Seven Arts Entertainment Inc.
Form 10-Q/A
May 23, 2013

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
(Amendement No. 1)

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

o 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 incorporation or organization)	(IRS Employer Identification No.)

8439 Sunset Boulevard 4th Floor
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 þ No o

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 þ No o

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	o	Accelerated Filer	o
Non-Accredited Filer	o	Smaller Reporting Company	þ

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

As of May 17, 2013, there were 4,703,978 shares of Common Stock of the issuer outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (the “Amendment No. 1”) to the Quarterly Report on Form 10-Q (“Form 10-Q”) for the quarterly period ended March 31, 2013 of Seven Arts Entertainment Inc. (the “Company”) is being filed to correct certain clerical errors and to furnish Exhibits 101 in accordance with Rule 405 of Regulation S-T.

No other changes have been made to the Form 10-Q. This Amendment No. 1 speaks as of the original filing date of the Form 10-Q, does not reflect events that may have occurred subsequent to the original filing date and does not modify or update in any way disclosures made in the original Form 10-Q.

In addition, pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as a result of this Amendment No.1, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed and furnished, respectively as exhibits to the original Form 10-Q have been re-executed and re-filed as of the date of this Amendment No. 1 and are included as exhibits hereto.

SEVEN ARTS ENTERTAINMENT, INC.
FORM 10-Q
MARCH 31, 2013
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PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Seven Arts Entertainment, Inc.
Consolidated Balance Sheets

	March 31, 2013 (Unaudited)	June 30, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$64,691	$120,658
Accounts receivable, net of allowance for doubtful accounts of $39,062 and $171,062	189,576	192,035
Due from related parties	2,094,409	2,116,538
Fee income receivable from related parties	5,896,970	5,896,970
Other receivables and prepayments	1,552,458	849,845
Total Current Assets	9,798,103	9,176,046
Long term receivable from related parties	1,643,928	1,643,928
Film costs, less accumulated amortization of $19,483,399 and $18,953,035	14,912,185	14,612,609
Music assets, less amortization of $408,205 and $0	3,122,043	2,923,474
Leasehold Improvements, less amortization of $123,167and $0	4,890,994	4,551,270
Property and equipment, net of accumulated depreciation of $112,364 and $106,671	10,441	16,137
TOTAL ASSETS	$34,377,695	$32,923,464
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$1,757,367	$1,152,977
Accrued liabilities	3,047,080	2,758,844
Due to related parties	2,005,233	1,060,905
Shares to be issued	92,207	200,000
Participation and residuals	116,332	114,215
Convertible debt	4,252,951	4,162,460
Mortgage and construction loans	3,588,450	3,001,271
Film & production loans	7,282,094	6,124,428
Deferred income	923,180	849,080
Total Current Liabilities	23,064,894	19,424,180
Provision for earn-out	50,000	50,000
TOTAL LIABILITIES	$23,114,894	$19,474,180

SHAREHOLDERS' 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
Convertible redeemable Series B preferred stock at $100 par value, 200,000 authorized, 43,850 and 180,000 outstanding	1,124,770	4,762,952
Convertible redeemable Series B shares held in escrow	-	(3,163,636)
Common stock; $0.01 par value; 249,000,000 authorized, 4,142,653 and 34,798 issued and outstanding	2,071,325	17,399
Additional paid in capital	21,156,887	18,866,060
Treasury stock	(180,000)	-
Shares held as collateral for legal settlement	(275,246)	-
Accumulated deficit	(14,108,773)	(8,284,741)
Warrants to be distributed	480,371	-
Total Seven Arts Entertainment Inc. equity	11,520,584	13,449,284
Non-controlling interest	257,783	-
Total Shareholders' equity	11,262,801	13,449,284
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$34,377,695	$32,923,464

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

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Seven Arts Entertainment, Inc.
Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

