audited expense reports which would generate approximately $4,000,000 in Louisiana Film Infrastructure tax credits $3,000,000 in Louisiana State Rehabilitation tax credits and $3,000,000 in Federal Historic Preservation tax credits.

Licensing of Distribution Rights

We license distribution rights in our motion pictures in the United States and in most foreign territories prior to and during the production or upon the acquisition of rights to distribute a picture. We share in the commissions generated by the sales of the pictures. Sale of a license to distribute a motion picture prior to its delivery is termed a "pre-sale" and may occur at any time during the development and production process. In a typical license agreement, we license a picture to a distributor before it is produced or completed for an advance from the licensee, which advance is recoverable by the distributor from our share of the revenues generated by the distribution of the picture in the licensee's territory, after deduction of the distributor's expenses and distributor fee. The advance usually is in the form of a cash deposit plus a letter of credit or "bank letter" for the balance payable 10-20% on execution (i.e., the cash deposit) and the balance on delivery (i.e., the letter of credit or "bank letter"). The license grants the distributor the right to the post-theatrical release of the picture in all or certain media in their territory for a predetermined time period. After this time, the distribution rights revert back to us and we are then free to re-license the picture. The license specifies that the 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 distributor has recouped its advance, costs, and fees, any remaining revenue is shared with us according to a predetermined formula. This is known as an "overage" and can be a significant source of revenue for us 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 us in the form of an "overage" in that territory. In all of our licensing arrangements, we retain ownership of our films and maintain our control of each copyright. We intend to continue the practice of retaining underlying rights to our film projects in order to continue to build our motion picture library to license or sell in the future.

Finance

We create a separate finance plan for each motion picture we produce.  Accordingly, the sources of the funds for production of each motion picture vary according to each finance plan.  We utilize "tax-preferred" financing (e.g., tax credits, sale/lease back transactions and direct subsidies), "mezzanine" or "gap" funds, which are senior to our equity and tax-preferred funds, and senior secured financing with commercial banks (e.g. Comerica Bank and First California Bank) or private lenders (e.g., Blue Rider Pictures, A-Mark Entertainment, Parallel Pictures), together in certain cases with a limited investment from us, which is customarily less than 10% of the production budget.  Since each finance plan is unique to each motion picture, we cannot generalize as to the amount we will utilize any of these sources of funds for a particular motion picture.  We generally obtain 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 we have committed to production with an insubstantial amount of advances and guarantees. Unless we can manage the risks of production through the use of these financing techniques, we will not likely commit to production of larger budget motion pictures (e.g., over $15,000,000), and we have never in the past committed to such productions, without substantial advances or guarantees from third-party distributors, or the equivalent in "non-recourse" financings.

Motion Picture Library

In total we and our predecessors have produced or acquired interests in the following 33 motion pictures to date described below in the table.  We own (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 us, and for all other pictures in table below we own all material and distribution rights in the markets in which we operate for at least all territories outside the United States and Canada for no less than 15 years, which generally are the motion pictures we acquire for distribution only.  Historically, in any financial period a small number of motion pictures have accounted for the vast majority of our revenues generated from our motion picture library. We have lost the right to  manage twelve motion pictures (designated “+” in the table below) as a result of the exercise by the Arrowhead Target Fund of its rights under the Arrowhead Loan described above at “Risk Factors” p.11.

| Title | Talent | | Delivery Date | 1st U.S. Release | Date Distribution Rights Terminate |
|---|---|---|---|---|---|
| American Summer aka The Pool Boys (CR) | Director: | J.B. Rogers | 06/08 | scheduled 04/10 | n/a |
| | Cast: | Matthew Lillard | | | |
| +Asylum (CR) | Writer: | Patrick Marber | 05/04 | 08/05 | n/a |
| | Director: | David MacKenzie | | | |
| | | Ian McKellan | | | |
| | Cast: | Natasha Richardson | | | |
| Autopsy (CR) | Director: | Adam Gierasch | 06/08 | 1/09 | n/a |
| | Cast: | Robert Patrick | | | |
| Back In The Day | Writer: | Michael Raffanello | 03/05 | 05/05 | 11/11/2019 |
| | Director: | James Hunter | | | |
| | Cast: | Ving Rhames | | | |
| | | Ja Rule | | | |
| Boo (1) | Writer/Director: | Anthony C. Ferrante | 03/05 | 10/05 | 5/14/2008 |
| | Cast: | Trish Cohen | | | |
| | | Happy Mahaney | | | |
| A Broken Life | Writers: | Neil Coombs, Anna Lee & Grace Kosaka | 06/08 | 09/08 | 10/26/2026 |
| | Directors: | Neil Coombs | | | |
| | Cast: | Tom Sizemore | | | |
| | | Ving Rhames | | | |
| | | Grace Kosaka | | | |
| | | Saul Rubinek | | | |
| Captivity | Writer: | Larry Cohen | 03/06 | 07/07 | 5/10/2008 |
| | Director: | Roland Joffe | | | |
| | Cast: | Elisha Cuthbert | | | |
| Cemetery Gates (1) | Writer: | Brian Patrick O'Tolle | 03/05 | 05/06 | 4/4/2020 |
| | Director: | Roy Knyrim | | | |
| | Cast: | Reggie Bannister | | | |

