

Seven Arts Entertainment Inc.
Form 10-Q
September 15, 2014

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

OR

TRANSITION REPORT UNDER SECTION 13 OF 15(d) OF THE EXCHANGE ACT OF 1934

Commission File Number **001-34250**

SEVEN ARTS ENTERTAINMENT INC.

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

Nevada **45-3138068**
(State or other jurisdiction of (IRS Employer

incorporation or organization) Identification No.)

8721 Sunset Boulevard Suite 209

Los Angeles, CA 90069

(Address of principal executive offices)

(323) 372-3080

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

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

Indicate by check mark whether the Registrant is a large accredited filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accredited filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large Accredited Filer Accelerated Filer
Non-Accredited Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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As of September 12, 2014, there were 162,784,252 shares of Common Stock of the issuer outstanding.

SEVEN ARTS ENTERTAINMENT, INC.

FORM 10-Q

DECEMBER 31, 2013

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Seven Arts Entertainment, Inc.**Consolidated Balance Sheets**

	December 31, 2013 (Unaudited)	June 30, 2013
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,432	\$ 4,884
Accounts receivable, net of allowance for doubtful accounts of \$40,000 and \$40,000	24,252	110,043
Due from related parties	187,783	205,787
Fee income receivable from related parties, net of allowance of \$1,180,000	1,180,000	2,055,000
Other receivables and prepayments	206,992	455,019
Total Current Assets	1,612,459	2,830,732
Film costs, less accumulated amortization of \$14,063,827 and \$13,877,171	8,355,192	8,368,686
Music assets, less amortization of \$414,509 and \$408,205	240,000	296,795
Building Improvements, less amortization of \$247,244 and \$164,526	6,716,915	4,102,525
Property and equipment, net of accumulated depreciation of \$132,908 and \$129,084	2,134	7,459
TOTAL ASSETS	\$ 16,926,700	\$ 15,606,196
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	1,008,616	1,824,140
Accrued liabilities	1,706,465	2,486,514
Due to related parties	1,504,326	1,681,701
Participation and residuals	96,819	96,819
Convertible debt	3,942,118	4,073,901
Mortgage and construction loans	7,823,797	3,743,286
Film & production loans	7,284,576	7,814,412
Deferred income	980,580	954,265
Total Current Liabilities	24,347,297	22,675,039
TOTAL LIABILITIES	\$ 24,347,297	\$ 22,675,039
STOCKHOLDERS' EQUITY		
Convertible redeemable Series A preferred stock at \$10 par value, 125,125 and 125,125 authorized and outstanding	\$ 1,251,250	\$ 1,251,250
	5,525,454	5,525,458

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Convertible redeemable Series B preferred stock at \$100 par value, 200,000 authorized, 43,850 and 48,850 outstanding		
Common stock; \$0.01 par value; 249,000,000 authorized, 2,116,687 and 23,162 issued and outstanding	6,315,090	2,578,521
Additional paid in capital	19,143,697	22,072,882
Shares held as collateral	(455,246)	(455,246)
Other Comprehensive income	(13,555)	(13,555)
Accumulated deficit	(38,669,666)	(38,154,995)
Warrants to be distributed	480,371	480,371
Total Seven Arts Entertainment Inc. equity	(6,422,605)	(6,715,314)
Non-controlling interest	997,992	353,530
Total Shareholders' equity	(7,420,597)	(7,068,843)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$16,926,700	\$15,606,195

The accompanying notes are an integral part of these consolidated financial statements.

Seven Arts Entertainment, Inc.**Consolidated Statements of Operations and Comprehensive Loss**

	3 Months Ended December 31, 2013		6 Months Ended December 31, 2013	
	2012	2012	2012	2012
	Unaudited	Unaudited	Unaudited	Unaudited
Revenue:				
Film revenue	\$ (9,729)	\$ 164,719	\$ 87,267	\$ 394,112
Music revenue	-	6,450	14,974	696,240
Fee Related Revenue - related party	-	-	-	-
Post production revenue	22,687	11,628	26,452	18,078
Total revenue	12,958	182,797	128,693	1,108,430
Cost of revenue:				
Amortization of film costs and music assets	94,699	94,886	195,146	580,901
Impairment of film costs and music assets	50,491	-	50,491	-
Other cost of revenue	20,037	129,351	21,563	249,658
Cost of revenue	165,227	224,237	267,200	830,559
Gross profit (loss)	(152,269)	(41,440)	(138,507)	277,871
Operating expenses:				
Amortization of leasehold improvements	41,359	42,848	82,718	80,775
General and administrative expenses	674,429	781,667	1,200,900	1,451,615
Bad debt expense	-	-	-	-
Total operating expenses	715,788	824,515	1,283,618	1,532,390
Income/(Loss) from operations	(868,057)	(865,954)	(1,422,125)	(1,254,518)
Non-operating income(expense)				
Other income		(6,451)	-	-
Gain/(Loss) on De-Consolidation of SAFE	1,988,428		1,988,428	
Interest expenses	(1,838,904)	(927,488)	(2,904,642)	(1,902,997)
Realization of Tax Credits	1,180,000	-	1,180,000	
Total non-operating income (expense)	1,329,524	(933,939)	263,786	(1,902,997)
Income/(Loss) before taxes	461,467	(1,799,893)	(1,158,339)	(3,157,515)
Provision for income tax	-		(800)	
Net Income/(loss)	461,467	(1,799,893)	(1,159,139)	(3,157,515)
Less: Net loss attributable to non-controlling interests	(469,422)	(89,293)	(644,462)	(172,097)
Net income/(loss) attributable to Seven Arts Entertainment, Inc.	\$ 930,888	\$ (1,710,601)	\$ (514,677)	\$ (2,985,418)
Comprehensive loss:				

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Net loss	461,467	(1,799,893)	(1,159,139)	(3,157,515)
Other Comprehensive income/(loss)	-	-	-	-
Comprehensive income/(loss)	461,467	(1,799,893)	(1,159,139)	(3,157,515)
Less: Comprehensive loss attributable to non-controlling interests	(469,422)	(89,293)	(644,462)	(172,097)
Comprehensive Income/(loss) attributable to Seven Arts Entertainment, Inc.	\$930,888	\$(1,710,601)	\$(514,677)	\$(2,985,418)
Weighted average shares of common stock outstanding:				
Basic	537,545	25	308,464	177
Diluted	537,545	25	308,464	177
Basic profit/ (loss) per share	\$1.73	\$(68,608.06)	\$(1.67)	\$(16,899.97)
Diluted profit/ (loss) per share	\$1.73	\$(68,608.06)	\$(1.67)	\$(16,899.97)

The accompanying notes are an integral part of these consolidated financial statements

Seven Arts Entertainment Inc.**Consolidated Statements of Cash Flows**

	6 months ended December 31, 2013	6 months ended December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (1,159,139)	\$ (3,157,515)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	5,325	5,693
Amortization of Film Costs and Music Assets	195,146	580,901
Impairment of film and music costs	50,491	-
Amortization of Building improvements	82,718	80,775
Provision for Returns	-	231,405
Stock issued for services	31,979	100,500
Bad debt expense	(1,180,000)	-
Changes in assets and liabilities:		
(Increase) Decrease in Accounts Receivable	45,791	(224,419)
Decrease in Due from Related Parties	18,004	19,791
Increase in Fee Income Receivable from Related Party	-	-
(Increase) Decrease in Other Receivables and Prepayments	288,027	(784,723)
(Increase)Decrease in Film Costs	139,117	(629,150)
(Increase) in Music Assets	-	(593,054)
Increase (Decrease) in Accounts Payable	(781,749)	401,111
Increase(Decrease) in Accrued Liabilities	(916,799)	68,930
Increase in Due to Related Parties	25,625	887,445
Increase in Accrued Interest included in notes payable	2,905,949	1,459,834
Increase(Decrease) in Deferred Income	26,315	74,100
Net Cash Used in Operating Activities	\$ (223,200)	\$ (1,478,376)
CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES:		
Building Improvements	-	(375,420)
Net Cash Used in Investing Activities	-	(375,420)
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:		
Proceeds from Borrowings	231,750	1,737,407
Issuance of Common Stock for Cash	-	300,000
Common and Preferred Stock to be issued	-	(107,793)
Shares as collateral for legal settlement	-	(180,000)
Net Cash Provided by (Used for) Financing Activities	231,750	1,749,614

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NET INCREASE (DECREASE) IN CASH	8,550	(104,182)
CASH AT BEGINNING OF PERIOD	4,884	120,658
CASH AT END OF PERIOD	\$ 13,434	\$ 16,476

Supplemental disclosure of cash flow information:

Interest paid	-	-
Income taxes paid	-	-

Supplemental disclosure of non-cash investing and financing activities:

Shares of common stock issued in satisfaction of debt	\$ 339,250	\$ 4,297,520
Stock issued for services	31,979	100,500
Conversion of Preferred Shares Series B to common stock	-	1,001,818
Application of SAPLA tax credit to Fee Income Receivable, related party and Film Production Loan balances	2,055,000	-
Series A Preferred Stock modification	203,000	-

Seven Arts Entertainment, Inc.

Notes to Consolidated Financial Statements

December 31, 2013

(Unaudited)

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities, History and Organization:

Seven Arts Entertainment, Inc. (herein referred to as “the Company”, “Seven Arts” or “SAE,”), a Nevada Corporation, is the continuation of the business of Seven Arts Pictures Plc. (“PLC”), which was founded in 2002 as an independent motion picture production and distribution company engaged in the development, acquisition, financing, production, and licensing of theatrical motion pictures for exhibition in domestic (i.e., the United States and Canada) and foreign theatrical markets, and for subsequent worldwide release in other forms of media, including home video and pay and free television. The Company currently owns interests in 33 completed motion pictures, subject in certain instances to the prior financial interests of other parties.

On November 8, 2011, the Company's listing predecessor, PLC, was placed into involuntary creditors' liquidation under English law (See Note 9 – Commitments and Contingencies). Certain indebtedness of PLC remained with PLC and will be subject to administration or payment in those administration proceedings. In accordance with the asset transfer agreement, PLC has been issued 2 million (pre-split)/29 post-split shares of common stock of SAE in order to satisfy these obligations.

In late February 2012, the Company formed Seven Arts Music, Inc. (“SAM”) and acquired 52 completed sound recordings of the recording artist DMX with the rights to additional albums and acquired 100% of the stock of Big Jake Music (“BJM”). The music segment has not grown as the Company expected it to, and sales of the acquired sound recordings were not as estimated. The Company has recognized total impairments on this segment of \$4,775,000 since acquisition. Therefore, the Company is rethinking the music segment, and is presently not acquiring any new artists, or producing new recordings, and is only exploiting the already released recordings. The Company has determined their entry into the music business did not succeed to the level expected, as evidenced by the impairments recognized in the music segment, and will no longer invest capital in this activity to actively pursue new artists or recordings. The Company will continue to release recordings from their previously acquired material and exploit their released recordings.

On June 30, 2012, Seven Arts Filmed Entertainment LLC (“SAFELA”) was transferred to the Company. SAFELA, which is now 60% owned by the Company, has a 30 year lease to operate a film production and post-production facility at 807 Esplanade in New Orleans, Louisiana. The post production facility commenced operations on July 1, 2012.

On October 1, 2013, the Company formed a new subsidiary in England and Wales, Cinevisions (UK) LTD, whose purpose mainly is to process salary for the two remaining UK based staff and collect European based revenue on behalf of the company.

On October 9, 2013 the Company’s subsidiary, Seven Arts Filmed Entertainment Limited (SAFE), entered into Creditors’ Voluntary Liquidation under English law. The Company had previously acquired certain assets of SAFE on January 3, 2012 for assumption of certain debt. All assets and liabilities of SAFE have been removed from the Company’s financial statements effective October 9, 2013.

The Company’s common stock is trading on the OTC Market’s OTCQB marketplace and is quoted under the symbol “SAPX.”

Emerging Growth Company Critical Accounting Policy Disclosure:

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An "emerging growth company" is defined in the Securities Exchange Act of 1934 as an issuer that had total annual gross revenues of less than \$1 billion during its most recently completed fiscal year. An issuer that is an emerging growth company as of the first day of that fiscal year shall continue to be deemed an emerging growth company until the earliest of: i) the last day of the fiscal year of the issuer during which it had total annual gross revenues of \$1 billion or more, ii) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the issuer pursuant to an effective registration statement under the Securities Act of 1933, iii) the date on which such issuer has during the previous 3-year period, issued more than \$1 billion in non-convertible debt, or iv) the date on which such issuer is deemed to be a “large accelerated filer.”

The Company qualifies as an “emerging growth company” under the 2012 JOBS Act. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. As an emerging growth company, the Company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company may elect to take advantage of the benefits of this extended transition period in the future.

Reverse Stock-Splits:

On February 12, 2014, October 31, 2013, May 2, 2013 and August 31, 2012, the Company effected one –for-one hundred, one-for-twenty, one-for-fifty and one-for-seventy reverse stock splits, respectively, collectively referred to as the Stock Splits. Unless otherwise noted, all impacted amounts included in the consolidated financial statements and notes thereto have been retroactively adjusted for the Stock Splits. Unless otherwise noted, impacted amounts include shares of common stock authorized and outstanding, share issuances and cancellations, shares underlying preferred stock, convertible notes, warrants and stock options, shares reserved, conversion prices of convertible securities, exercise prices of warrants and options, and loss per share.

Unaudited Financial Statements:

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“GAAP”) for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals, unless otherwise indicated) considered necessary for a fair presentation of the interim financial data have been included. Operating results for the three and six months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2014.

The consolidated balance sheet at June 30, 2013 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements.

The Company has evaluated events that occurred subsequent to December 10, 2013 and through the date the financial statements were available to be issued. Management concluded that no additional subsequent events required disclosure in these financial statements other than those disclosed in these notes to these financial statements.

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013, filed with the Securities and Exchange Commission (the “SEC”) on October 15, 2013.

Significant Accounting Policies:

Basis of Presentation:

The accompanying consolidated financial statements include the accounts of Seven Arts Entertainment, Inc. (“SAE”), and its subsidiaries:

• Seven Arts Music, Inc. (“SAM”) (100% owned)

• Big Jake Music, Inc. (“BJM”) (100% owned)

• Seven Arts Filmed Entertainment Louisiana LLC (“SAFELA”) (As of June 30, 2012) (60% owned by SAE, 40% owned by Palm Finance)

• Cinevisions (UK) LTD, (100% owned)

All material intercompany balances and transactions are eliminated. The Company does not have any variable interest or special purpose entities. The Company presents Palm Finance’s 40% share of SAFELA’s profit or loss as a non-controlling interest. As of December 31, 2013, SAFELA’s net loss was approximately \$1,618,000.