	3 Months Ended March 31, 2013	3 Months Ended March 31, 2012	9 Months Ended March 31, 2013	9 Months Ended March 31, 2012
Revenue:				
Film revenue	$ 350,636	$ 187,793	$ 744,748	$ 987,220
Music revenue	-	-	927,645	-
Post production revenue	21,624	-	39,702	-
Total revenue	372,260	$ 187,793	1,712,095	987,220
Cost of revenue:				
Amortization and impairment of film costs and music assets	357,668	186,890	938,569	987,221
Amortization of leasehold improvements	42,392	-	123,167	-
Provision for returns	139,406	-	370,811	-
Other cost of revenue	25,312	262,041	274,970	561,330
Cost of revenue	564,778	448,931	1,707,517	1,548,551
Gross profit (loss)	(192,518)	(261,138)	4,578	(561,331)
Operating expenses:				
General and administrative expenses	1,207,463	500,897	2,659,078	1,550,761
Bad debt expense	-	109,481	-	106,663
Total operating expenses	1,207,463	610,378	2,659,078	1,657,424
Loss from operations	(1,399,982)	(871,516)	(2,654,500)	(2,218,755)
Non-operating income (expense)				
Other income	-	30,196	-	31,100
Interest expense	(1,043,944)	(744,469)	(2,946,941)	(1,476,417)
Total non-operating expense	(1,043,944)	(714,273)	(2,946,941)	(1,445,317)
Loss before taxes	(2,443,926)	(1,585,789)	(5,601,441)	(3,664,072)
Provision for income tax	-	-	-	-
Net loss	(2,443,926)	(1,585,789)	(5,601,441)	(3,664,072)
Less: Net loss attributable to non-controlling interests	(85,685)	-	(257,783)	-
Net loss attributable to Seven Arts Entertainment, Inc.	$ (2,358,240)	$ (1,585,789)	$ (5,343,658)	$ (3,664,072)
Comprehensive loss:				
Net loss	(2,443,926)	(1,585,789)	(5,601,441)	(3,664,072)
Other Comprehensive income/loss	-	-	-	-
Comprehensive loss	(2,443,926)	(1,585,789)	(5,601,441)	(3,664,072)

Less: Comprehensive loss attributable to non-controlling interests		(85,685)		-		(257,783)		-
Comprehensive loss attributable to Seven Arts Entertainment, Inc.	$	(2,358,240)	$	(1,585,789)	$	(5,343,658)	$	(3,664,072)
Weighted average shares of common stock outstanding:								
Basic		1,747,500		608,426		792,836		353,304
Diluted		1,747,500		608,426		792,836		353,304
Basic loss per share	$	(1.35)	$	(2.61)	$	(6.74)	$	(10.37)
Diluted loss per share	$	(1.35)	$	(2.61)	$	(7.07)	$	(10.37)

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

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Seven Arts Entertainment, Inc.
Consolidated Statements of Cash Flows
Nine Months Ended March 31, 2013 and 2012
(Unaudited)

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(5,601,441)	$(3,664,072)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	8,856	10,034
Amortization of film cost	938,569	987,221
Amortization of leasehold improvements	123,167	-
Conversion of debt to equity	-	8,332,434
Stock for services	767,767	659,096
Allowance for doubtful accounts	(132,000)	106,663
Provision for returns	370,811	-
Forgiveness of interest by lender	-	(30,196)
Foreign currency impact of movement of consolidated entity to related party	-	2,757,155
Issuance of share options	-	97,386
Changes in operating assets and liabilities:		
Trade receivables	(96,946)	157,029
Due to and due from related parties, net	22,128	(826,163)
Capitalized film assets	(1,105,187)	(1,965,032)
Capitalized music assets	(606,774)	-
Receivables and prepayments	(842,018)	(2,150,284)
Bank overdraft	-	(987)
Accounts payable	864,390	(920,342)
Deferred income	74,100	218,317
Stock to be issued	-	1,303,589
Participation and residuals	-	(352,205)
Increase in due to related parties	862,328	-
Accrued liabilities	2,787,150	(2,728,236)
Net cash (used in) provided operating activities	(1,565,099)	1,991,407
CASH FLOWS FROM INVESTING ACTIVITIES:		
Addition of leasehold improvements	(462,891)	-
Purchase of property and equipment	-	(5,016)
Net cash used in investing activities	(462,891)	(5,016)
CASH FLOWS FROM FINANCING ACTIVITES:		
Conversion of convertible notes payable	-	(6,665,175)
Shares of common stock issued in safisfaction of debt	-	(1,667,259)
Proceeds from/payments on borrowings	1,684,570	3,395,281