| Title | | Talent | Delivery Date | 1st U.S. Release | Date Distribution Rights Terminate |
|---|---|---|---|---|---|
| Deal (CR) | Writer: | Gil Cates, Jr. & Marc Weinstock | 03/07 | 04/08 | n/a |
| | Director: | Gil Cates, Jr. | | | |
| | Cast: | Burt Reynolds | | | |
| | | Bret Harrison | | | |
| | | Shannon Elizabeth | | | |
| | | Jennifer Tilly | | | |
| Drunkboat | Writer: | Bob Meyer & Randy Buescher | 12/08 | not yet scheduled | 4/28/2011 |
| | Director: | Bob Meyer | | | |
| | Cast: | John Malkovich | | | |
| | | John Goodman | | | |
| | | Dana Delaney | | | |
| Gettin' It | Writer/Director: | Nick Gaitatjis | 12/06 | 08/07 | 4/4/2017 |
| | Cast: | Jessica Canseco | | | |
| | | Patrick Censoplano | | | |
| | | Cheryl Dent | | | |
| | | Sandra Staggs | | | |
| Hades aka The Black Waters of Echo Pond | Director: | Gabriel Bologna | 5/09 | not yet scheduled | 10/26/2027 |
| | Cast: | Robert Patrick | | | |
| | | Danielle Harris | | | |
| + The Hustle (CR) | Writers: | David Howard & Michael Capellupo | 10/02 | 12/02 | n/a |
| | Director: | Stuart Cooper | | | |
| | Cast: | Bobbie Phillips | | | |
| | | Robert Wagner | | | |
| + I'll Sleep When I'm Dead (CR) (1) | Writer: | Trevor Preston | 06/04 | 06/04 | n/a |
| | Director: | Mike Hodges | | | |
| | Cast: | Clive Owen | | | |
| | | Malcolm McDowell | | | |
| | | Jonathan Rhys Meyers | | | |

| | | | | | |
|---|---|---|---|---|---|
| + Johnny Mnemonic | Writer: | William Gibson | 12/94 | 05/95 | n/a |
| (CR) | Director: | Robert Longo | | | |
| | Cast: | Keanu Reeves | | | |
| | | Dolph Lundgren | | | |

68

| Title | Talent | | Delivery Date | 1st U.S. Release | Date Distribution Rights Terminate |
|---|---|---|---|---|---|
| Knife Edge | Director: | Anthony Hickox | 06/08 | 03/10 | 3/23/2031 |
| | Cast: | Joan Plowright | | | |
| | | Natalie Press | | | |
| | | | | | |
| Men Don't Lie | Director: | Jane Spencer | not yet scheduled | not yet scheduled | |
| | Cast: | Michael Madsen | | | |
| | | Elle Travis | | | |
| | | | | | |
| The Mesmerist | Writers: | Ron Marasco & Michael Goorjian | 06/02 | 09/02 | n/a |
| | Director: | Gil Cates, Jr. | | | |
| | Cast: | Neil Patrick Harris | | | |
| | | Jessica Capshaw | | | |
| | | | | | |
| Mirror Wars | Writers: | Alex Kustanovich | 11/06 | 07/07 | 2/3/2011 |
| | | & Oleg Kapanets | | | |
| | Director: | Vasily Chiginsky | | | |
| | Cast: | Armand Assante | | | |
| | | Malcolm McDowell | | | |
| | | Rutger Hauer | | | |
| | | | | | |
| + Never Talk To Strangers (CR) (1) | Writers: | Lewis A. Green | 09/95 | 10/95 | n/a |
| | | & Jordan Rush | | | |
| | Director: | Peter Hall | | | |
| | Cast: | Antonio Banderas | | | |
| | | Rebecca DeMornay | | | |
| | | | | | |
| Night of the Demons (CR) | Director: | Adam Gierasch | 06/09 | not yet scheduled | n/a |
| | Cast: | Shannon Elizabeth | | | |
| | | Edward Furlong | | | |
| | | Diora Baird | | | |
| | | | | | |
| Nine Miles Down (CR) | Director: | Anthony Waller | 06/09 | not yet scheduled | n/a |
| | Cast: | Adrian Paul | | | |
| | | Kate Nauta | | | |