Liquidity and Management's Plan:

The accompanying consolidated financial statements are prepared under a going concern basis in accordance with US generally accepted accounting principles (“GAAP”) which contemplates the realization of assets and discharge of liabilities and commitments in the normal course of business. For the year ended June 30, 2013, the Company recorded a loss from operations of approximately \$18,190,000, and utilized cash in operations of \$548,000. As of June 30, 2013, the Company had a working capital deficit of approximately \$19,844,000. For the six months ended December 31, 2013 the Company recorded a loss from operations of approximately \$1,422,125, utilized cash in operations of approximately \$223,000 and had a working capital deficit of approximately \$22,735,000

These factors, among others, raise substantial doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to return to profitability or to develop additional sources of financing or capital. The Company’s financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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Historically, the Company's main source of cash was through the exploitation of its films, sales of equity and debt financing. However, the Company has not released or distributed a new film since July 2012. The Company's next film, *Fractured* (formerly known as *Schism*), is expected to be released in April, 2014, and the Company also intends to release the next DMX album in mid 2014. Additionally, management has begun to implement cost reductions including reducing the size of its' staff and size of its UK office, relocating the Los Angeles office and expects to be able to continue to obtain additional financing. No assurance can be given that the financing will be available or, if available, that it will be on terms that are satisfactory to the Company.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The most significant estimates made by management in the preparation of the financial statements relate to ultimate revenue and costs of its films which are used in the amortization and impairment of film costs, estimates for allowances and income taxes. Accordingly, actual results could differ from those estimates.

Recently Issued Accounting Pronouncements:

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position or cash flow.

Revenue Recognition:

FILMS

The Company recognizes revenue from the sale (minimum guarantee or non-refundable advances) or licensing arrangement (royalty agreements) of a film in accordance with ASC 605-15 "Revenue Recognition". Revenue will be recognized only when all of the following criteria have been met:

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

The film is complete and, in accordance with the terms of the arrangement, has been delivered or is available for b) immediate and unconditional delivery. (i.e. the "notice of delivery" ("NOD") has been sent and there is a master negative available for the customer).

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 in the contracts have been met. The customer generally confirms agreement by their signature on the contract.

Minimum guarantee revenue (i.e., non-refundable advances) is recognized as and when the film is available for delivery to the respective territories. Cash deposits received on the signing of the contracts are recorded as deferred revenue until the film is available for delivery (as described above) at which point the deferred revenue is recognized as revenue. Royalty revenue, which equates to an agreed share of gross receipts of films, is recognized as income as and when the Company is notified of the amounts by the customers through their royalty reports. Revenue is recorded net of any sales or value added taxes charged to customers.

MUSIC

Revenue, which equates to an agreed share of gross receipts, is recognized as income when the Company is notified of the amounts by the distribution agent through their distribution reports.

Revenue is recorded:

- a) net of any sales or value added taxes charged to customers
- b) net of discounts agreed with customers
- c) net of returns provision agreed with the distributor and
- d) grossed up for the distribution fee charged by the distribution agent.

Revenue from digital distribution will be reported by the various digital platforms such as iTunes in their periodic reports and posted as received.

FEE RELATED REVENUES

Many countries make tax credits available to encourage film production in the territory. Seven Arts benefits from tax credits in:

- a) The UK and several other European territories for their European productions
- b) Canada for their Canadian productions
- c) Louisiana for their US productions
- d) Tax preferred financing deals

These tax credits may be treated as a reduction in the capitalized costs of the film assets they are financing or as producer fees to us if the tax credits are earned and owned by a company in the Group and paid to us as overhead or producer fees.

Deconsolidation of Seven Arts Filmed Entertainment Limited (SAFE):

On October 9, 2013, Seven Arts Filmed Entertainment Limited (SAFE), a wholly owned subsidiary, entered into a Creditors' Voluntary Liquidation in the United Kingdom on the basis that it was in liquidation and that it had issued a winding up petition in April 2013. In accordance with Accounting Standards Codification (ASC) 810, when a subsidiary becomes subject to the control of a government, court, administrator, or regulator, deconsolidation of that subsidiary is generally required. We have therefore deconsolidated SAFE from our balance sheet as of October 9, 2013 and have eliminated the results of SAFE's operations from our results of operations beginning on that date.

SAFE had a net payable at October 9, 2013 that we expect will remain unchanged until liquidation proceedings have been finalized. Included in this net amount are receivables and payables we have determined are reportable as a net amount based on the fact the amounts are determinable, the balances are due to and from SAFE, and the amounts would remain legally enforceable.

Income Taxes:

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The Company has adopted ASC 740-10, "Income Taxes", which requires the use of the liability method in the computation of income tax expense and the current and deferred income taxes payable (deferred tax liability) or benefit (deferred tax asset). Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company accounts for uncertain tax positions according to the provisions of ASC 740. ASC 740 contains a two-step approach for recognizing and measuring uncertain tax positions. Tax positions are evaluated for recognition by determining if the weight of available evidence indicates that it is probable that the position will be sustained on audit, including resolution of related appeals or litigation. Tax benefits are then measured as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. No material changes have occurred in the Company's tax positions taken as of December 31, 2013.

The Company has provided a valuation allowance against all existing and newly created deferred tax assets as of December 31, 2013, as it is more likely than not that its deferred tax assets are not currently realizable due to the net operating losses incurred by the Company.

As of December 31, 2013, the Company did not have any unrecognized tax benefits or open tax positions. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2013 the Company had no accrued interest or penalties related to income taxes. The Company currently has no federal or state tax examinations in progress.

Cash and Cash Equivalents:

Cash and cash equivalents includes cash in banks with original maturities of three months or less and are stated at cost which approximates market value, which in the opinion of management, are subject to an insignificant risk of loss in value. The cash and cash equivalents of the Company consisted of cash balances held on deposit with banks, including various accounts denominated in US Dollars, Pounds Sterling and Euros.

Accounts Receivable:

Accounts Receivable are carried at their face amount, less an allowance for doubtful accounts. On a periodic basis, the Company evaluates accounts receivable and establishes an allowance for doubtful accounts based on a combination of specific customer circumstances and credit conditions, and on a history of write offs and collections. The Company's policy is generally not to charge interest on trade receivables after the invoice becomes past due. A receivable is considered past due if payments have not been received within agreed upon invoice terms. Write offs are recorded at a

time when a customer receivable is deemed uncollectible. The Company's allowance for doubtful accounts was \$40,000 at both December 31, 2013 and June 30, 2013, respectively. Substantially all of the trade receivables in the consolidated financial statements are pledged as security for borrowings by the Company.

Due To/Due From Related Parties

In September 2004, the Company's predecessor entered into an agreement with SAP under which SAP provided the services of Mr. Peter Hoffman for the amount of his contracted salary and the Los Angeles office and staff of SAP to the Company's predecessor at cost. Pursuant to two inter Company agreements, SAP also from time-to-time owned limited liability companies in the United States which distributed the Company's motion pictures for a fee, with all profits ensuing to the benefit of the Company. These companies also provided other services to the Company at no fee other than Mr. Hoffman's salary and the direct third-party costs of SAP's Los Angeles office, all of which were reflected in the Company's financial statements. Portions of Mr. Hoffman's salary have not been paid to him and have been reflected as Due To Related Party. During June and October 2013, 147,143 (post split) shares were issued in satisfaction of \$2,091,227 of this liability. These shares are being held as collateral against certain loans and will be returned to the Company, if not called as collateral, when the related loans are paid or converted.

These other services may include accounting services, audits of distribution statements, collection of accounts receivable, supervision of production of motion pictures and similar day-to-day aspects of the Company's business. SAP assigned to the Company any proceeds arising from services performed by SAP on its behalf. SAP was granted the power and authority to enter into agreements on the Company's behalf. These agreements have terminated as of December 31, 2011.

SAP directly or through related various Louisiana limited liability companies have, from time-to-time, made non-interest bearing advances to the Company or its subsidiaries or have received advances back from the Company, and have paid expenses on each other's behalf.

Film Costs:

Film costs include the unamortized costs of completed films which have been produced by the Company or for which the Company has acquired distribution rights, libraries acquired as part of acquisitions of companies and films in progress and in development. For films produced by the Company, 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 majority of a film's costs (approximately 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. Impairment 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 therefore it is 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 are included in the general "library" category when initial release dates are at least three years prior to the acquisition date.

Films in progress include the accumulated costs of productions 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.

Music Assets:

The initial material assets that were acquired comprise 52 completed sound recordings including two completed albums with "DMX", up to two additional albums from "DMX" and up to five albums from "Bone Thugs-N-Harmony".

Music assets include the unamortized costs of completed albums, singles and videos which have been produced by the Company or for which the Company has acquired distribution rights, libraries acquired as part of acquisitions and albums in progress and in development. For albums produced by the Company, capitalized costs include all direct production and financing costs, capitalized interest and production overhead.

Costs of acquiring and producing music assets are amortized using the individual-album-forecast method, whereby these costs are amortized 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 or sale of the music.

Building Improvements:

On June 30, 2012, the Company acquired SAFELA, which was previously a related party company. SAFELA has a 30 year lease on 807 Esplanade, New Orleans, Louisiana, which was constructed as a production and post-production facility. The Company has since assumed the liability for \$1,000,000 of these loans plus a contingent sum of \$750,000 (contingent on receipt of the tax credit revenue of at least \$5,000,000 in cash proceeds from the tax credits to be earned by SAPLA) due to an agreement with the now mortgagor Palm Finance. As of December 31, 2013, the Company was in default on the Forbearance Agreement governing this loan with Palm Finance, who has demanded an additional \$2.7 million plus interest. (see Note 7). This additional amount of the mortgage has been recognized in Building Improvements. Additionally, a construction loan of \$1,850,000 previously guaranteed by the Company has now been assumed by the Company for the property at 807 Esplanade. The Company did not receive any consideration or benefit when they assumed the mortgage and construction loans, and have looked to the authoritative guidance on guarantees as an analogy. As the guidance on financial guarantees does not address which account would be set up as an offsetting entry when the liability is recognized at the inception of the guarantee, the Company has determined to call this asset balance created upon assumption of the debt “Building Improvements related to indebtedness” The Building Improvements will be amortized in a manner similar to leasehold improvements, over the life of the lease (30 years).

The post production facility commenced operations on July 1, 2012.

Loss Per Share:

Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share include the effects of any outstanding options, warrants and other potentially dilutive securities. In accordance with ASC 260-10-45-19, the Company did not consider any potential common shares in the computation of diluted EPS as of September 30, 2013 and 2012, due to the loss from continuing operations, as they would have an anti-dilutive effect on EPS.

Fair Value Measurements:

ASC Topic 820, “Fair Value Measurements and Disclosures”, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair value of financial instruments is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market based parameters. Valuation adjustments may be made to ensure that financial instruments are

recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Corporation's credit worthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Derivative Instruments:

The Company's policy is to not use derivative or hedging financial instruments for trading or speculative purposes, except certain embedded derivatives derived from certain conversion features or reset provisions attached to the convertible debentures, as described in Note 9.

NOTE 2 - SEGMENT INFORMATION

In accordance with ASC 280 "Segment Reporting", operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance. Our chief decision maker, as defined under the FASB's guidance, is a combination of the Chief Executive Officer and the Chief Financial Officer. The Company's three segments are the film distribution and production segment, the music segment and the pre-production facility.

The table below presents the financial information for the three reportable segments for the three months ended December 31, 2013 and 2012:

	Three Months Ended December 31, 2013			
	Film (SAE)	Music (SAM)	Post- Production (SAFELA)	Total
Revenue	\$ (9,729)	\$ -	\$ 22,687	\$ 12,958
Cost of revenue	\$ (95,199)	\$ (65,491)	\$ (4,537)	\$ (165,227)
Gross profit/(loss)	(104,928)	(65,491)	18,150	(152,269)
Operating expenses	(563,873)	(14,108)	(137,807)	(715,788)
Profit/(Loss) from operations	\$ (668,801)	\$ (79,599)	\$ (119,657)	\$ (868,057)
Total Operating Profit/(Loss)				\$ (868,057)

	Six Months Ended December 31, 2013			
	Film (SAE)	Music (SAM)	Post- Production (SAFELA)	Total
Revenue	\$ 87,267	\$ 14,974	\$ 26,452	\$ 128,693
Cost of revenue	\$ (191,868)	\$ (71,795)	\$ (3,537)	\$ (267,200)

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Gross profit/(loss)	(104,601)	(56,821)	22,915	(138,507)
Operating expenses	(1,016,307)	(14,108)	(253,203)	(1,283,618)
Profit/(Loss) from operations	\$(1,120,908)	\$(70,929)	\$(230,288)	(1,422,125)
Total Operating Profit/(Loss)				\$(1,422,125)

Assets

	December 31, 2013	June 30, 2013
Film assets	\$8,357,377	\$8,368,686
Music assets	240,000	296,795
Post-production assets	6,716,915	4,102,525

NOTE 3 – RELATED PARTY DUE TO/DUE FROM

Related Party due to/due from consists of:

As of December 30, 2013:

	SAE	SAFE	SAFELA	CONSOLIDATED BALANCE
Due From:-				
SAP LA LLC	\$173,006	\$-	\$-	\$173,006
SAMT	13,000	-	-	13,000
Peter Hoffman	-	-	1,777	1,777
Total	186,006		1,777	187,783
Due to:-				
Peter Hoffman	(1,504,326)	-	-	(1,504,326)
SAFE (UK)	-	-	-	-
	\$(1,504,326)	\$-	\$	\$(1,504,326)

As of June 30, 2013:

	SAE	SAFE	SAFELA	CONSOLIDATED BALANCE
Due From:-				
SAP LA LLC	\$173,006	\$-	\$-	\$173,006
SAMT	13,000	-	-	13,000
Peter Hoffman	-	-	19,781	19,781
Total	\$186,006		\$19,781	\$205,787

Due to:-

Peter Hoffman	\$(1,272,112)	\$(393,650)	\$-	\$(1,665,762))
SAFE (UK)	(2,383)	(13,556)	-	(15,939)
	\$(1,274,495)	\$(407,206)	\$-	\$(1,681,701)

NOTE 4 – FEE INCOME RECEIVABLE FROM RELATED PARTY

SAPLA has filed for historical rehabilitation tax credits available from the United States (26%) and Louisiana (25%) on approximately \$9,500,000 of historical rehabilitation expenses paid in connection with the renovation of the building and property at 807 Esplanade Avenue in New Orleans, Louisiana (the “Property”) and reflected in a compilation of expenses by an independent accounting firm. SAPLA has filed the Part I application for historic rehabilitation credits and has received the Part II and Part III approvals from the United States Department of Parks with respect to the Property:

SAPLA will allocate the Federal historic rehabilitation credits to investors in its lessee, 807 Esplanade Ave. MT LLC (“MT”), and receive cash or reduction in indebtedness as a result of such allocation. SAPLA will assign the Louisiana historic rehabilitation for cash.

SAPLA has also filed for Louisiana film infrastructure tax credits (40%) on all of its investment of approximately \$11,500,000 in connection with the Property to date, as reflected in an audit report of an independent accounting firm (which also includes audits of all rehabilitation expenses). SAPLA has approval from Louisiana that the Property is a certified state film infrastructure project and SAFELA, as lessee of MT, is now operating a production and post - production facility at the Property.