Payments on notes payable	-	(732,323)
Sharesas collatered for legal settlement	275,246	-
Shares held in escrow	-	(12,000,000)
Issuance of Preferred Stock	-	19,251,250
Issuance of stock for cash	300,000	1,000,000
Acquisition of music assets	-	(8,540,859)
Acquisition of treasury stock	(180,000)	-
Acquisition of Big Jake Music	-	(1,000,000)
Common and preferred stock to be issued	(107,793)	-
Fair value of earnout	-	2,837,134
Shares of common stock issued to PLC for assets	-	7,880,000
Stock issued in share exchange	-	64,866
Liabilities retained in PLC in share exchange	-	(5,837,707)
Net cash provided by financing activities	1,972,023	(2,014,792)
Effect of exchange rate changes on cash	-	(4,664)
NET CHANGE IN CASH	(55,967)	(33,065)
CASH AT BEGINNING OF PERIOD	120,658	7,798
CASH AT END OF PERIOD	$64,091	$(25,267)
Supplemental cash flow information:		
Cash paid for interest	-	149,326
Shares of common stock issued to PLC for assets	-	7,880,000
Common and preferred stock to be issued	-	1,303,589
Stock issued in share exchange	-	64,866
Liabilities retained in PLC in share exchange	-	(5,877,361)
Stock issued for services	767,767	659,096
Common stock issued in satisfaction of debt	5,315,302	8,332,434
Foreign currency impact of movement of consolidated entity to related party		2,757,155
Conversion of Preferred Shares Series B to common stock	1,001,818	

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

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Seven Arts Entertainment, Inc.
Notes to Consolidated Financial Statements
March 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 June 11, 2010, SAE, was formed and became a wholly owned subsidiary of 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 certain 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, 571 shares (2,000,000 shares as adjusted for the 1:70 and 1:50 reverse stock splits discussed herein) of SAE were issued to PLC in order to satisfy any remaining obligations. This transfer was approved by the PLC shareholders at an Extraordinary General Meeting on June 11, 2010. The purpose of this transfer was to eliminate our status as a foreign private issuer and to assume compliance with all obligations of a domestic issuer under all applicable state and Federal securities laws. Our intention in executing this transaction was to redomicile our business with no change in the economic interests of our shareholders.

On August 31, 2011, NASDAQ approved the substitution of one share of SAE, Inc. stock for the Company's NASDAQ listing, effective at the opening of trading on September 1, 2011. On that date, each of the Company's ordinary shares were exchanged for one share of common stock of SAE, and commenced trading on NASDAQ as the successor to the Company's NASDAQ listing. This transaction was approved by the Company's shareholders at the Company's Extraordinary General Meeting on June 11, 2010. On August 31, 2012, the Company announced a 1:70 reverse stock split, which was effective immediately. All share references herein have been adjusted to reflect this split.

On November 8, 2011, the Company's listing predecessor, PLC, was placed into involuntary creditors liquidation under English law (See Note 10 – 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)/28,571 post-split shares of common stock of SAE in order to satisfy these obligations.

As discussed herein, in late February 2012, the Company formed Seven Arts Music, Inc. ("SAM") and acquired 52 completed sound recordings of the recording artist DMX from David Michery ("Mr. Michery") with the rights to additional albums and acquired 100% of the stock of Big Jake Music ("BJM"). As a result, the Company is also in the business of producing and distributing recorded music.

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.

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In connection with the acquisition of the music assets of Mr. Michery, the Company issued 100,000 shares of the Company's Series B convertible preferred stock, par value $100, convertible at approximately $1.10 per share, to Mr. Michery and his assigns, with 50,000 being delivered at the time of execution and the additional 50,000 shares of the Company's Series B convertible preferred stock to be held in escrow against two DMX albums and two Bone Thugs-N-Harmony albums generating an aggregate of net earnings before interest and taxes of $5,000,000 during the next five fiscal years. Mr. Michery is the Chief Executive Officer of SAM.

During the quarter ended December 31, 2012, Mr. Michery converted and sold 37,000 of the 50,000 shares of Series B that he and his assigns hold. The Company and Mr. Michery have agreed the remaining 50,000 shares of Series B in escrow will be disposed of by release of 20,000 shares of the Series B convertible preferred stock to Mr. Michery in full satisfaction of any claims he may have against the Company and the balance of the 30,000 shares of Series B will be cancelled. The release of the 20,000 shares has been recognized as services in the accompanying financial statements. As of March 31, 2013, Mr. Michery or his assigns hold 33,000 shares of Series B convertible preferred stock.

In connection with the acquisition of the stock of BJM, the Company issued 80,000 shares of the Company's Series B convertible preferred stock, par value $100, convertible at approximately $1.10 per share, to Jake Shapiro and his assigns, with 10,000 shares being delivered to him at time of execution and the additional 70,000 shares to be held in escrow until such time as certain specific terms are met. 40,000 of the shares were subject to proving valuation and usage of certain advertising credits and 30,000 shares were subject to an earn-out over a two year period.