| | | | | | |
|---|---|---|---|---|---|
| + No Good Deed (CR) | Writer: | Christopher Canaan | 05/02 | 09/03 | n/a |
| | | & Steve Banancik | | | |
| | Director: | Bob Rafelson | | | |
| | Cast: | Samuel L. Jackson | | | |
| | | Milla Jovovich | | | |

69

| Title | Talent | | Delivery Date | 1st U.S. Release | Date Distribution Rights Terminate |
|---|---|---|---|---|---|
| Noise aka | Writer/Director: | Henry Bean | 03/07 | 05/08 | n/a |
| The Rectifier | Cast: | Tim Robbins | | | |
| (CR) | | William Hurt | | | |
| | | Bridget Moynahan | | | |
| | | William Baldwin | | | |
| Pool Hall Prophets aka Shooting Gallery | Writer/Director: | Keoni Waxman | 09/05 | 12/05 | n/a |
| (CR) | Cast: | Freddie Prinze, Jr. | | | |
| | | Ving Rhames | | | |
| + Popstar | Writer: | Timothy Barton | 03/05 | 11/05 | 10/19/2014 |
| | Director: | Richard Gabai | | | |
| | Cast: | Aaron Carter | | | |
| | | Alana Austin | | | |
| Radio Free Albemuth | Writer/Director: | John Alan Simon | 6/10 | NA | 6/25 |
| | Cast: | Alanis Morissette | | | |
| + Red Riding Hood | Writer: | Timothy Dolan | 03/06 | 06/06 | 5/2/2015 |
| | Director: | Randall Kleiser | | | |
| | Cast: | Lainie Kazan | | | |
| | | Morgan Thompson | | | |
| + Shattered Image | Writer: | Duane Poole | 06/98 | 12/98 | n/a |
| (CR) (1) | Director: | Raul Ruiz | | | |
| | Cast: | William Baldwin | | | |
| | | Anne Parillaud | | | |
| + A Shot At Glory | Writer: | Denis O’Neill | 01/02 | 05/02 | 9/30/2016 |
| | Director: | Michael Corrente | | | |
| | Cast: | Robert Duvall | | | |
| | | Michael Keaton | | | |
| + Stander (CR) | Writer: | Bima Stagg | 10/03 | 08/04 | n/a |
| | Director: | Bronwen Hughes | | | |
| | Cast: | Thomas Jane | | | |
| | | Deborah Unger | | | |

| Title | Talent | | Delivery Date | 1st U.S. Release | Date Distribution Rights Terminate |
|---|---|---|---|---|---|
| + Supercross | Writer: | Ken Solarz | 08/05 | 5/25/2019 | |
| | Director: | Steve Boyum | | | |
| | Cast: | Sophia Bush | | | |
| | | Steve Howey | | | |
| | | Cameron Richardson | | | |
| The Wedding Chest | Writer: | Ekaterina Tirdatova | 3/08 | not yet scheduled | 10/4/2021 |
| | Director: | Nurbek Egen | | | |
| | Cast: | Natasha Regnier | | | |
| | | Bolot Tentimyshov | | | |

(1) Indicates a motion picture for which we do not own the distribution rights in the United States and Canada.

71

MANAGEMENT

The following sets forth the name and position of each of our directors and executive officers:

| Name | Position | Age | Date First Elected or Appointed | Date of Expiration of Current Term (1) |
|---|---|---|---|---|
| Hubert Gibbs | Chairman, Director | 51 | April 9, 2010 | November 15, 2011 |
| Peter Hoffman | CEO, Director | 60 | September 2, 2004 | November 15, 2011 |
| Michael Garstin | President/CFO, Director | 62 | July 1 2008 | November 15, 2010 |
| Kate Hoffman | COO, Director | 33 | February 26, 2008 | November 15, 2010 |
| Michael Hamilton | Director | 62 | June 28, 2010 | November 15, 2011 |
| Julia Verdin | Director | 47 | January 3, 2007 | November 15, 2012 |
| Anthony Hickox | Director | 44 | January 3, 2007 | November 15, 2012 |
| Elaine New | Director | 50 | January 11, 2007 | November 15, 2012 |

(1) Directors serve for three years.