To date Louisiana has certified approximately \$6,500,000 of the \$11,500,000 film infrastructure expenditure filed for, the tax credits accruing on which SAPLA will assign for cash, with the remaining expenses remaining under consideration by the Louisiana Department of Economic Development (“LED”). SAPLA has received no objections to any of its film rehabilitation expenses from LED as reflected in the audit report submitted to LEDF on July 2, 2012. Under a published Opinion of the Attorney General of Louisiana, the Louisiana tax credits vest upon certification as a

film infrastructure project which occurred in 2008. Revenue is not recognized until the required audit or compilation is complete and available to be submitted to the appropriate agency.

Under the terms of the related party agreement between SAPLA and SAE Inc. proceeds received from the disposition of the tax credits earned by SAPLA on the building are due to SAE to reduce the notes payable to Palm Finance and as fees for services provided by the Company. SAPLA will pay the proceeds from disposition of such tax credits to SAE Inc. as fee income. The Company provided “developer” services as concerns oversight of the rehabilitation work carried out on the facility, as well as advisory services in connection with the obtaining of the tax credits, and financial services related to the loans and mortgage. The Company has concluded the services evidence an earning process, in the providing of a service, and as such has recognized revenue in relation to the fair value of the services provided. The fair value of \$3,235,000 was determined based on the amounts stated as “qualified expenses” and determined to be reasonable and industry standard in the required audit of cost report expenditures performed on the project by an independent accountant. Any excess over the fair value of the services received by the Company from SAPLA will be recognized as a contribution to capital.

As of June 30, 2013, the Louisiana Department of Economic Development has not issued a Tax Credit Certification Letter as pertains to the LFI credits, and on June 23, 2013 SAPLA received a letter from the Louisiana Economic Development (“LED”) office that they could “not proceed further with any consideration to approve” the tax credits until SAPLA proves they have the correct occupational license from the city. SAPLA does have the appropriate license and is currently appealing this notification. In light of these subsequent occurrences, as of June 30, 2013 management had determined that the amount underlying the LFI credits should be reserved against, until such time as the Tax Credit Certification Letter is received by SAPLA.

Additionally, the State Historic Preservation Office (“SHPO”) had not issued their Part III approval as of June 30, 2011, confirming what amount of the tax credits they are approving. In October 2012 the SHPO sent SAPLA some questions on their expenditures, which were answered by the independent auditor who performed the required audit of the cost expenditures, but there has been no further correspondence since. SAPLA is pursuing the issue with SHPO to force them to state the amount of tax credits they are approving, based on a recent law in Louisiana which says SHPO must state which line item they are disallowing. Therefore, the Company had also determined to reserve against the amount of the proceeds representing the LHR credits, until such time as SAPLA resolves the issue with SHPO and receives a Part III approval. The total reserve recognized as of June 30, 2013 was \$1,180,000, which represented the cash proceeds underlying the LFI and LHR tax credits in excess of the \$3,235,000 recognized as revenue, and reduces the receivable amount to the amount the Company has determined to be known to be collectible, the amount of the cash proceeds underlying the Federal tax credits.

In late November 2013 the issues between SHPO and SAPLA were resolved, and on January 2, 2014 SAPLA received the Part III certification from SHPO. Subsequent to quarter end SAPLA has begun selling the tax credits to third parties, \$ \$1,197,500 to date, the proceeds of which have been collected and used to pay down the Palm Finance debt. Therefore, the Company has determined there is no further amounts of the receivable which are necessary to reserve, and has decreased the reserve accordingly, resulting in a credit to Bad Debt Expense of \$1,180,000 during the three and six months ended December 31, 2013.

During the three months ended December 31, 2013, the owner of Palm Finance used the Federal tax credits earned by SAPLA on his personal tax returns. The Company has reflected this usage by reducing the Receivable to Related Party with a corresponding reduction of the production loans.

NOTE 5 – FILM COSTS

Film costs as of December 31, 2013 and June 30, 2013 are as follows:

	December 31, 2013	June 30, 2013
Released, net of accumulated amortization	\$ 3,129,145	\$3,314,728
Completed and not released	—	—
In production	1,207,517	1,209,931
In development	4,018,529	3,844,027
	\$ 8,355,191	\$8,368,686

Amortization of film costs was approximately \$94,700, \$188,843, \$94,885 and \$172,695, respectively, for the three and six months ended December 31, 2013 and 2012. The Company estimates that its amortization expense in the next year will be \$650,000.

All Exploitation Costs (comprising of direct costs, including marketing, advertising, publicity, promotion, and other distribution expenses) incurred in connection with the distribution of a film) are expensed as incurred in accordance with ASC 720-926-25-3.

No participations have been recorded as the Company does not believe anything will be due in the next 12 months.

NOTE 6 – MUSIC ASSETS

Music assets as of December 31, 2013 and June 30, 2013 are as follows:

	December 31, 2013	June 30, 2013
Music assets	\$ 705,000	5,423,205
Impairment recognized during the year	(50,491)	4,718,205
Total music assets	654,509	705,000
Less: Accumulated amortization	414,509	408,205
Total music assets, net of accumulated amortization	240,000	296,795

For the three and six months ended December 31, 2013 and 2012, amortization of \$0 and \$6,304, and \$0 and \$408,205 has been recognized, respectively.

The Company reviews capitalized music assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable or at least once per year. Determination of recoverability is based on an estimate of future cash flows resulting from the use of the asset, and its eventual disposition. Measurement of an impairment loss for the assets is based on the fair value of the asset as estimated using a discounted cash flow model. During December 2013 the Company released the Bones, Thugs N Harmony recording. The initial sales and future requested shipments were not as expected, and at this time the Company is estimating the net future cash flows will be approximately \$120,000. Based on these low sales, the Company also has lowered its estimated future cash flows on the DMX album to be released in mid 2014 to \$120,000 also. Therefore, the Company has concluded an impairment in the amount of \$56,795 was necessary for the six months ended December 31, 2013.

The Company has also decided that their music business is not performing as expected, evidenced by the impairments of \$4,775,000 since inception, and they will not at this time be expending any additional capital, nor pursuing new artists or agreements. The Company will continue to exploit their current recordings and releases.

NOTE 7 – LOANS PAYABLE

The Company has the following indebtedness as of December 31, 2013:

Lender	Balance	Interest Rate	Issuance Date	Maturity Date
Film and Production Loans:				
Palm Finance Corporation	\$ 4,225,277	18	% 5/7/2007	11/7/2008
Palm Finance Corporation	2,615,922	18	% 12/17/2007	6/17/2009
Palm Finance Corporation	107,257	10	% 7/30/2012	
Prodigy	331,695	10	% 6/14/2013	10/31/2013
120db Film Finance LLC	4,425			8/25/2008
Total Film and Production Loans	\$7,284,576			
Conversions:				
Trafalgar Capital	\$665,003	9	% 10/15/2008	8/31/2009
JMJ Financial	434,564	10	% 6/29/2012	10/27/2012
GHP	137,573	18	% 1/21/2011	4/30/2012
Tonaquint, Inc.	394,657	8	% 08/22/2012	7/2/2013
Beaufort Ventures PLC	235,786	10	% 07/31/2012	08/30/2012
Beaufort Ventures PLC	171,452	10	% 07/26/2012	02/25/2013
Runway Investments, LTD	162,103	12	% 11/1/2012	09/30/2012
Sendero Capital Ltd	308,027	12	% 01/24/2012	9/30/2012
Isaac Capital Group LLC	36,852	12	% 01/20/2012	06/30/2012
Beaufort Ventures, PLC	85,870	10	% 07/19/2012	07/19/2012
Beaufort Ventures, PLC	57,247	10	% 7/19/2012	07/19/2013
Beaufort Ventures, PLC	28,445	10	% 08/14/2012	8/2/2013
Beaufort Ventures, PLC	83,433	12	% 1/22/2013	7/22/2013
CMS Capital	41,508	12	% 12/15/2011	06/30/2012
Hanover Holdings LLC	264,207	10	% 02/23/2012	08/23/2012
Beaufort Ventures PLC	59,074	12	% 06/26/2012	06/26/2013
Agua Alta (Cold Fusion)	118,180	12	% 06/25/2012	06/25/2013
Beaufort Ventures PLC	1,120	12	% 11/30/2012	11/30/2013
Tripod Group, LLC	65,770	12	% 1/2/2012	1/2/2013
Beaufort Ventures, PLC	12,128	12	% 6/4/2012	4/5/2013
Old Capital Ltd	278,515	12	% 05/31/2012	05/30/2013
WHC Capital, LLC	51,055	10	% 4/19/2013	5/31/2013
Elegant Funding	53,304	12	% 4/30/2013	5/2/2013
Firerock Global Opportunities Fund, L.P.	1,799	5% (18% default)	2/11/2013	7/15/2013

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Elegant Funding	17,623	18	% 5/6/2013	5/1/2014
WHC Capital, LLC	28,668	21% (28% default)	4/19/2013	4/18/2014
WHC Capital, LLC	22,578	21	% 5/20/2013	5/20/2014
Tangiers Investors, LP	944	10	% 5/31/2013	5/31/2014
Tangiers Investors, LP	19,255	10	% 6/10/2013	6/10/2013
Isaac Capital Group LLC	10,151	12	% 10/1/2013	4/1/2014
Beaufort Ventures PLC	10,151	12	% 10/1/2013	4/1/2014
Isaac Capital Group LLC	85,078	12	% 10/21/2013	1/31/2014

\$3,942,118

Mortgage and Construction Loan:

Palm Finance Corporation- mortgage and construction loan	\$7,823,797	15	%
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\$7,823,797

*The Company does not agree with interest charged by Palm on the 2011 forgiven interest on these two film loans and believes the dispute will be resolved once the loans are repaid.

The loan balances include accrued interest of \$9,614,156 at December 31, 2013. Interest expense on all the loans for the three and six months ended December 31, 2013 and 2012 was \$1,909,860, \$557,732 and \$1,365,064, respectively.

On June 14, 2013, the Company guaranteed a debt agreement of Schism LLC for approximately \$216,000 to cover expenses connected to the film "Schism", (name later changed to "Fractured"). As the Company has unconditionally guaranteed the loan for Schism the debt is carried on the Company's books. The note was not finalized and funded until subsequent to year end, and therefore was not recognized in the loan balance outstanding until the quarter ended September 30, 2013. The note was later amended to an amount of approximately \$314,000. The note is due October 31, 2013 and bears interest at 10%, with no additional default rate. The Lender also is to receive 5% of adjusted gross receipts on the film after breakeven. The Lender has a security interest in the film, and until the debt is repaid is entitled to all revenue receipts on the film, including those paid to SAE. There was a loan arrangement fee in connection with the note, in the amount of 15% of the principle, or approximately \$63,000 after the amendment. This amount was immediately expensed based on the short term of the note agreement.

The Company negotiated a new convertible debenture on September 15, 2013 for \$25,000. The lender advanced the funding to the Company but has not agreed upon any terms nor executed a formal loan agreement with the Company. Therefore, this amount is included in accrued expenses, as not governed by a formal executed agreement.

On October 1, 2013, the Company entered into two \$10,000 convertible debentures with two separate parties, both notes with the same terms. The notes are due on April 1, 2014 and bear interest at 12% (default rate of 18%). The initial conversion rate is \$0.002, with the conversion rate eligible for a one time conversion reset to 60% of the trading value upon a reverse merger (the "reset conversion price"), which occurred on October 16, 2013. The conversion features have a reset provision upon the subsequent sale of equity at a lower price, which results in bifurcation and derivative accounting for the conversion features. Therefore, there is no beneficial conversion feature to be recognized upon the reset conversion price. Due to the short term of the note, as well as the low trading price of the Company's stock, it has been determined the fair value of the bifurcated derivative, as calculated by the Monte Carlo simulation model, is insignificant, and has not been recognized in the liabilities of the Company's financial position as of December 31, 2013.

On October 21, 2013, the Company entered into a second convertible debenture with one of the above parties, in the amount of \$200,000, due January 31, 2014. The note was issued with a \$25,000 discount, and bears interest at 12% (default rate of 18%). As of December 31, 2013 only \$75,000 of the note has been funded and recognized. A respective pro-rata amount of the discount was also recognized, and immediately expensed due to the short term of the note. The note is secured by the proceeds on the Fontana Distribution agreement, related to the released recordings of DMX and BTH (in all territories except for Germany, Austria and Switzerland). The initial conversion rate is \$0.04, with the conversion rate eligible for a one time conversion reset to 60% of the trading value upon a reverse merger (the "reset conversion price"), which occurred on October 16, 2013. The conversion features have a reset provision upon the subsequent sale of equity at a lower price, which results in bifurcation and derivative accounting for the conversion features. Therefore, there is no beneficial conversion feature to be recognized upon the reset conversion price. Due to the short term of the note, as well as the low trading price of the Company's stock, it has been determined the fair value of the bifurcated derivative, as calculated by the Monte Carlo simulation model, is insignificant, and has

not been recognized in the liabilities of the Company's financial position as of December 31, 2013.

On September 30, 2013 a note for \$30,888, related to amounts owing to the Company's legal firm, was assigned to another third party. The note had an original maturity date of October 31, 2013, and bears interest at a default rate of 18%. The transaction does not have any impact on the Company's financial statements, and was entered into for the new holder to qualify under Section 3(a)(9) of the Securities Act which allows for the underlying shares to be free traded.

The Company have evaluated their other convertible notes when issued for embedded derivative features and determined that no derivative liability is necessary to recognize. Convertible debts are all convertible to common stock at the option of the holder. They all bear interest at varying rates and convert at different times and conversion prices according to the contract. The conversion features were evaluated for any beneficial aspect and determined that no beneficial conversion feature is necessary to recognize.

On December 5, 2013, the Company's subsidiary, SAFELA, entered into a Credit Line with Insurance Strategies Fund, LLC ("ISF") in which ISF has the right to loan amounts against individual pictures of their choice. The first picture to be funded is Fractured (formerly Schism) for \$150,000, at 10% interest, due June 5, 2014. The loan is secured by the film and all rights pertaining to the film. ISF also is entitled to participations of 100% of the gross receipts up to the amount funded, then is entitled to 50% of all net receipts. The loan does not have any conversion features, or other provisions containing embedded derivatives. As of December 31, 2013 \$50,000 has been funded, which is included in accrued expenses.

On December 2, 2013 the Company entered into an Advance and Assignment agreement with Lyric Financial, LLC, against future earnings on sales of BTH & DMX albums. For consideration of approximately \$77,260, less discount and other fees for net cash proceeds of \$65,000, the Company assigned 100% of their receipts under the Ingrooves/Fontana distribution agreement for six months, and then 50% of the receipts until advance repaid. Ingrooves holds the distribution rights on the DMX and BTH recordings in the territories Germany, Austria and Switzerland. If the advance is not recouped by September 2, 2014, the unpaid amount accrues interest at 2.5% per month until paid. As there is no set term of the advance, the discount is being amortized through September 2, 2014, as it is the understanding between Lyric and the Company that the royalties should be substantially collected before this date, and therefore has been determined by management to be the estimated termination date of the advance.