The Company entered into a settlement agreement with Mr. Shapiro on February 27, 2013 and all shares of Series B preferred stock held in escrow for him and persons associated with him have been cancelled, with Mr. Shapiro and his assigns still holding 10,000 shares of Series B convertible preferred stock as of March 31, 2013. The name and the website of Big Jake Music were also reassigned to Mr. Shapiro as part of the settlement agreement.

Seven Arts Pictures Louisiana LLC, ("SAPLA"), a related party 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 plus interest of this amount plus a contingent sum of $750,000 (contingent on receipt of the tax credit revenues) due to an agreement with the now mortgagor Palm Finance. A construction loan of $1,850,000 previously guaranteed by the Company has now also been assumed by the Company, through SAFELA, for the grant of a 30 year lease on the property 807 Esplanade to operate a film production and post-production facility.

On August 31, 2012, the Company announced a 1-for-70 reverse split of its common stock effective as of 4:01p.m. EDT. By virtue of the reverse split, every 70 shares of the outstanding common stock were combined and converted into one share of new common stock with resulting fractional shares rounded up to the next whole share. The Company also announced that it will proportionately reduce the number of its authorized shares of common stock.

Trading of the Company's common stock on The NASDAQ Capital Market was suspended at the opening of business on September 14, 2012, due to the fact that the Company did not meet the $1 minimum bid price stock listing requirement of NASDAQ for ten trading days prior to September 20, 2012, the expiration date on the Company's six-month extension to meet this listing requirement.

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On September 14, 2012, the Company's common stock began trading on the OTC Market's OTCQB marketplace. The Company's common stock is quoted under the symbol "SAPX." The Company is applying to trade on the highest OTC marketplace, OTCQX, but is quoted on the OTCQB tier until the Company is eligible to be quoted on the OTCQX.

On January 28, 2013, at a shareholders' meeting, an increase in the number of authorized shares of the Company's shares to 250,000,000 was approved, with 1,000,000 designated for preferred shares, and 249,000,000 as common shares.

The Board of Directors was also authorized to increase the number of shares of the Company's common stock issuable in the Company's 2012 Stock Incentive Plan from 71,429 to 15,000,000.

On May 2, 2013, the Company announced a 1-for-50 reverse split of its common stock effective as of 4:01p.m. EDT. By virtue of the reverse split, every 50 shares of the outstanding common stock were combined and converted into one share of new common stock with resulting fractional shares rounded up to the next whole share. The Company has also reduced the number of authorized shares of its common stock using the same 1-for-50 ratio, while the total authorized shares of its capital stock remained unchanged. The Board of Directors has designated the resulting shares of Seven Arts' unallocated capital stock as authorized common stock. This increases the aggregate authorized shares of common stock to 249 million.

On April 9 2013 Seven Arts Music and Television LLC was incorporated in Nevada. . The division will broaden the Company's activities into the television and technology sectors.

Subsidiaries

Seven Arts Filmed Entertainment Limited is the main film operating company of the Group. It is a United Kingdom registered private limited company established for the production and licensing of motion picture rights, It is an independent motion picture production company engaged in developing, financing, producing and licensing theatrical motion pictures with budgets in the range of $2 million to $15 million for exhibition in domestic (i.e. the United States and Canada) and foreign theatrical markets and for subsequent post-theatrical worldwide release in other forms of media, including DVD, home video, pay-per-view, and free television.

Seven Arts Music Inc. ("SAM") and Big Jake Music (collectively the music division) became wholly owned subsidiaries of the Company on February 23, 2012, although start -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 initial costs in creating the first album for Bone Thugs-N-Harmony are being incurred for delivery in February, 2013. Several other new artists are being considered by SAM .

The agreements under which SAM acquired its music assets were effective as of September 29, 2011 (Big Jake Music) and December 19, 2011 (Michery Assets) publicly announced and business activities commenced on those dates, but definitive agreements were not executed until February 23, 2012 .

With the BJM transaction the Company, gained control of BJM by issuing Series B Preferred Stock as consideration. BJM although not operational, had inputs, in the form of intangible assets, including access to artists and customers and distribution channels and were pursuing a plan to produce outputs (the recordings and CDs or digital downloads).

At the time of acquisition the only assets were the intangibles, and certain media credits, which could not be precisely valued. BJM's common shares were not publically traded, Per the guidelines for acquisition accounting, as the only asset was the intangible assets we have categorized as "music assets", all the consideration was allocated to the fair

value of the music assets.