The Directors served in their respective capacities since their election and/or appointment and will serve until the next Annual General Meeting or until a successor is duly elected, unless the office is vacated in accordance with the Articles of Association.

The senior management serves at the pleasure of the Board of Directors.

No director and/or senior management had been the subject of any order, judgment, or decree of any governmental agency or administrator or of any court or competent jurisdiction, revoking or suspending for cause any license, permit or other authority of such person or of any corporation of which he is a director and/or senior management, to engage in the securities business or in the sale of a particular security or temporarily or permanently restraining or enjoining any such person or any corporation of which he is an officer or director from engaging in or continuing any conduct/practice/employment in connection with the purchase or sale of securities, or convicting such person of any felony or misdemeanor involving a security or any aspect of the securities business or of theft or of any felony.

The experience and qualifications of the directors and senior management for at a minimum the last five years are as follows:

The Honorable Hubert Gibbs has been our Chairman and one of our directors since April 9, 2010. After graduating from Oxford University in 1981, Mr. Gibbs started his career as an editor, reader and translator at Quartet Books UK. Subsequently he worked as a stock market analyst with Banque Bruxelles Lambert and then as an independent communications entrepreneur responsible for starting up various companies including Instlang.com which was sold to market leader SDL in 1999. Most recently Mr. Gibbs has been involved in financing and producing independent films, including As Good as Dead, and The Killing Jar. Mr. Gibbs managed the family estate, Tyntesfield until it was taken over by the National Trust in 2002.

Peter Hoffman has been our Chief Executive Officer and one of our directors since September 2004 and is also our founder. Mr. Hoffman took over as Chairman on December 31, 2009 following the death of previous chairman Anthony Bryan but resigned that position on election of Hubert Gibbs as Chairman. Under Mr. Hoffman's direction, we and our predecessors have produced and or distributed over thirty features since our inception including: Johnny Mnemonic, Never Talk To Strangers, 9 ½ Weeks II and Shattered Image. As our CEO, his responsibilities include, among others, the selection and production of motion pictures, strategic planning, business development, operations, financial administration, accounting, and reporting to the Board of Directors. Mr. Hoffman was previously President and CEO of Carolco Pictures. He was directly involved at Carolco in the production of a large slate of independent motion pictures, including Terminator 2, Basic Instinct, Total Recall, and Rambo III. Mr. Hoffman is a graduate of the Yale Law School and has participated as a lawyer and executive in numerous financial and tax-preferred financings for more than twenty-five years. Mr. Hoffman is the father of Kate Hoffman, our Chief Operating Officer and our Executive Director.

Michael Garstin has been our President and one of our directors since June 2008, and our Chief Financial Officer since January 14, 2010. As our president, his responsibilities include strategic planning, business development, financial administration and fundraising. As our Chief Financial Officer, his responsibilities include overseeing financial administration, preparing accounting and financial statements, liaising with auditors, accountants, and financial community/shareholders; and preparing, paying and organizing our expenses, taxes, and activities, and ensuring our compliance with all financial statutory and regulatory requirements. He began his career as a Lending Officer at Chase Manhattan Bank, then joined Filmways Corp., later renamed Orion Pictures, as a Board Director and Chief Financial Officer. Subsequently, he returned to Wall Street and worked as a Senior Managing Director and Head of the Media & Entertainment Group at Bear Stearns & Co., during which time he provided advice to and helped raised capital for a number of independent film companies, including Carolco Pictures, on whose Board of Directors he served for a number of years. He later ran the New York Investment Banking departments for both Daniels & Associates and CEA and worked as a Managing Director at Gleacher & Co., and at SMH Capital.