NOTE 8 – EQUITY TRANSACTIONS

On October 16, 2013 and February 12, 2014 the Company effected a 1-for-20 and 1-for-100 reverse split of its common stock. All share amounts in the accompanying financial statements have been restated to reflect this reverse stock split.

During the six month ended December 31, 2013, the Company issued 1,931,397 (post split) common shares upon conversion of notes totaling approximately \$552,000 under the original terms of the notes.

Preferred Shares Series A:

On July 31, 2013, Palm Finance sold 36,625 of their Preferred Shares Series A (“Series A”) to Susan Hoffman. On November 7, 2013, in connection with a sale of her shares to a third party, the Company agreed to modify the conversion price on these 36,625 Series A shares. Mr. Hoffman requested that the Company modify the conversion price to help Ms. Hoffman, and since this transaction did not benefit the Company in any way and therefore should not be treated as a expense incurred by the Company, Mr. Hoffman offered to bare the expense as a reduction of his “Due to” balance (Note X). The fair value of the modification was calculated following the guidance of ASC 718, *Stock Based Compensation*, as the difference between the fair value of the conversion feature immediately before and after the modification, using a Black Sholes Merton model. The fair value was determined to be \$203,000, which was recognized in Additional Paid in Capital as well as a reduction of the amounts owing to Mr. Hoffman.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

With the exception of items, as noted below, there has been no significant changes to this litigation this period.

Creditors Liquidation of SAP Plc.

The Company's listing predecessor Seven Arts Pictures Plc. ('PLC') was placed by the English Companies Court into compulsory liquidation on November 8, 2011. The Company's CEO, Mr. Peter Hoffman, as a director of PLC had sought an administration order but this request was denied by the Courts as a result of inter alia the opposition of Parallel Pictures LLC ('Parallel'). PLC's principal creditors have appointed a liquidator for the orderly winding up of its remaining assets not transferred to the Company pursuant to the Asset Transfer Agreement, effective January 27, 2011. The Company, representing its listing predecessor, are actively in discussions with the liquidator to negotiate the settlement with the creditors. The Company believes the maximum contingent liability is \$750,000 of the Company's Series C Preferred Stock.

Based on discussions with the liquidator, our management believes this liquidation proceeding will have no material effect on the cost, business or market value of common stock.

Further Share Issue to SAE Inc.

On June 11, 2010, Seven Arts Entertainment, Inc. ("SAE"), a Nevada Corporation, was formed and became a 100% owned subsidiary of Seven Arts Pictures Plc. As of June 11, 2010, the Company entered into an Asset Transfer Agreement, as amended on January 27, 2011 and again on August 31, 2011, to transfer all of the assets with a cost basis from PLC to SAE, in exchange for assumption by SAE of certain indebtedness and for one share of common stock of SAE for each ordinary share of PLC which have been distributed to shareholders. Additionally, 2,000,000 shares of SAE were issued to PLC in order to satisfy any remaining obligations. SAE Inc. may issue more shares of its common stock to resolve any claim made on the liquidation of PLC. The 2,000,000 pre-split shares were originally booked on January 27, 2012 at the market price on the day the SEC approved the transaction i.e. \$3.94/share. Management now believe the shares should be booked at the August 31, 2012 market price of \$0.66/share which is the date from which the shares in SAE were tradable. This contingent liability, if any, is the same as set forth in the previous paragraph.

807 Esplanade Guarantee

Seven Arts Pictures Louisiana LLC, a related party and/or an affiliate of the Company, entered into a Credit Agreement with Advantage Capital Community Development Fund LLC dated October 11, 2007, for the acquisition and improvement of the production and post-production facility located at 807 Esplanade Avenue in New Orleans, Louisiana (“807 Esplanade”) for aggregate principal advances of up to \$3,700,000. This agreement was guaranteed by the Company’s predecessor. Approximately \$3,700,000 plus interest has been drawn under the terms of this Credit Agreement, as of June 30, 2012. The Company has now assumed the liability for \$1,000,000 of this amount due to an agreement with the now mortgagor Palm Finance. A construction loan of \$1,850,000 previously guaranteed by the Company has now been assumed by the Company. The Company has a 30 year lease on the property to operate a production and post-production facility.

As part of the assumption of the mortgage and construction loans regarding 807 Esplanade, the Company has agreed to pay an additional \$750,000 in connection with the loan, contingent on the receipt of at least \$5,000,000 in cash proceeds from the tax credits earned by SAPLA. The Company has settled this contingent claim for no payment, and therefore there is no further contingent liability based on this matter. As the Company has determined it is not probable at this point that the \$5,000,000 will be achieved, they have not recognized the \$750,000 in the accompanying financial statements.

Armadillo

The Company has guaranteed a \$1,000,000 note plus interest due to Armadillo by the Employee Benefit Trust of the Company’s listing predecessor resulting from the purchase of Seven Arts preferred stock from Armadillo. Management believes this contingent liability will not exceed \$1,000,000 in value of the Company’s common stock.

Fireworks Litigation

The Company obtained summary judgment on February 10, 2011 in an action in Ontario Superior Court, Canada, against CanWest Entertainment and two of its affiliates (“CanWest”) confirming the Company’s ownership of five motion pictures Rules of Engagement, An American Rhapsody, Who Is Cletis Tout, Onegin, and The Believer, (the “Copyrights”). CineVisions v. Fireworks International, No. 03-CV-247553 CM2. The Company has filed on September 7, 2011, an action in the High Court of England and Wales on September 7, 2011 against Content Media Corporation (“Content”) and Paramount Picture Corp. (“Paramount”) to recover the Copyrights and substantial damages for the use of the copyrighted works after their purported acquisition from CanWest. Seven Arts Filmed Entertainment v. Content Media Corp. No. HC11CO3046. The Company may incur up to \$200,000 in legal expenses to pursue this claim but

expects to recover those fees from Content. The Company's motion for summary judgment against Content in the United Kingdom was denied on March 18, 2013, but the dismissal did not consider the merits of the Company's claims, only that Content was not bound by the Canadian judgment. The Company has also filed on May 27, 2011 an action in United States District Court in Los Angeles, California against Paramount Pictures for infringement of the Copyrights. *Seven Arts Filmed Entertainment v. Paramount Pictures Corp.* No. CV 11-04603. This action was dismissed on October 3, 2012 by the District Court based on a claimed application of the statute of limitation and the judgment was offered on appeal to the Ninth Circuit No. 11-56759, on November 6, 2013.

Jonesfilm

Seven Arts Pictures plc ("PLC"), the Company's listing predecessor, its then-subsiidiary Seven Arts Filmed Entertainment Limited ("SAFE") and Seven Arts Pictures Inc. ("SAP"), were the subject of an arbitration award of attorney fees totaling approximately \$ 246,000, with interest and charges, both of which were reduced to judgment in favor of Jonesfilm ("JF ") in a judgment dated June 19, 2007 entered by United States District Court in Los Angeles, California ("Judgment"). This amount is included in Accrued Liabilities on the accompanying financial statements. JF asserts that the Company is liable as the "successor in interest" to PLC, which the Company denies. JF has sought to enforce the Judgment against SAFE, Mr. Hoffman and SAP in proceedings filed on July 28, 2009 in United States District Court in New Orleans, Louisiana, in Case Nos. 09-4814/4815. Thereafter, Jonesfilm filed claims purportedly against the separate property of Mr. Hoffman's wife in Case Nos. 11-1994 and 12-0535. Mrs. Hoffman filed action against Jonesfilm to seek relief (from Jonesfilm's actions against her and her separate property). All proceedings are still pending. Mr. Hoffman and SAFE have appealed to the Fifth Circuit (No. 11-311 24) an order of garnishment against Leeway and penalties and legal fees awarded in connection with that order of garnishment, which appeal was denied. The Company does not believe it owes any amounts over the amount already accrued above.

Arrowhead Target Fund

Seven Arts Future Flow I ("SFF"), a limited liability company owned by SAP Inc., a company previously controlled by Mr. Hoffman, obtained financing from the Arrowhead Target Fund, Ltd. ("Arrowhead") of approximately \$8,300,000 (the "Arrowhead Loan"). SFF secured the Arrowhead Loan with liens on 12 motion pictures. The Company's only liability is to repay the Arrowhead Loan from the proceeds of the film assets pledged against the Arrowhead Loan. The Company is not required to repay the Arrowhead Loan from any of its other assets or revenues. SAE's subsidiary, SAFE, Ltd. was the collateral agent of the film assets.

The Arrowhead Loan became due in February 2009 and SFF has not paid the outstanding principle and interest due thereon. Arrowhead has the right to foreclose on the pledged film assets, but has not done so at the present time. SFF has received a default notice to this effect and as a result Arrowhead is now collecting directly all sums receivable by the Company with respect to these motion pictures, and has appointed a new servicing agent for these motion pictures with the result that the Company no longer controls the licensing of these motion pictures. Failure to repay or refinance the Arrowhead Loan could result in a material disposition of assets through the loss of the Company's rights to the twelve motion pictures and related loss of revenues in amounts that are difficult to predict.

Arrowhead filed an action on September 22, 2010 in New York Supreme Court, New York, New York, Arrowhead Target Fund v. Hoffman No. 657481/2010, which seeks recovery from the Company of the monies which the Company has retained under its interpretation of the relevant agreements with Arrowhead. In addition, Arrowhead makes substantial additional claims against the Company, Mr. Hoffman and SAP Inc. regarding claimed breaches of the terms of the operative agreements, including failure to properly account, failure to turn over materials, failure to remit monies collected, and similar matters. The claims against the Company for these breaches of warranties for damages are \$8,300,000 although Arrowhead states no basis for this amount.

The Company had moved to dismiss the action against all defendants other than Seven Arts Future Flows I LLC, which is not part of the Company. On August 9, 2011, the New York Supreme Court granted the Company's motion and dismissed all defendants except Seven Arts Filmed Entertainment Limited in its capacity as a collateral agent, which is not a material element of Arrowhead claim. The Company continues to believe that Arrowhead's claims against the Company are without substantial merit.

Arrowhead has purported to amend its claim against the Company and the other defendants. The Company has moved for dismissal of these claims on the same grounds. A former counsel for SAFE and Mr. Hoffman failed to appear at a hearing and the Court orally entered default against SAFE and Mr. Hoffman on October 7, 2013, both of whom will move to vacate the order for the motion to dismiss based on lack of personal jurisdiction on the merits. The Company continues to believe that Arrowhead's claims against the Company are without substantial merit and will vigorously defend. The Company has accrued \$744,000 as a loss contingency on this matter.

Arrowhead Capital Partners – ACG Loan

PLC, SAP and SAFE, and several special purpose companies formed by SAP 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 served 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 Note 13 under "Production Loans". Arrowhead Capital Finance v. Seven Arts Pictures, No. 601199/10. The ACG Loan is fully subordinated to repayment of the Cheyne Loan, which has not been repaid, and a subsidiary of the Company has been assigned all Cheyne's rights under the subordination provision of the Cheyne Loan. ACG and the Company filed our motion for summary judgment which resulted in summary judgment in favor of ACG against SAFE, SAP and the special purpose companies. That summary judgment was affirmed on appeal to the New York Court of Appeals. Arrowhead has since filed on July 18, 2014 in New York Supreme Court claiming the Company is a "successor" of PLC or SAFE and liable for the summary judgment. The Company named this action to Federal District Court for the Southern District of New York on August 14, 2014 and is filing a motion to dismiss for lack of personal jurisdiction. The Company has not accrued a loss contingency on this matter and it is not a defendant in this action. Any claim against SAFE will be subject to the liquidation proceedings of SAFE under the law of the United Kingdom. The maximum contingent liability for this claim is approximately \$2,500,000.

Investigation into Claim for Tax Credits (SAPLA)/ Possible Litigation Re: Tax Credits

The US Attorney in New Orleans is investigating claims for Louisiana film infrastructure tax credits including such tax credits to be claimed by Seven Arts Pictures Louisiana LLC (“SAPLA”) and has issued subpoenas for discovery of documents in the possession of the Company related to these tax credits. The Company has complied with that subpoena on March 15, 2012.

This investigation appears to include investigation as to whether certain expenses claimed by this affiliate were improper or fraudulent. All such claimed expenses were audited by independent auditors in Louisiana and reviewed by counsel. Management believes that this investigation will have no material adverse effect on the Company’s operations or the total tax credits to be received by the Company’s affiliates, but could result in charges against current or former employees of this affiliate based on prior audits, including Mr. Hoffman.

SAPLA, controlled by Mr. Hoffman’s wife, filed legal action in the 19th District Court in Baton Rouge, Louisiana in August, 2013 to require the Louisiana Department of Economic Development and State Historic Preservation Office to certify the tax credits due SAPL A, the proceeds of which have been assigned to the Company.

Parallel Action

On June 28, 2011, Seven Arts Pictures Plc. (“PLC”) filed an action in the High Court of England against Parallel Media LLC (“Parallel”) to collect sums due to PLC with respect to acquisition of distribution rights in Russia to four motion pictures and to confirm Parallel’s obligations under both a signed and unsigned investment agreement with respect to the motion picture project Winter Queen. On the same day Parallel filed a petition to wind up and liquidate PLC in the Companies Courts of England based on its claim of repayment of \$1,000,000 of investment made by Parallel in Winter Queen. PLC is no longer part of the Company.

On September 19, 2011, Parallel filed a new action against PLC and SAE in the Superior Court of California in Los Angeles, asserting the same claims as in the winding up petition and seeking to enjoin the proposed administration proceedings in England. *Parallel Media v. Seven Arts Entertainment*, No. SC114182. A request for a preliminary injunction was denied by the Superior Court. Parallel was permitted to pursue a claim in the Los Angeles Superior Court for alleging that the Asset Transfer Agreement dated July 1, 2011 between PLC and the Company (“ATA”) was not for fair consideration. Parallel’s motion for summary judgment has been denied. The Company believes that a favorable decision by the liquidator as discussed above will resolve this action in the Company’s favor. The Company has not accrued for a loss contingency in this matter. The potential loss to the Company could be between \$1 million and \$1.75 million.

The liquidator has been advised in a letter from its counsel dated October 10, 2013, that the Company may be obligated to reimburse the liquidator for additional shares of the Company’s common stock by reason of the reduction in the value of the Company’s common stock issued to PLC pursuant to the ATA, from July 1, 2010 to August 31, 2011. The Company had previously offered to the liquidator to make such an adjustment in the consideration paid pursuant to the ATA. The Company intends to negotiate an amicable resolution of this issue with the liquidator which counsel believes should resolve any claims by Parallel. The Company believes the maximum contingent liability for this claim is \$750,000 of the Company’s Series C Preferred Stock.