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Seven Arts Music and Television

On April 9 2013 Seven Arts Music and Television LLC was incorporated in Nevada. . The division will broaden the Company's activities into the television and technology sectors.

Emerging Growth Company Critical Accounting Policy Disclosure:

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 grown 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.

Capital Structure:

On August 31, 2012, the Board of Directors approved a 1:70 reverse split, but to do so had to reduce the authorized common stock to 35,667,840 shares.

On January 28, 2013, at a shareholders' meeting, an increase in the number of authorized shares of the Company's shares to 250,000,000 was approved, with 1,000,000 designated for preferred shares, and 249,000,000 as common shares.

The Board of Directors was also authorized to increase the number of shares of the Company's common stock issuable in the Company's 2012 Stock Incentive Plan from 71,429 to 20,000,000.

On May 2, 2013, the Company announced a 1-for-50 reverse split of its common stock effective as of 4:01p.m. EDT. By virtue of the reverse split, every 50 shares of the outstanding common stock were combined and converted into one share of new common stock with resulting fractional shares rounded up to the next whole share. The Company has also reduced the number of authorized shares of its common stock using the same 1-for-50 ratio, while the total authorized shares of its capital stock remained unchanged. The Board of Directors has designated the resulting shares of Seven Arts' unallocated capital stock as authorized common stock. This increases the aggregate authorized shares of common stock to 249 million.

All amounts of common stock presented in these financial statements have been restated for all historical periods to reflect these reverse stock splits.

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 nine months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2013. Events occurring subsequent to March 31, 2013 have been evaluated for potential recognition or disclosure in the unaudited consolidated financial statements for the three and nine months ended March 31, 2013.

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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, 2012, filed with the Securities and Exchange Commission (the “SEC”) on October 15, 2012.

Significant Accounting Policies:

The Company’s management selects accounting principles generally accepted in the United States of America and adopts methods for their application. The application of accounting principles requires the estimating, matching and timing of revenue and expense. It is also necessary for management to determine, measure and allocate resources and obligations within the financial process according to those principles. The accounting policies used conform to generally accepted accounting principles which have been consistently applied in the preparation of these financial statements.

The financial statements and notes are representations of the Company’s management which is responsible for their integrity and objectivity. Management further acknowledges that it is solely responsible for adopting sound accounting practices, establishing and maintaining a system of internal accounting control and preventing and detecting fraud. The Company's system of internal accounting control is designed to assure, among other items, that 1) recorded transactions are valid; 2) valid transactions are recorded; and 3) transactions are recorded in the proper period in a timely manner to produce financial statements which present fairly the financial condition, results of operations and cash flows of the Company for the respective periods being presented.

Basis of Presentation:

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

Seven Arts Filmed Entertainment, Limited (“SAFE, Ltd.”) (100% owned)
Seven Arts Music, Inc. (“SAM”) (100% owned) and
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)

The Company consolidates its subsidiaries in accordance with Accounting Standards Codification (“ASC”) 810, “Business Combinations”, and specifically ASC 810-10-15-8 which states, "The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule, ownership by one reporting entity, directly or indirectly, or over 50% of the outstanding voting shares of another entity is a condition pointing toward consolidation." 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. For the nine months ended March 31, 2032, SAFELA’s net loss was $644,457.

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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.
b) The film is complete and, in accordance with the terms of the arrangement, has been delivered or is available for immediate and unconditional delivery. (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. The Company does not recognize any revenues relating to minimum guarantee on any motion picture or related amortization expense on that picture until United States theatrical release if it has agreed with the licensees that delivery or payment of minimum guarantee will be delayed for any material period of time to permit such a theatrical release.

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.

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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.

SAPLA REVENUE SHARING FEES

Revenue in the form of fee income is due to the Company from related party, SAPLA (owned by the wife of Peter Hoffman, the Company's CEO) in the amount of the net proceeds from the disposition of the tax credits by SAPLA. In accordance with an intercompany agreement between SAE and SAPLA, all revenues earned by SAPLA are due to SAE.

Foreign Currency Transactions and Comprehensive Income:

The Company's functional currency, as well as that of all the Company's subsidiaries, is the US Dollar. The functional currency of the Company's predecessor, was the Pound Sterling ("GPB"), and some transactions which are generated in the United Kingdom are denominated in GBP.

Foreign currency transaction gains and losses arising from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the consolidated results of operations.