Michael Hamilton has been a director since June 28, 2010. He received a B.Sc. in accounting from St. Francis College and worked at Price Waterhouse Coopers ("PWC") for more than thirty years where he ultimately became the Partner in Charge of the firm's utility audit and tax practice. In addition he was the audit engagement partner for a number of his firm's largest energy and utility audit clients. He is an expert in the application of GAAP, rules and regulations of the SEC and generally accepted auditing standards. He is an expert on the requirements of the Sarbanes Oxley Act. After his retirement from PWC in 2003 he was a Senior Managing Director at FTI Consulting. His current positions include Chairman and CEO of MMC Energy Inc., a publicly owned company currently in a state of liquidation, Non-Executive Chairman of MX Energy Inc., a retail gas and electric marketing company, and Chairman of the Audit Committee of Vulcan Power Company, a geo-thermal energy developer in Nevada.

Julia Verdin has been a director since January 2007. She is an independent film producer. Ms. Verdin produced Stander, directed by Bronwen Hughes, was an Executive Producer on Merchant of Venice, directed by Michael Radford and starring Al Pacino, Jeremy Irons and Joseph Fiennes and a co-producer on Riding the Bullet, based on a Steven King story which was directed by Mick Garris and stars David Arquette, Jonathan Jackson, Erika Christensen and Barbara Hershey.

Anthony Hickox has been a director since January 2007. He is a film director, writer and producer. Mr. Hickox wrote and directed his first film, Waxworks at the age of 21. Mr. Hickox was involved in the production of or direction of Sundown, Warlock: Armageddon; Children of the Corn, Turn of the Screw; Carnival of Souls, and Hellraiser 3: Hell on Earth.

Elaine New was our Chief Financial Officer and a director from January 2007 until July 31, 2009 and remains a non-executive director. She is Cambridge University educated and is a Price Waterhouse (London) qualified Chartered Accountant. Elaine has been in the media industry for the last ten years as Finance Director of Metrodome Group plc, a UK film distributor. Ms. New was previously engaged as Financial Controller of Harrods International, helping to establish an airport retailing arm, and as Commercial Director of Outfit, a new division of Sears Womenswear Ltd that she helped to create in the latter part of the 1990s. Ms. New was on the Executive Committee of The Quoted Companies Alliance for almost three years helping represent small to mid-cap companies listed both on AIM and the main list of The London Stock Exchange.

Kate Hoffman has been our Chief Operating Officer and a director since February 2008. As our COO, her responsibilities include supervising the production of motion pictures and licensing and delivering our motion pictures to third parties. She began her career at the age of 17 as an intern for Hollywood casting directors, Mary Vernieu and Risa Gramon-Garcia. Ms. Hoffman then worked for film agent Mort Viner at International Creative Management until his retirement when she joined our predecessors in 1998. She has managed the development, production and delivery of films including The Believer, No Good Deed, Stander, and Asylum. In addition to her production responsibilities, Ms. Hoffman is responsible for international distribution, acquisitions and film financing. Ms. Hoffman is the daughter of Peter Hoffman, our Chief Executive Officer and a Director.

Compensation

Since February 15, 2009, our compensation policies with respect to our Directors and executive officers are established, administered, and the subject of periodic review by our Independent Directors in accordance with the NASDAQ Marketplace Rules. Total compensation accrued and/or paid (directly and/or indirectly) to the Directors and senior management during the fiscal year ended June 30, 2009 was $1,084,808. We have a Compensation Committee, consisting of Mr. Gibbs, Mr. Hickox, and Mr. Hamilton, all three Independent Directors, that reviews and approves all employee compensation and bonuses.

Fiscal Year Ended June 30, 2009

| | Annual Compensation | | | Long-Term Compensation | | | |
|---|---|---|---|---|---|---|---|
| | | | | Awards | | Payouts | |
| Name | Salary ($) | Bonus ($) | Other Annual Compen sation ($) | Securities Under Option/ SAR’s Granted (#) | Shares/ Units Subject to Resale Restrictions ($) | LTIP Pay outs ($) | All Other Compensation ($) |
| Peter Hoffman | 500,000 | - | - | - | - | - | - |
| Elaine New | 247,500 | | | | | | |
| Kate Hoffman | 85,800 | - | - | - | - | - | - |
| Michael Garstin | 200,000 | | - | - | - | - | - |
| Other Directors as a Group | 94,625 | - | - | - | - | - | - |