HMRC Investigation

On July 19, 2011 Officers of Her Majesty’s Revenue & Customs (“HMRC”) attended the offices of Seven Arts Pictures Plc. (the “Company”) in London. Documents were retained appertaining to arrangements involving the subscription for shares in a number of companies which had lost value, resulting in subscribers making claims to tax relief.

The Company’s participation in these transactions was limited to the Company’s predecessor’s transfer of rights to certain motion pictures to the investors in return for their investments in the production and release costs of those pictures and making available the provision of loans to fund a portion of those investments. The Company received no

tax benefits from the transactions, which were made on arms-length terms. The Company believes that it is not a subject of the HMRC investigation.

In connection with the transactions, the Company did not make any representations or warranties to any party, including the investors, regarding any potential tax benefits related to the transactions. Prior to the closing of the transactions the investors obtained and made available to the Company, an opinion of prominent Queen's counsel, specializing in United Kingdom tax laws, that the transactions were permitted and acceptable under the terms of the applicable United Kingdom revenue laws. The Company remains confident that the transactions were permitted and acceptable under the terms of the applicable United Kingdom revenue laws.

HMRC has requested and completed interviews with three officers of PLC to discuss whether those officers were involved in the arrangements for subscription of shares in the relevant companies. PLC is fully cooperating with the investigation. PLC believes there is no basis for any claim of responsibility of any of its officers or employees. Based on facts currently known by PLC, there is no need for it to record a contingent liability in its financial statements in connection with the investigation or the related transactions.

Commitments:

Employment agreements

We have an employment agreement with Peter Hoffman pursuant to which he will act as our CEO until December 31, 2018. He has taken an indefinite leave of absence, and has waived his salary in that period. In connection with that employment agreement, we have granted Mr. Hoffman:

- the right to sole responsibility for creative and business decisions regarding motion pictures we develop and produce,
- a right of first refusal to produce remakes, sequels or prequels of motion pictures produced by Mr. Hoffman and acquired by us or any motion picture produced by us during his employment,
- an annual salary of \$500,000 per year plus bonuses, expenses and a signing option and

- a right upon termination without cause to a lump sum payment of approximately \$1,500,000, an assignment of all projects in development during the term of his employment and any amounts due upon such compensation as an excise tax.

We have an employment agreement with Kate Hoffman for a term ending on April 30, 2018, pursuant to which she will act as our COO at a salary of £100,000 per year plus bonuses and expenses. Ms. Hoffman's contract contains a "non-compete" clause pursuant to which she will be excluded from competing against us for 6 months following the date of her termination.

We have a consultant agreement with Candace Wernick pursuant to which she will act as chief financial officer for compensation of \$167,000 per year and expenses, as well as additional compensation for special projects. The contract automatically renews each July 15, unless advance notice is given.

Appointment of new Chairman and President

On April 2, 2013, we appointed Vince Vellardita as President and Chairman of the Board of Directors., pursuant to a three-year employment agreement dated April 1, 2013. Pursuant to the employment agreement, Mr. Vellardita was to receive an annual salary of \$200,000, payable on a monthly basis, and a bonus of 10% of any net income realized by the Company or its subsidiaries for the music and movie license agreements to be entered into with him. Mr. Vellardita was also to be entitled to reimbursement of all reasonable and customary expenses and other benefits that are generally available to the Company's employees.

On August 29, 2013 Mr. Vallardita resigned from the Company and \$40,000 (to be satisfied in common stock of the Company) has been accrued in the accompanying financial statements as settlement of his employment contract. During the six months ended December 31, 2013 Mr Vallardita has been issued 30,000 shares (post split) for a corresponding reduction in the accrual of approximately \$22,000, for a remaining balance of \$18,000 to be issued.

Leases – 807

The Company, through its subsidiary SAFELA, has a sublease on the property at 807 Esplanade, New Orleans, Louisiana, which houses the post-production facility. The sublease is with 808 Espanade Ave MT, LLC, and unrelated party, who leases the property through a master lease with SAPLA. The term of the lease is for 30 years, terminating on December 31, 2024, with annual rent of \$110,000.

Lease – West Hollywood

The Company has entered into a lease for their West Hollywood office which commenced on January 1, 2011 and terminates on December 31, 2016, with a monthly base rent of approximately \$9,516. The Company has the option to extend the lease period for one five year period. The base rent shall increase annually by the Consumer Price Index, but in no case to be less than 3% or greater than 6%.

On February 1, 2012, the Company and landlord amended the lease to include additional space for a new total base rent of \$15,138, and extended the lease term through December 31, 2017. As of June 30, 2012 the Company has vacated the additional space, and the landlord has leased the space to new tenants. The Company and management are negotiating a settlement on the termination of the lease, for which \$75,000 has been included in accrued expenses.

On March 1, 2014 the Company entered into a two year lease for new office space at 8721 W Sunset Blvd in West Hollywood, commencing April 1, 2014 and ending March 31, 2016 with a monthly payment of \$2,184. The move was a result of the previous landlord requesting the space the Company occupied for another existing tenant at the premises.

NOTE 11 – NON-CONTROLLING INTEREST

The Company’s subsidiary SAFELA is owned 60 % by the Company and 40% by another party. Accordingly, the subsidiary is included in the consolidated financial position and results of operations of the Company, with recognition of the non-controlling interest separately in the Statement of Operations and from the equity of the Company’s shareholders on the balance sheet.

The activity of the non-controlling interest as of December 31, 2013 and December 31, 2012, is as follows:

	December 31, 2013	December 31, 2012
Balance at July 1,	\$ 353,530	\$ -
Non-controlling interest’s proportionate share of Net loss for the six months	644,462	172,097
Non-controlling interest at December 31,	\$ 997,992	\$ 172,097

NOTE 13 – SUBSEQUENT EVENTS

Subsequent stock issuances:

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The Company issued the following shares of common stock subsequent to December 31, 2013:

Between January 1, 2014 and September 12, 2014, the Company issued 178,446,999 common shares at an average price of \$0.002041 per share. The total number of shares outstanding on September 12, 2014 was 180,564,252.

149,611,179	Common shares were issued upon conversion of debt totaled \$303,454.14 converted at an average conversion price of \$0.002028 per share.
28,835,820	Common shares were issued for consulting services with a fair value of \$60,692.50, at \$0.002105 per share, determined at the market price on the date of issuance.
178,446,999	

Notes Payable:

On January 21, 2014 the Company assumed the legal costs incurred by related parties with regard to the SHO tax credits and Jonesfilm litigation. The debts were assigned to a third party through 2 convertible debt purchase agreements, and promissory notes were issued with the dates of the original debts: July 1, 2013 and July 10, 2013 both with a maturity date of June 23, 2014 and bearing interest at 18%. The conversion price is the lesser of \$0.0006 or 40% of the last sale price for the Common Stock on the Trading Day immediately preceding the date the conversion notice was transmitted to the Company.

Reverse Stock-Splits:

On February 12, 2014 the Company effected one –for-one hundred reverse stock split. Unless otherwise noted, all impacted amounts included in the consolidated financial statements and notes thereto have been retroactively adjusted for the Stock Splits.

Sixteen19:

In October of 2012, SAFELA began negotiations with Sixteen19, a post production and digital production facility with offices in New York, Los Angeles and London, to run the operations of the production facility located at 807 Esplanade Avenue on New Orleans. As of this date the parties have not completed a formal agreement. It is not contemplated that there will be a new company formed for this joint venture, but rather a contracted partnership between SAFELA and Sixteen19. The name of the facility has been agreed to be French Quarter Film Center.

The basic terms of the agreement to run the facility were agreed in early December 2012 as follows: SAFELA and Sixteen19 agreed to joint operational control of the facility. For any business which utilized residential or office space at the facility, SAFELA will earn 80% of the gross revenue and pay Sixteen19 a 20% commission. For any business which was considered editorial or digital daily work, Sixteen19 will earn 80% of the gross revenue and pay SAFELA a 20% commission. There was an agreed set of “base rates” and any deviation below the agreed level of base rates for any new business will have to be mutually agreed by Kate Hoffman on behalf of SAFELA and Pete Conlin on behalf of Sixteen19. In addition, SAFELA agreed to pay 100% of the costs associated with the running of the building, including but not limited to all utilities, cleaning, gardening, sundry supplies and repairs to any damage to the facility that did not included technical issues. Sixteen19 agreed to pay 100% of the equipment and personnel costs associated with the editorial and digital daily business. In addition, SAFELA and Sixteen19 agreed to split the salary of a facility manager 50/50. This agreement still has not been finalized and executed, but is in operation per terms agreed upon in December 2012.

Form S-1:

The Company is currently in the process of responding to SEC comments on the registration statement on Form S-1 which was filed with the SEC on January 22, 2013.

Palm Workout Agreement:

The Company has entered into and executed a Workout Agreement with Palm on August 29, 2014. The principal terms of this Agreement include the following:

1. Forgiveness of all indebtedness of the Company to Palm.
2. All film rights of the Company have been transferred to SAFELA, owned 60% by the Company and 40% by Palm.
3. Palm will be entitled to 60% of future film revenue from certain designated motion pictures and may obtain an assignment of all these film rights from SAFELA under certain conditions.
4. The Company and SAPLA have assigned to Palm all these rights in the Property and the historic rehabilitation and film infrastructure tax credits related to the Property.

Acquisitions:

Sanwire Transaction/Change of Control.

The “Company” and Sanwire Corporation (OTC:SNWR) (“Sanwire”) announced on July 18, 2014 the execution of a definitive Stock Purchase Agreement (“the “Agreement”) under which Seven Arts will acquire Sanwire’s two subsidiaries; Oklahoma-based Aeronetworks LLC (“Aeronetworks”) and Nevada-based iTerra Technologies Inc. (“iTerra”).

Aeronetworks (www.aeronetworks.net) provides advanced communications and broadband services to rural communities and Native American tribes with focus on public safety, education and healthcare sectors. Aeronetworks is a pioneer in delivering 4G/LTE, TV White Space, and advanced wireless technologies. Aeronetworks’ revenue for year ended Dec 31, 2013 was approximately \$462,400 (unaudited), and the first four months of 2014 was approximately \$251,000 (unaudited).

iTerra (www.ipterra.net) is a designer, developer, manufacturer and marketer of a real-time 2-way wireless and/or wireline communications, and mine-safety solution for the global mining and industrial industry. iPMine, iTerra’s flagship product, allows mine operators to communicate (voice, text, and video), track, locate, identify, and monitor miners and equipment. iTerra is pre-revenue.

Pursuant to the Agreement, Seven Arts has acquired all the capital stock of iTerra and all the membership interests in Aeronetworks from Sanwire in return for the Company’s Series D Preferred Stock converting into approximately 40% of the Company’s common stock and assumption of approximately \$2,905,000.00 in convertible notes. Aero and iTerra will operate as wholly owned subsidiaries of Seven Arts.

The transaction set forth in the Agreement was closed on August 22, 2014. As a result, the Board of Directors (except Mr. Hickox) resigned and appointed Mr. Rick Bjorklund as CEO and a member of the Board and Mr. Bob Riggs. Robert La Salle was appointed as Chief Financial Officer. All the members of the Board and other officers of the Company resigned effective August 22, 2014. The closing of the transaction set forth in the Agreement was subject to the execution of the Palm Workout Agreement which occurred on August 29, 2014.

Officers and Directors

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Post acquisition and pursuant to the Agreement, the Company's officers will be (a) Aeronetworks' Rick Bjorklund as Chief Executive Officer, and (b) Robert La Salle as Chief Financial Officer. The Company's directors will be (a) Rick Bjorklund (director and chairman), (b) Bob Riggs (independent), and (c) Anthony Hickox (independent).

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

FORWARD-LOOKING STATEMENTS

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

Company Overview:

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 our business. Our actual results may differ materially from those contained in the forward-looking statements.

Film Company

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.

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 financing based on state and foreign country tax credits (e.g. Louisiana, United Kingdom and Hungary) and direct subsidies, “mezzanine” or “gap” funds, which are senior to our equity, and senior secured financing with commercial banks or private lenders, 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.

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

Music Company

The Company incorporated Seven Arts Music Inc. (“SAM”) in the State of Nevada on February 23, 2012, as a wholly owned subsidiary of the Company, although set-up costs had been incurred as early as September 2011. The delivery of the first of the DMX albums acquired from David Michery was released on September 11, 2012 and the first album for Bone Thugs-N-Harmony delivered in December 2013. The Company has decided that their music business is not performing as expected, evidenced by the impairments of \$4,775,000 since inception, and they will not at this time be expending any additional capital, nor pursuing new artists or agreements. The Company will continue to exploit their current recordings and releases.

Post-Production Facility

As of June 30, 2012, SAFELA was transferred to the Company. SAFELA, which is 60% owned by the Company, has a 30 year lease to run a production and pot-production facility at 807 Esplanade Avenue in New Orleans, Louisiana (“807 Esplanade”). The facility commenced operations on July 1, 2012, and several theatrical motion picture and television productions have done production work at the property since then.

Company Outlook

The principal factors that affected our results of operations in the past 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 us, 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, when applicable to the fiscal period, will continue to be, in our opinion, the principal factors affecting future results of operation and our future financial condition. In the current period we have not released any motion pictures, nor acquired any new distribution rights, but are actively working on development of several projects. No particular factor has had a primary or principal effect on our operations and financial condition in the periods discussed below.

Our revenues principally consist of amounts we earned from third-party distributors of our motion pictures. We recognize revenue from license fees as and when a motion picture is delivered to the territory to which the license relates if we have a contractual commitment and the term of license has begun or upon receipt of a royalty statement or other reliable information from a distributor of the amounts due to us from distribution of that picture. A motion picture is “delivered” when we have 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.

We also recognize revenue beyond an initial license fee from our share of gross receipts on motion pictures which we recognize as revenue when we are notified of the amounts that are due to us. This accounted for the majority of our revenue in the periods presented.

RESULTS OF OPERATIONS

Results of Operations for the Six Months Ended December 31, 2013 and 2012

We generated a net loss (after non-controlling interest) of \$514,677 for the six months ended December 31, 2013, as compared to \$2,985,418 for the six months ended December 31, 2012. A major component of this decrease in loss is the Company's recognition of a gain of \$1,988,428 on the de-consolidation of its subsidiary SAFE. A discussion of the other key components of our statements of operations and material fluctuations for the six months ended December 31, 2013 and 2012 is provided below.

Revenue

A) Film revenue totaled \$87,267 for the six months ended December 31, 2013, as compared to \$394,112 for the six months ended December 31, 2012, a decrease of \$276,845, or 70%, primarily due to the factors discussed below:

The 2013 Revenue consisted primarily of license and royalty fees received from several markets, both domestic and international, on several titles. These include \$18,800 for "Nine Miles Down", \$20,589 for "Drunkboat", \$22,992 for "Shooting Gallery", \$12,961 for "I'll Sleep When I'm Dead", and amounts under \$10,000 on 5 other titles. This revenue was offset by credits issued of \$approximately \$45,000 on 4 titles, which resulted in a negative film revenue.

The majority of 2012 sales came from accrued sales for the US release of "Drunkboat", releasing "Ninth Cloud" from Deferred Income to Sales and on-going royalty income received for "Pool Boys", "Knife Edge", "Night of the Demons" and "Nine Miles Down".

B) Music revenues for the six months ended December 31, 2013 totaled \$14,974, which related to the DMX recording released in 2012. No amounts of revenue had yet been received on the December 2013 release of the BTH recording. Revenues for the six months ended December 31, 2012 totaled \$689,790, all from the newly released DMX recording.

C) Revenue from the post production facility operations for the six months ended December 31, 2013 totaled \$26,452, compared to \$18,078 for the six months ended December 31, 2012, an increase of \$11,059, or 46%, primarily due to rental income received for the facility.

Cost of Sales

Cost of revenue was \$ 267,200 for the six months ended December 31, 2013 as compared to \$ 830,559 for the comparable period in 2012, a decrease of \$563,359, or 68 % as a result of:

A) The 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 proportion to what the current year's revenue bears to management's estimates of ultimate revenue expected to be recognized from the exploitation or sale of the films. The decrease in amortization for the six months ended December 31, 2013 as compared to 2012 are a result of the reduced revenue, and later stage life of the titles. No new films were released in the six months ended December 31, 2013.

An amortization charge of \$188,842 was made in the six months ended December 31, 2013 which was spread over four titles, "Nine Miles Down", "Pool Hall Prophets", "Knife Edge" and "A Broken Life" in line with revenue forecasts.

The equivalent charge during the six months ended December 31 2012 was \$580,901 mainly related to the release of "The Pool Boys" and "Knife Edge".

B) The music company assets have also been amortized in proportion to that the current year's revenue bears to management's estimates of ultimate revenue expected to be recognized from the exploitation or sale of the album. \$6,304 was amortized for the six months ended December 31, 2013, based on the low revenue recognized this period. Amortization of \$408,205 was recognized in the six months ended December 31, 2012, reflecting the release of the DMX recording. An impairment of \$50,491 was taken in the six months ended December 31, 2013 as the Company is recognizing the decreased value of the assets due to poor sales to date and continued expected underperformance.

C) The building improvements related to the post-production facility are being written off to costs of sales over the 30 year period of the lease, and the write-off was \$82,718 for the six months ended December 31, 2013, which is consistent with the \$80,775 for the six months ended December 31, 2012.

Other cost of revenue in the six months ended December 31, 2013 totaled \$21,563 as compared to \$249,658 in the same six months in 2012. Other cost of revenue for the six months ended December 31, 2013 mainly consisted of commission fees for distribution of the film "Nine Miles Down" and social media marketing costs related to the release of the music company Bones Thug & Harmony album. Other cost of revenue for the comparable period in 2012 arose mainly from distribution fees incurred by the music company from Fontana.

Administration Expenses

General and administrative expenses decreased by \$250,717, or 17 % from \$ 1,451,615 for the three months ended December 31, 2012 to \$1,200,898 for the six months ended December 31, 2013. The decrease was primarily attributable to the reduction of staff and our former CEO taking a leave of absence without pay.

Other Expense

Interest expense in the six months ended December 31, 2013 was \$2,904,612 compared to \$1,902,997 in the same period in 2012. The 2013 interest expense includes \$1,380,867 related to SAFELA for the mortgage and construction loan, of which \$899,361 is attributable to the accrued interest now recognized on the \$2.7million default portion of the mortgage.

Interest on movie and production loans was \$1,216,998 during the six months ended December 31, 2013 as compared to \$1,118,778 for the six months ended December 31, 2012.

On January 2, 2014 SAPLA received the Part III certification from SHPO, and subsequent to quarter end SAPLA has begun selling the tax credits to third parties. Therefore, the Company has determined there is no further amounts of the receivable which are necessary to reserve, and has decreased the reserve accordingly, resulting in a Realization of Tax Credits of \$1,180,000 during the three and six months ended December 31, 2013. (see Note 4)

Income Tax

No tax expense was recognized in either period.

LIQUIDITY AND CAPITAL RESOURCES

Management assesses the Company's liquidity in terms of its ability to generate cash to fund its operating, investing and financing activities and whether it will be sufficient to allow it to continue investing in existing businesses, consummating strategic acquisitions, paying interest and servicing debt and managing its capital structure on a short and long-term basis.

The accompanying consolidated financial statements are prepared under a going concern basis in accordance with US generally accepted accounting principles ("GAAP") which contemplates the realization of assets and discharge of liabilities and commitments in the normal course of business. For the year ended June 30, 2013, the Company recorded a loss from operations of approximately \$18,190,000, and utilized cash in operations of \$548,000. As of June 30, 2013, the Company had a working capital deficit of approximately \$19,844,000. For the six months ended December 31, 2013 the Company recorded a loss from operations of approximately \$1,284,000, utilized cash in operations of approximately \$223,000 and had a working capital deficit of approximately \$22,735,000.

These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to return to profitability or to develop additional sources of financing or capital. The Company's financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Historically, the Company's main source of cash was through the exploitation of its films, sales of equity and debt financing. However, the Company has not released or distributed a new film since July 2012. The Company's next film, Fractured (Schism), is expected to be released in April, 2014, and the Company also intends to release the next DMX album in mid 2014 and the Thugs Bones N Harmony album was released in December 2013, so revenue, although lower than originally expected, will be received in 2014. Additionally, management has begun to implement cost reductions including reducing the size of its' staff and size of its Los Angeles and UK offices and expects to be able to continue to obtain additional financing. Additionally, as the SHPO tax credits have been certified and SAPLA has begun to sell them and receive cash proceeds, amounts are expected to be collected against the Receivable from related party (Note 4). No assurance can be given that the financing will be available or, if available, that it will be on terms that are satisfactory to the Company.

Short Term Liquidity

The Company has an accumulated deficit of \$38,670,000 as of December 31, 2013. Management believes that, based on historical revenues generated from the licensing of the distribution rights on our motion pictures and the new revenues generated from the release of two albums in the music division in our 2014 fiscal year, as well as expanding business at the post-production facility, we will have sufficient working capital to operate for the next twelve months. Included in the revenue expected in our film division will be the release of a new film, Fractured, in April 2014, which will see revenues generated during the next year. As noted above, the Company will also begin to receive collections on their Receivable from related party. In addition, the Company has scaled back on administrative expenses through the closing of our UK office and move of our Los Angeles office to a smaller location. The Company also hopes to continue to raise capital, or pay off existing debt, through the issuance of convertible debentures.

We currently borrow funds for the financing of each of our motion pictures from several production lenders. There can be no assurances given that the Group will be able to borrow funds to finance our motion pictures in the future

Long Term Liquidity

The long term liquidity needs of the Company are projected to be met primarily through the cash flow provided by operations, with any additional funds necessary raised by the sale of debt or equity.

Cash Flows

Operating Activities: Net cash used in operating activities for the six months ended December 31, 2013 was approximately \$223,000. Accrued interest increase, amortization of film costs, music assets and amortization of building improvements, and an increase in accounts payable were the primary adjustments to the Net Loss of approximately \$1,159,139.

Investing Activities: There was no cash used in investing activities this period.

Financing Activities: Net cash provided by financing activities for the six months ended December 31, 2013 was \$232,000, arising from the proceeds from the new convertible debentures entered into this quarter.

Capital Resources

As of December 10, 2013, the Company did not have any outstanding capital commitments. As of the date of this filing, the Company had no other commitments than disclosed in the Company's financial statements and notes to the financial statements.

Working capital deficit at December 31, 2013 was approximately \$22,735,000, which is increasing from our position as of June 30, 2013 of \$19,845,000, with the largest impact on the working capital deficit being the increase in accrued interest on the indebtedness, which is all classified as current liabilities.

Working capital is negative due to the fact that all the loans are classified as current even with longer-term workout agreements. The majority of the other loans are convertible to stock and it is expected the note holders will choose to convert and so will have little or no cash impact.

Additionally, the mortgage and construction loans on 807 Esplanade are current liabilities with corresponding leasehold improvements being recorded as non-current assets.

Stockholder's Deficit at December 31, 2013 was approximately \$7,421,000 increasing from \$7,070,000 as at June 30, 2013. The change was primarily due to the conversion of debt to equity through the issuance of common shares offset by the Net loss for the period.

Historically, we have successfully raised additional operating capital through private equity funding sources or loans from affiliates. However, no assurances can be given that we will be able to obtain sufficient working capital through the sale of common stock and/or borrowing or that the development and implementation of our business plan will generate sufficient future revenues to sustain on-going operations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of December 31, 2013, our disclosure controls and procedures were ineffective due to a material weakness existing in our internal controls over financial reporting (described below), which has not been fully remediated as of December 31, 2013.

A material weakness is a deficiency, or a combination of deficiencies, in Internal Control over Financial Reporting (“ICFR”), such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness would permit information required to be disclosed by the Company in the reports that it files or submits to not be recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms. Based upon an evaluation conducted for the period ended December 31, 2013, our Chief Executive and Chief Financial Officer have concluded that as of the end of the period covered by this report, we have identified the following material weakness of our internal control:

Lack of sufficient accounting staff which results in a lack of segregation of duties necessary for a good system of internal control and financial statement presentation, as well as information not being recognized into the accounting records in a timely manner.

Changes in Internal Control over Financial Reporting

We have made significant changes in our internal control over financial reporting: We have employed a new controller knowledgeable in US GAAP and the entertainment industry, as well as a CFO, with experience as an assurance partner at a registered public accounting firm, with extensive knowledge of SEC reporting. All entries will now be booked at source in the LA office.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

There have been no significant changes other than as noted below, to this litigation this period, since our disclosure included in the Annual Report included in the Form 10K, filed on October 15, 2013.

Litigation

Fireworks Litigation

The Company obtained summary judgment on February 10, 2011 in an action in Ontario Superior Court, Canada, against CanWest Entertainment and two of its affiliates (“CanWest”) confirming the Company’s ownership of five motion pictures Rules of Engagement, An American Rhapsody, Who Is Cletis Tout, Onegin, and The Believer, (the “Copyrights”). CineVisions v. Fireworks International, No. 03-CV-247553 CM2. The Company has filed on September 7, 2011, an action in the High Court of England and Wales on September 7, 2011 against Content Media Corporation (“Content”) and Paramount Picture Corp. (“Paramount”) to recover the Copyrights and substantial damages for the use of the copyrighted works after their purported acquisition from CanWest. Seven Arts Filmed Entertainment v. Content Media Corp. No. HC11CO3046. The Company may incur up to \$200,000 in legal expenses to pursue this claim but expects to recover those fees from Content. The Company’s motion for summary judgment against Content in the United Kingdom was denied on March 18, 2013, but the dismissal did not consider the merits of the Company’s claims, only that Content was not bound by the Canadian judgment. The Company has also filed on May 27, 2011 an action in United States District Court in Los Angeles, California against Paramount Pictures for infringement of the Copyrights. Seven Arts Filmed Entertainment v. Paramount Pictures Corp. No. CV 11-04603. This action was dismissed on October 3, 2012 by the District Court based on a claimed application of the statute of limitation and their judgment was offered on appeal to the Ninth Circuit No, 11-56759, on November 6, 2013.

Jonesfilm

Seven Arts Pictures plc (“PLC”), the Company’s listing predecessor, its then-subsiidiary Seven Arts Filmed Entertainment Limited (“SAFE”) and Seven Arts Pictures Inc. (“SAP”), were the subject of an arbitration award of attorney fees totaling approximately \$ 246,000, with interest and charges, both of which were reduced to judgment in favor of Jonesfilm (“JF”) in a judgment dated June 19, 2007 entered by United States District Court in Los Angeles,

California (“Judgment”). This amount is included in Accrued Liabilities on the accompanying financial statements. JF asserts that the Company is liable as the “successor in interest” to PLC, which the Company denies. JF has sought to enforce the Judgment against SAFE, Mr. Hoffman and SAP in proceedings filed on July 28, 2009 in United States District Court in New Orleans, Louisiana, in Case Nos. 09-4814/4815. Thereafter, Jonesfilm filed claims purportedly against the separate property of Mr. Hoffman’s wife in Case Nos. 11-1994 and 12-0535. Mrs. Hoffman filed action against Jonesfilm to seek relief (from Jonesfilm’s actions against her and her separate property). All proceedings are still pending. Mr. Hoffman and SAFE have appealed to the Fifth Circuit (No. 11-311 24) an order of garnishment against Leeway and penalties and legal fees awarded in connection with that order of garnishment, which appeal was denied. The Company does not believe it owes any amounts over the amount already accrued above.

Arrowhead Target Fund

Seven Arts Future Flow I (“SFF”), a limited liability company owned by SAP Inc., a company previously controlled by Mr. Hoffman, obtained financing from the Arrowhead Target Fund, Ltd. (“Arrowhead”) of approximately \$8,300,000 (the “Arrowhead Loan”). SFF secured the Arrowhead Loan with liens on 12 motion pictures. The Company’s only liability is to repay the Arrowhead Loan from the proceeds of the film assets pledged against the Arrowhead Loan. The Company is not required to repay the Arrowhead Loan from any of its other assets or revenues. SAE’s subsidiary, SAFE, Ltd. was the collateral agent of the film assets.

The Arrowhead Loan became due in February 2009, and SFF has not paid the outstanding principle and interest due thereon. Arrowhead has the right to foreclose on the pledged film assets, but has not done so at the present time. SFF has received a default notice to this effect and as a result Arrowhead is now collecting directly all sums receivable by the Company with respect to these motion pictures, and has appointed a new servicing agent for these motion pictures with the result that the Company no longer controls the licensing of these motion pictures. Failure to repay or refinance the Arrowhead Loan could result in a material disposition of assets through the loss of the Company’s rights to the twelve motion pictures and related loss of revenues in amounts that are difficult to predict.

Arrowhead filed an action on September 22, 2010 in New York Supreme Court, New York, New York, Arrowhead Target Fund v. Hoffman No. 657481/2010, which seeks recovery from the Company of the monies which the Company has retained under its interpretation of the relevant agreements with Arrowhead. In addition, Arrowhead makes substantial additional claims against the Company, Mr. Hoffman and SAP Inc. regarding claimed breaches of the terms of the operative agreements, including failure to properly account, failure to turn over materials, failure to remit monies collected, and similar matters. The claims against the Company for these breaches of warranties for damages are \$8,300,000 although Arrowhead states no basis for this amount.

The Company had moved to dismiss the action against all defendants other than Seven Arts Future Flows I LLC, which is not part of the Company. On August 9, 2011, the New York Supreme Court granted the Company's motion and dismissed all defendants except Seven Arts Filmed Entertainment Limited in its capacity as a collateral agent, which is not a material element of Arrowhead claim. The Company continues to believe that Arrowhead's claims against the Company are without substantial merit.