Stock Options

Stock Option Grants from Inception to June 30, 2009

| Name | Number of Options Granted | % Of Total Options Granted on Grant Date | Exercise Price per Share | Grant Date | Expiration Date | Mkt. Value of Securities Underlying Options on Date of Grant |
|---|---|---|---|---|---|---|
| Michael Garstin | 100,000 | 100 % | $ 1.54 | 6/1/2008 | 6/1/2013 | $ 1.54 |
| Michael Arata(1) | 10,000 | 100 % | $ 1.54 | 6/1/2008 | 6/1/2013 | $ 1.54 |
| Tony Hickox | 10,000 | 100 % | $ 2.29 | 2/7/2007 | 2/7/2012 | $ 2.29 |
| Julia Verdin | 10,000 | 100 % | $ 2.29 | 2/7/2007 | 2/7/2012 | $ 2.29 |
| Elaine New | 10,000 | 100 % | $ 2.29 | 2/7/2007 | 2/7/2012 | $ 2.29 |
| Chris Bialek(2) | 10,000 | 100 % | $ 2.29 | 2/7/2007 | 2/7/2012 | $ 2.29 |
| Philip Kendall | 20,000 | 100 % | $ 1.46 | 9/30/2008 | 9/29/2013 | $ 1.46 |
| Other Employees | 60,000 | 100 % | $ 1.55 | 11/7/08 | 11/7/13 | $ 1.55 |
| Total Granted | 230,000 | | | | | |
| Total Outstanding | 220,000 | | | | | |

(1) On November 5, 2009 Michael Arata exercised all 10,000 of these options.
(2) On December 1, 2009 Chris Bialek exercised all 10,000 of these options.

In addition, we have granted stock options in the following amounts to the following persons in connection with financing services provided by them:

| Name | Number of Options Granted | Exercise Price Per Share | Market Value of Securities on Date of Grant | Grant Date | Expiration Date |
|---|---|---|---|---|---|
| Blue Rider Finance/ Robert Oppenheim(1) | 50,000 | $ 1.125 | $ 1.463 | Jan. 22, 2008 | Jan. 23, 2011 |
| Trafalgar Capital Specialized Investment | 160,000 | $ 1.013 | $ 1.463 | Jan. 31, 2008 | Jan. 30, 2013 |
| Fund(2) | 60,000 | $ 1.013 | $ 1.988 | Oct. 30, 2008 | Oct. 30, 2013 |
| Total Granted | 270,000 | | | | |
| Total Outstanding | 37,500 | | | | |

(1) On October 21, 2008 Robert Oppenheim exercised 12,500 options.
(2) We terminated all 220,000 stock options granted to Trafalgar in October 2008 in return for 34,000 restricted ordinary shares.

Change of Control Compensation

We have now and have had in all periods described no plans or arrangements in respect of compensation received, or that may be received, by our executive officers to compensate such officers in the event of termination of employment (as a result of resignation, retirement, change of control) or a change of responsibilities following a change of control, where the value of such compensation exceeds US$60,000 per senior manager other than those set out in Peter Hoffman's Employment Agreement. Pursuant to the Employment Agreement, if we terminate Peter Hoffman without cause, we shall be entitled to pay SAP a lump sum of approximately $1,500,000 and assign to Mr. Hoffman all projects in development during the term of his employment.

Other Compensation

No senior management director received "other compensation" in excess of the lesser of US$25,000 or 10% of such officer's cash compensation, and senior management and Directors as a group did not receive other compensation which exceeded US$25,000 times the number of persons in the group or 10% of the compensation.

Bonus/Profit Sharing/Non-Cash Compensation

Except for the stock options discussed above, we have no material bonus or profit sharing plans pursuant to which cash or non-cash compensation is or may be paid to some of our directors or senior management, except that our Board has adopted a bonus plan substantially in the following form:

1. Compensation Committee will recommend amount of bonus pool each year, which will be 10% of pre-tax profits for the prior fiscal year. The CEO and the Compensation Committee will decide recipients of project-related awards and amounts.

2. In future years, comparisons will be made to peer groups in the motion picture industry.

3. There will be two types of annual bonuses:

(a) Those related to the overall management of our company
(b) Those related to performance on specific projects

4. Managers in bonus pool:

(a) Peter Hoffman (Chairman/CEO)
(b) Michael Garstin (President/CFO)
(c) Kate Hoffman (COO)
(d) Elaine New

5. Management bonuses as follows:

| | CEO | Management | Project Related |
|---|---|---|---|
| Company Results | 40% | 25% | 15% |
| Individual Objectives | 10% | 30% | 50% |
| Subjective | 20% | 20% | 25% |
| Share Performance | 30% | 25% | 10% |

6. Individual objects for Management will be agreed by the Board.