Arrowhead has purported to amend its claim against the Company and the other defendants. The Company has moved for dismissal of these claims on the same grounds. A former counsel for SAFE and Mr. Hoffman failed to appear at a hearing and the Court orally entered default against SAFE and Mr. Hoffman on October 7, 2013, both of whom will move to vacate the order for the motion to dismiss based on lack of personal jurisdiction on the merits. The Company continues to believe that Arrowhead's claims against the Company are without substantial merit and will vigorously defend. The Company has accrued \$744,000 as a loss contingency on this matter.

Arrowhead Capital Partners – ACG Loan

PLC, SAP and SAFE, and several special purpose companies formed by SAP 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 served 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 Note 13 under "Production Loans". Arrowhead Capital Finance v. Seven Arts Pictures, No. 601199/10. The ACG Loan is fully subordinated to repayment of the Cheyne Loan, which has not been repaid, and a subsidiary of the Company has been assigned all Cheyne's rights under the subordination provision of the Cheyne Loan. ACG and the Company filed our motion for summary judgment which resulted in summary judgment in favor of ACG against SAFE, SAP and the special purpose companies. That summary judgment is on appeal to the New York Court of Appeals. As of June 30, 2013, and the date of this filing, there has been no decision in the appeal. The Company plans to vigorously defend this matter and cannot yet determine the probability of the outcome. The Company has not accrued a loss contingency on this matter and it is not a defendant in this action. Any claim against SAFE will be subject to the liquidation proceedings of SAFE under the law of the United Kingdom.

Investigation into Claim for Tax Credits (SAPLA)/ Possible Litigation Re: Tax Credits

The US Attorney in New Orleans is investigating claims for Louisiana film infrastructure tax credits including such tax credits to be claimed by Seven Arts Pictures Louisiana LLC (“SAPLA”) and has issued subpoenas for discovery of documents in the possession of the Company related to these tax credits. The Company has complied with that subpoena on March 15, 2012.

This investigation appears to include investigation as to whether certain expenses claimed by this affiliate were improper or fraudulent. All such claimed expenses were audited by independent auditors in Louisiana and reviewed by counsel. Management believes that this investigation will have no material adverse effect on the Company’s operations or the total tax credits to be received by the Company’s affiliates, but could result in charges against current or former employees of this affiliate based on prior audits, including Mr. Hoffman.

SAPLA, controlled by Mr. Hoffman’s wife, filed legal action in the 19th District Court in Baton Rouge, Louisiana in August, 2013 to require the Louisiana Department of Economic Development and State Historic Preservation Office to certify the tax credits due SAPLA, the proceeds of which have been assigned to the Company.

Parallel Action

On June 28, 2011, Seven Arts Pictures Plc. (“PLC”) filed an action in the High Court of England against Parallel Media LLC (“Parallel”) to collect sums due to PLC with respect to acquisition of distribution rights in Russia to four motion pictures and to confirm Parallel’s obligations under both a signed and unsigned investment agreement with respect to the motion picture project Winter Queen. On the same day Parallel filed a petition to wind up and liquidate PLC in the Companies Courts of England based on its claim of repayment of \$1,000,000 of investment made by Parallel in Winter Queen. PLC is no longer part of the Company.

On September 19, 2011, Parallel filed a new action against PLC and SAE in the Superior Court of California in Los Angeles, asserting the same claims as in the winding up petition and seeking to enjoin the proposed administration proceedings in England. *Parallel Media v. Seven Arts Entertainment*, No. SC114182. A request for a preliminary injunction was denied by the Superior Court. Parallel was permitted to pursue a claim in the Los Angeles Superior Court for alleging that the Asset Transfer Agreement dated July 1, 2011 between PLC and the Company (“ATA”) was not for fair consideration. Parallel’s motion for summary judgment has been denied. The Company believes that a favorable decision by the liquidator as discussed above will resolve this action in the Company’s favor. The Company has not accrued for a loss contingency in this matter. The potential loss to the Company could be between \$1 million and \$1.75 million.

The liquidator has been advised in a letter from its counsel dated October 10, 2013, that the Company may be obligated to reimburse the liquidator for additional shares of the Company's common stock by reason of the reduction in the value of the Company's common stock issued to PLC pursuant to the ATA, from July 1, 2010 to August 31, 2011. The Company had previously offered to the liquidator to make such an adjustment in the consideration paid pursuant to the ATA. The Company intends to negotiate an amicable resolution of this issue with the liquidator which counsel believes should resolve any claims by Parallel.

HMRC Investigation

On July 19, 2011 Officers of Her Majesty's Revenue & Customs ("HMRC") attended the offices of Seven Arts Pictures Plc. (the "Company") in London. Documents were retained appertaining to arrangements involving the subscription for shares in a number of companies which had lost value, resulting in subscribers making claims to tax relief.

The Company's participation in these transactions was limited to the Company's predecessor's transfer of rights to certain motion pictures to the investors in return for their investments in the production and release costs of those pictures and making available the provision of loans to fund a portion of those investments. The Company received no tax benefits from the transactions, which were made on arms-length terms. The Company believes that it is not a subject of the HMRC investigation.

In connection with the transactions, the Company did not make any representations or warranties to any party, including the investors, regarding any potential tax benefits related to the transactions. Prior to the closing of the transactions the investors obtained and made available to the Company, an opinion of prominent Queen's counsel, specializing in United Kingdom tax laws, that the transactions were permitted and acceptable under the terms of the applicable United Kingdom revenue laws. The Company remains confident that the transactions were permitted and acceptable under the terms of the applicable United Kingdom revenue laws.

HMRC has requested and completed interviews with three officers of PLC to discuss whether those officers were involved in the arrangements for subscription of shares in the relevant companies. PLC is fully cooperating with the investigation. PLC believes there is no basis for any claim of responsibility of any of its officers or employees. Based on facts currently known by PLC, there is no need for it to record a contingent liability in its financial statements in connection with the investigation or the related transactions.

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

Exhibit No. Description

2.1	Asset Acquisition Agreement dated as of July 1, 2010 between Seven Arts Entertainment Inc. and Seven Arts Pictures Plc (1)
2.1.1	Amendment to Asset Transfer Agreement dated January 27, 2011 (2)
2.1.2	Second amendment to Asset Transfer Agreement (2)
3.1.	Articles of Incorporation of Seven Arts Entertainment Inc.(1)
3.1.1	Amendment to Articles of Incorporation of Seven Arts Entertainment Inc. *
3.2.	By-Laws of Seven Arts Entertainment Inc.(1)
3.2.1.	Amended By-Laws of Seven Arts Entertainment Inc. (2)
3.3	Certificate of designation of Series A preferred stock (2)
3.4	Certificate of designation of Series B preferred stock (revised) (2)
3.4.1	Amendment to the Certificate of Designation of Series B preferred stock (2)
4.1	Specimen Common Stock Certificate (1)
10.1*	Revised 2012 Stock Incentive Plan (3)
31.1**	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1***	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Departure of Directors or Certain Officers
99.1	Announcement of reverse stock split effective October 16, 2013. (4)
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.

* Indicates management contract or compensatory plan or arrangement.

** Filed herewith.

*** Furnished herewith.

(1) Filed as an exhibit to Amendment No. 4 to Registration Statement on Form F-1 filed on September 27, 2010 and incorporated herein by reference.

(2) Filed as an exhibit to Registration Statement on Form S-3 filed on August 20, 2012 and incorporated herein by reference.

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- (3) Filed as an exhibit to Definitive Proxy Statement on Schedule 14A on January 17, 2013 and incorporated herein by reference.
- (4) Filed as an exhibit on Form 8-K on October 16, 2013 and incorporated herein by reference.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SEVEN ARTS
PICTURES, INC.**

Date: September 12, 2014 By: */s/ Rick Bjorklund*
Rick Bjorklund, CEO

Date: September 12, 2014 By: */s/ Robert La Salle*
Robert La Salle
Chief Financial Officer

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NT-FAMILY: Times New Roman">Approval of the stockholder resolution that is the subject of this Proposal 3 will require the affirmative vote of a majority of the shares of our Common Stock present or represented at the Annual Meeting. The stockholder vote on this proposal is advisory and nonbinding in nature, serves only as a recommendation to our Compensation Committee and Board of Directors, and will not overrule any decisions previously made by the Company, the Compensation Committee or the Board of Directors with respect to executive compensation, nor will it create any duty for the Company, the Compensation Committee or the Board of Directors to take any action in response to the outcome of the vote. Our Board has not yet determined the frequency with which we will hold the stockholder advisory vote on Named Executive Officer compensation required by Section 14A of the Exchange Act or when the next such stockholder advisory vote on named executive officer compensation will occur. Director compensation disclosed in this proxy statement is not subject to or covered by this advisory vote.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR"
THE APPROVAL OF THE FOREGOING ADVISORY RESOLUTION
RELATING TO EXECUTIVE COMPENSATION**

PROPOSAL 4

ADVISORY VOTE ON THE FREQUENCY OF
FUTURE EXECUTIVE COMPENSATION ADVISORY VOTES

Description of Advisory Vote

As required by Section 14A of the Exchange Act, we are including a proposal for our stockholders to vote to approve, on a nonbinding, advisory basis, the frequency with which they wish to have a nonbinding, advisory vote on the compensation paid to our Named Executive Officers – in other words, how often a proposal similar to this year’s Proposal 3 will be included in the matters to be voted on at our future annual meetings. The choices available under Section 14A of the Exchange Act are “every one year,” “every two years” or “every three years.” Section 14A of the Exchange Act also requires that, at least once every six years, we hold a separate advisory vote similar to this Proposal 4 on whether our stockholders prefer to hold advisory votes on the compensation of our Named Executive Officers every one, two or three years.

Recommendation and Vote Necessary to Approve the Proposal; Advisory Nature

Under the Company’s Bylaws, the approval of a majority of the shares of our Common Stock present or represented at the Annual Meeting is required for the non-binding approval by stockholders of the selection of the “one year,” “two year” or “three year” alternatives for holding future advisory votes on Named Executive Officer compensation under this Proposal 4. Due to the nature of this proposal, however, if none of the alternatives (one year, two years or three years) receive a majority vote we will consider the highest number of votes cast by stockholders to be the frequency that has been selected on an advisory basis. However, because this vote is advisory and not binding on the Board of Directors or the Company in any way, the Board may decide that it is in the best interests of the Company and our stockholders to hold future advisory votes on Named Executive Officer compensation more or less frequently than the option approved by our stockholders. The Board of Directors has not made a recommendation on this Proposal 4 because it has decided to consider the views of the Company’s stockholders before making a determination. Please mark your proxy card to indicate your preference on this Proposal 4, or your abstention if you wish to abstain.

THE BOARD OF DIRECTORS MAKES NO RECOMMENDATION CONCERNING YOUR VOTE
ON THE FOREGOING PROPOSAL 4 REGARDING THE FREQUENCY OF
FUTURE EXECUTIVE COMPENSATION ADVISORY VOTES

PROPOSAL 5

BOARD PROPOSAL TO AMEND THE COMPANY'S CERTIFICATE OF INCORPORATION
TO PROVIDE FOR THE DECLASSIFICATION OF OUR BOARD OF DIRECTORS

Background and Reasons for the Proposed Amendment

Our Board of Directors is currently divided into three classes. Each director is elected to serve for a three-year term and until his or her successor is duly elected and qualifies. The terms of one such class of three directors expire at this year's Annual Meeting, while the terms of the other two classes expire at our 2012 and 2013 annual meetings of stockholders, respectively.

The Board of Directors is recommending that our stockholders approve an amendment to the Company's Certificate of Incorporation to provide for the annual election of all directors, while also accomplishing such declassification of our Board in a manner that does not affect the unexpired terms of previously elected directors. A similar proposal brought by a stockholder received the support of a significant majority the votes cast by stockholders at the Company's past two annual meetings.

In response to this proposal, our Board has previously noted its belief that our current classified board structure promotes greater continuity, stability and knowledge of the Company's business affairs and financial strategies by ensuring that a majority of the directors at any given time will have prior experience as directors of the Company, and that having a classified board structure enhances the Board's ability to negotiate the best results for the stockholders in a takeover situation and reduces the Company's vulnerability to certain unfriendly or unsolicited takeover tactics. These beliefs have not changed. On the other hand, our Board also recognizes that an increasing number of investors have come to believe classified boards reduce the accountability of directors because they limit the ability of stockholders to evaluate and elect all directors on an annual basis. Accordingly, in keeping with its commitment to good corporate governance, the Board requested this year that our Nominating/Corporate Governance Committee again consider the various advantages and disadvantages of maintaining a classified Board, particularly in light of evolving corporate governance practices and investor sentiment. Based upon this analysis and the recommendation of the Nominating/Corporate Governance Committee, our Board has determined that an amendment to our Certificate of Incorporation to provide for the annual election of all directors, in a manner that does not affect the unexpired terms of previously elected directors, is in the best interests of the Company and our stockholders at this time.

Proposed Amendment to the Certificate of Incorporation

The proposed amendment to the Certificate of Incorporation provides for annual elections to be phased in over time, so that the current terms of our directors are not affected. This means that:

- each of the three directors elected at this year's Annual Meeting will be elected for a three-year term that expires at our annual meeting of stockholders in 2014;
- our three current directors whose terms expire at the 2012 annual meeting will stand for election to a one-year term at our 2012 annual meeting of stockholders; and
- our three current directors whose terms expire at the 2013 annual meeting will continue to serve until the expiration of their term at the 2013 annual meeting of stockholders and, together with the directors who were elected at the 2012 annual meeting, will stand for election at the 2013 annual meeting.

Thereafter, beginning with the 2014 annual meeting of stockholders, all directors will be elected annually. In order to effect this change, our Board of Directors recommends that our stockholders amend Section (c) of Article VI of the Company's Certificate of Incorporation by deleting that section in its entirety and replacing it with the following:

(c) The directors, other than those who may be elected by the holders of any series of Preferred Stock and subject to the phasing-in process described below, shall be elected at every annual meeting of stockholders, by a plurality vote of all votes cast at such meeting, to hold office for a term expiring at the next annual meeting of stockholders and until their successors are duly elected and qualified. The class of directors whose current term expires at the Corporation's annual meeting of stockholders in 2012 shall hold office until that term expires and the successors to that class of directors shall be elected for a one year term to hold office until the 2013 annual meeting of stockholders and until their successors are duly elected and shall qualify. The class of directors

whose current term expires at the Corporation's annual meeting of stockholders in 2013 shall hold office until that term expires and the successors to that class of directors, together with directors elected at the 2012 annual meeting of stockholders, shall be elected for a one year term to hold office until the 2014 annual meeting of stockholders and until their successors are duly elected and shall qualify. The class of directors elected at the Corporation's annual meeting of stockholders in 2011 whose term expires at the annual meeting of stockholders in 2014 shall hold office until that term expires and the successors to that class of directors, together with all other directors, shall be elected for a one year term to hold office until the next annual meeting of stockholders and until their successors are duly elected and shall qualify, beginning with the Corporation's annual meeting of stockholders in 2014.

If our stockholders vote to approve this proposed amendment, it will become effective upon the filing of a Certificate of Amendment to the Certificate of Incorporation with the Delaware Secretary of State, which we intend to do promptly following the Annual Meeting if this Proposal 5 is approved. In addition, if this proposed amendment to the Certificate of Incorporation is approved, our Board of Directors will adopt conforming amendments to those provisions of Article III of the Company's Bylaws which provide for a classified board. Such amendments would be effective prior to the Company's 2012 annual meeting of stockholders.

Recommendation and Vote Necessary to Approve the Proposal

As set forth in Section (f) of Article VI of the Company's Certificate of Incorporation, approval and adoption of the proposed amendment that is the subject of this Proposal 5 requires the affirmative vote of the holders of Sixty-six and two-thirds percent (66-2/3%) of the Company's issued and outstanding shares of Common Stock, voting as a class. Since only shares of the Company's Common Stock qualify as "Voting Stock" entitled to vote generally in the election of directors under the Certificate of Incorporation, and since the proposed amendment does not affect the election of any directors who may be elected by the holders of any series of Preferred Stock, holders of the Company's issued and outstanding shares of Preferred Stock are not entitled to vote on the proposed amendment under the terms of the Certificate of Incorporation or applicable Delaware law.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF THE
PROPOSED AMENDMENT TO THE CERTIFICATE OF INCORPORATION TO
PROVIDE FOR THE DECLASSIFICATION OF OUR BOARD OF DIRECTORS

PROPOSAL 6: STOCKHOLDER PROPOSAL REGARDING
MAJORITY VOTING IN THE ELECTION OF DIRECTORS

The Company has been informed that Gerald R. Armstrong, 910 Sixteenth Street, No. 412, Denver, Colorado 80202-2917 (the “Proponent”), the owner of 1,567 shares of Common Stock, intends to introduce at the Annual Meeting the following resolution. If properly presented, this proposal will be voted on at the Annual Meeting. The Board of Directors unanimously recommends a vote AGAINST this stockholder proposal. Voting on this matter would serve only as an advisory vote for the Board of Directors to reconsider the plurality voting requirement for election of directors currently prescribed by the Company’s governing documents. In accordance with rules of the Securities and Exchange Commission, the text of the Proponent’s resolution and his supporting statement are set forth below exactly as submitted by him. The Board of Directors’ statement in opposition to the Proponent’s proposal immediately follows. The Company is not responsible for the contents of the Proponent’s resolution or his supporting statement.

Stockholder Proposal—Majority Voting in the Election of Directors

That the shareholders of CBL & ASSOCIATES PROPERTIES, INC. request its Board of Directors to adopt a by-law amendment specifying that the election of our Directors shall be decided by a majority of the votes cast, with a plurality vote standard used only in those director elections when the number of nominees exceeds the number to be elected.

Supporting Statement

The proponent of this proposal has introduced proposals to declassify terms of directors from three years to one year in the past two annual meetings. In the last meeting, 120,421,726 shares (94.68% of the vote) worth \$1,880,987,360.12 on the meeting date, were voted in its favor. Our Board of Directors has not taken any action on the matter at the time this proposal is submitted (11/19/2010).

In the last meeting, 37,663,167 shares (34.11% of the vote) were withheld from the president, Stephen Lebovitz.

Our proxy statement for last year’s annual meeting discloses that our corporation requires a majority vote to ratify the appointment of the independent accountants and majority vote to recommend the Board declassify its terms to one year although it requires only a “plurality vote” to elect directors. In the eyes of the proponent, this is an imbalance for the voting rights of shareholders.

The proponent believes that in order to provide shareholders a meaningful role in director elections, CBL’s director election standard should be changed to a “majority” vote standard. This standard would require a nominee to receive a majority of the votes cast in order to be elected, a standard that is well-suited for the vast majority of director elections in which only board nominated candidates are being voted on. The current members of the board have been meeting this standard.

The right to having a significant meaning in “abstaining” or voting “against” would be established and would create a voting standard for nominees which could come into place if their performance should diminish.

Strong shareholder support for the “majority vote” standard in director elections is apparent as a growing number of corporations have adopted it--Intel, Dell, Motorola, Texas Instruments, Wal-Mart, Safeway, Home Depot, Gannett, Marathon Oil, to name just a few.

The Council of Institutional Investors (www.cii.org), whose members had \$3 trillion invested, recommends the adoption of proposals of this topic and had notified our nation’s largest corporations of its recommendations. Leading

proxy advisory firms have also recommended a “majority” voting standard.

If you agree, please join the proponent in voting “FOR” this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE AGAINST THE FOREGOING PROPOSAL FOR THE FOLLOWING REASONS:

The Board believes that the method provided by the Delaware General Corporation Law under which our Company is incorporated, that directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at a meeting and entitled to vote on the election of directors unless otherwise specified in a company's certificate of incorporation or bylaws, is fair and impartial and serves the best interests of the Company's stockholders. Our Board is comprised of highly qualified directors from diverse backgrounds, a majority of whom are "independent" within the meaning of Securities and Exchange Commission rules and NYSE listing standards. Since the Company's stockholders have a history of electing highly qualified, experienced and competent directors under the current plurality standard, a change in the voting requirement would not result in a more effective Board of Directors.

Our Board believes that adherence to sound corporate governance policies and practices is important in ensuring that the Company is governed and managed with the highest standards of responsibility, ethics and integrity and in the best interests of our stockholders. The Company currently elects its directors by a plurality standard, meaning that the nominees who receive the most affirmative votes are elected to the Board. This method of voting has served the Company well since the Company's inception in 1993 and, in fact, in no instance has plurality voting prevented our stockholders from either electing the directors they wanted to elect or otherwise expressing their dissatisfaction with any particular director or the Board as a whole. The plurality standard is also the standard that governs many other public companies that are incorporated in Delaware and is the predominant method currently in use among public companies in the United States.

The Proponent has stated that one of his reasons for offering this proposal is the Company's inaction on his prior proposal to declassify our Board of Directors. We point out that, for the reasons discussed in more detail under Proposal 5 above, our Board of Directors has unanimously approved, and recommended to our stockholders for their approval, an amendment to our Amended and Restated Certificate of Incorporation to eliminate the classification of our Board and provide for the annual election of all directors, with the implementation of this declassification to be over a three-year period and in a manner that will not affect the unexpired terms of any of our previously-elected directors. Our Board believes, as discussed below, that requiring all directors to be re-nominated and stand for election on an annual basis will provide a sufficient opportunity for our Nominating/Corporate Governance Committee, and the Board, to consider and respond to any hypothetical instance in which a director might fail to receive the approval of a majority of votes cast by our stockholders in future elections.

In addition to the reasons set forth above, our Board believes it would not be in the best interests of the Company or our stockholders to change the method by which directors are elected at this time for the following additional reasons:

- This proposal is unnecessary to the achievement of sound corporate governance for the Company.

No director elected in our Company's 18-year history has received less than a significant majority of favorable votes. Consequently, the Proponent's proposal would have had no effect on any of the Company's Board elections to date. Even without the majority voting standard suggested by the Proponent, our stockholders have been highly successful in electing responsible, experienced and objective directors who have consistently protected the best interests of the stockholders and the Company.

- The Company maintains a rigorous director nomination and election process that gives due regard to stockholder nominees.

Our Board maintains a Nominating/Corporate Governance Committee that is comprised entirely of independent directors. As described under “Board of Directors’ Meetings and Committees — Nominating/Corporate Governance Committee” above, the Nominating/Corporate Governance Committee maintains and applies a robust set of criteria in selecting candidates for election to the Board and will consider candidates recommended by stockholders in the same manner as other candidates. Consequently, adoption of the Proponent’s proposal is not necessary in order to compel or encourage the Board to consider stockholder interests and desires in the selection of director nominees.

- Adoption of the majority vote standard could significantly increase the influence of special interest shareholder groups.

Implementation of the Proponent's proposal also could significantly increase the influence of special interest shareholder groups whose interests and agendas may differ from those of the our stockholders. It could enable such shareholder groups to promote "vote no" campaigns against one or more of the Board's director nominees, forcing the Company to incur additional solicitation costs (in terms of both financial expense and diverting the focus of our Board and management) for routine elections, which, in the Board's view, is not the best utilization of the Company's resources. Further, a "vote no" campaign likely would need to mobilize only a minority of the Company's stockholders to achieve "against" votes from a majority of the votes cast, particularly in light of last year's change to the NYSE's broker discretionary voting rule, which now prohibits brokers from voting their shareholder-customers' shares in a director election when the shareholder-customers have provided no direction to the broker. Consequently, a minority of the Company's outstanding shares effectively could act to defeat a director's election. The Board believes that such factors do not reinforce a longer-term focus among directors that is in the best interests of our stockholders.

- Given the current state of applicable corporate law and practice, majority voting for directors may have unintended negative consequences.

Plurality voting is the accepted standard for the election of directors of U.S. public companies, it is the default method of electing directors under Delaware corporate law and it offers advantages over majority director voting. In addition, it would be imprudent to consider moving to a majority vote standard without having fully assessed the impact of the recent change, discussed above, to the NYSE's broker discretionary voting rule. Since this rule has been in effect for only one annual proxy season thus far, it is difficult to predict the long-term consequences for companies that have adopted a majority vote standard for uncontested director elections, although the result is expected to be a reduction in the total number of shares voted for directors. By posing the risk of significantly reducing the number of votes cast, this new NYSE rule may allow a minority of shares, or a single-issue activist as noted above, to defeat the election of a director or group of directors, resulting in an outcome that may be unfair to the majority of our stockholders or inconsistent with the Company's long-term goals.

The Board believes that the Company's current plurality vote standard continues to promote the best interests of our stockholders and effectively addresses the concerns expressed in the Proponent's proposal. Under the plurality vote standard, nominees who receive the most affirmative votes are elected to the Board. Plurality voting ensures that all open positions are filled at each director election. Under majority voting, a "failed election" may occur in an uncontested election, where a director nominee does not receive a majority of the votes cast. As a result, the Board could be faced with a potentially large number of vacancies at one time. In addition to losing experienced and knowledgeable directors, such a result could adversely affect the Company's ability to comply with applicable NYSE or SEC requirements regarding the number of independent directors and financial experts.

In contrast, the Company's current plurality vote standard, under which stockholders may express dissatisfaction with the Board by withholding votes for certain directors or by proposing nominees to the Board, accomplishes the primary objective of the Proponent's proposal and allows the Company to maintain a stable Board of experienced and knowledgeable directors. If the pending proposal to declassify our Board and require the annual election of all directors is approved by our stockholders, such annual elections will allow the Board and its Nominating/Corporate Governance Committee to give timely consideration to the appropriate response to any future stockholder expressions of dissatisfaction.

The Board is fully committed to strong corporate governance and it is the Board's fiduciary duty to act in the best interests of our stockholders. In the Board's view, the Proponent's proposal is not in the best interest of our stockholders or the Company and does not enhance the ability of our stockholders to express their opinions regarding any director or the Board. In addition, the Board believes that further consideration of the proposal would be

inappropriate at this time, particularly in light of the fact that the proposal does not address the legal and practical issues of changing long-standing, successful voting procedures, and adoption of the proposal is likely to create negative and unintended results for the Company and its stockholders.

The Board of Directors strongly urges the Company's stockholders to vote AGAINST the Proponent's proposal to require majority voting for the election of directors.

Recommendation and Vote Required to Approve the Proposal; Advisory Nature

The affirmative vote of the holders of at least a majority of shares of the Company's Common Stock present in person or represented by proxy and entitled to vote at the Annual Meeting is required to approve this Proposal 6. As noted above, stockholders should be aware that this stockholder proposal is simply a request that the Board of Directors take the action stated in the proposal. Approval of this proposal may not result in the requested action being taken by the Board of Directors and, therefore, its approval would not necessarily effectuate a change from the plurality voting requirement for election of directors currently prescribed by the Company's governing documents to a majority voting requirement.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "AGAINST"
THIS STOCKHOLDER PROPOSAL REGARDING MAJORITY VOTING
IN THE ELECTION OF DIRECTORS

DATE FOR SUBMISSION OF STOCKHOLDER PROPOSALS

In accordance with the rules established by the SEC, stockholder proposals to be included in the Company's Proxy Statement with respect to the 2010 Annual Meeting of Stockholders must be received by the Company at its executive offices located at 2030 Hamilton Place Blvd., Suite 500, CBL Center, Chattanooga, Tennessee 37421-6000 no later than November 26, 2011, and must comply with other applicable SEC rules.

In addition, the Company's Bylaws provide that any stockholder of record desiring to nominate a director or have a stockholder proposal considered at an annual meeting must provide written notice of such nomination or proposal and appropriate supporting documentation, as set forth in the Bylaws, to the Company at its principal executive offices not less than 60 days nor more than 90 days prior to the anniversary date of the prior year's annual meeting (the "Anniversary Date"); provided, however, that stockholders will have additional time to deliver the required notice in the event the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the Anniversary Date.

HOUSEHOLDING OF PROXY MATERIALS

If you and other residents at your mailing address own common stock in street name, your broker or bank may have sent you a notice that your household will receive only one annual report and proxy statement for each company in which you hold shares through that broker or bank. This practice of sending only one copy of proxy materials is known as "householding." If you did not respond that you did not want to participate in householding, you were deemed to have consented to the process. If the foregoing procedures apply to you, your broker has sent one copy of our Annual Report and Proxy Statement to your address. However, even if your broker has sent only one copy of these proxy materials, you should receive a proxy card for each stockholder in your household. If you wish to revoke your consent to householding, or to request householding if you are receiving multiple copies of our proxy statement and annual report, you must contact your broker, bank or other nominee.

If you did not receive an individual copy of this Proxy Statement or our Annual Report, you can obtain a copy by contacting our Vice President – Corporate Communications and Investor Relations, either by mail or telephone at our

corporate office, as listed on the first page of this Proxy Statement, or by e-mail to Katie_Reinsmidt@cblproperties.com.

OTHER BUSINESS OF THE MEETING

Management is not aware of any matters to come before the Annual Meeting other than those stated in this Proxy Statement. However, if any matters of which management is not now aware should come before the meeting or any adjournment, the proxies confer discretionary authority with respect to acting thereon, and the persons named in such proxies intend to vote, act and consent in accordance with their best judgment with respect thereto. Upon receipt of such proxies (in the form enclosed and properly signed) in time for voting, the shares represented thereby will be voted as indicated thereon and in this Proxy Statement.

By Order of the Board of Directors

STEPHEN D. LEBOVITZ
President and Chief Executive Officer

Chattanooga, Tennessee
March 25, 2011

COPIES OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2010, MAY BE OBTAINED WITHOUT CHARGE BY ANY STOCKHOLDER TO WHOM THIS PROXY STATEMENT IS SENT UPON WRITTEN REQUEST TO VICE PRESIDENT – CORPORATE COMMUNICATIONS AND INVESTOR RELATIONS, CBL & ASSOCIATES PROPERTIES, INC., 2030 HAMILTON PLACE BLVD., SUITE 500, CBL CENTER, CHATTANOOGA, TENNESSEE 37421-6000.