Where possible, the Company seeks to match GBP income with GBP expenditures. To date, the Company has not hedged any transactional currency exposure but will keep such exposures under review and where appropriate may enter into such transactions in future.

Income Taxes:

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.

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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 June 30, 2012 and in the three and nine months ended March 31, 2013.

The Company has provided a valuation allowance against all existing and newly created deferred tax assets as of March 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.

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 $39, 062 and $171,062 at March 31, 2013 and June 30, 2012 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 the nine months ended March 31, 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.

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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.

Fee Income Receivable from Related Party -- Current and Long Term Receivable

Income due from SAPLA under the terms of an intercompany agreement with SAE whereby any revenue earned by SAPLA is due to SAE Inc. Any fees due later than twelve months are classified as Long Term Receivable.

Other Receivables and Prepayments:

The Company has entered into contracts for investor relations and consulting services to assist in future fundraising activities. A portion of these services were prepaid with shares of common stock that vested immediately and will be amortized over the period the services are to be provided. Additionally, the Company has approximately $200,000 and $125,000 in revenue to be received from digital platforms on the films, The Pool Boys and Drunkboat, respectively, which has been earned but not received as of March 31, 2013. Also included in other receivables is approximately $150,000 receivable from the Company's distributor of the DMX album. The Company released the album and shipped approximately 110,000 units during the quarter ended September 30, 2012. The receivable is net of a customary allowance for returns.

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.

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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 will be 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.

Leasehold Improvements:

On June 30, 2012, the Company acquired SAFELA, which was previously a related party company. SAFELA owns, in its capacity, a 30 year lease on 807 Esplanade, New Orleans, Louisiana, which was constructed as a production and post-production facility for the Company’s use. Additionally, SAFELA owns the capitalized leasehold improvements in 807 Esplanade and the related debt which financed the construction. Through this acquisition, the Company has capitalized the leasehold improvements and assumed the debt related. As the leasehold improvements and the debt are booked at the same amounts, no net assets were transferred into the Company and no additional consideration has been paid.

The post production facility commenced operations on July 1, 2012. The leasehold improvements are being amortized over the useful life of the lease.

Property & Equipment:

Equipment is carried at the cost of acquisition or construction and depreciated over the estimated useful lives of the assets. Costs associated with repair and maintenance are expensed as incurred. Costs associated with improvements which extend the life, increase the capacity or improve the efficiency of our property and equipment are capitalized and depreciated over the remaining life of the related asset. Gains and losses on dispositions of equipment are reflected in operations. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, which are 3 to 5 years.

Impairment of Long Lived Assets:

The Company evaluates, on a periodic basis, long-lived assets to be held and used for impairment in accordance with the reporting requirements of ASC 360-10, “Accounting for the Impairment or Disposal of Long-Lived Assets”. The evaluation is based on certain impairment indicators, such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If these impairment indicators are present or other factors exist that indicate that the carrying

amount of the asset may not be recoverable, then an estimate of the discounted value of expected future operating cash flows is used to determine whether the asset is recoverable and the amount of any impairment is measured as the difference between the carrying amount of the asset and its estimated fair value. The fair value is estimated using valuation techniques such as market prices for similar assets or discounted future operating cash flows.

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Deferred Income:

Any income received from customers before a film is delivered for release (such as deposits on distribution contracts) is recorded as a deferred income until all of the criteria for the Company's revenue recognition policy have been met.

Provision for Earn-Out for David Michery/Big Jake Music:

The Company's Asset Purchase Agreement with David Michery provided for 50,000 of the Company's $100 par, Convertible Redeemable Series B Preferred Shares, be held in Escrow until the Net EBIT (as defined in the agreement) from distribution of the DMX Albums and two albums embodying the performance of Bone Thugs-n-Harmony exceeds $5,000,000, as confirmed by the Company's independent auditor. At the end of five years, should the Net EBIT be less than $5,000,000, the shares will be released on a fractional basis, as defined in the agreement. The Company has determined the current estimate of fair value of the earn-out to be $0.

In connection with the acquisition of the stock of BJM, the Company issued 80,000 shares of the Company's Series B convertible preferred stock, par value $100, convertible at approximately $1.10 per share, to Jake Shapiro and his assigns, with 10,000 being delivered to him at time of execution and the additional 70,000 shares to be held in escrow until such time as certain specific terms are met. 40,000 of the shares are subject to proving valuation and usage of certain advertising credits and 30,000 shares are subject to an earn-out over a two year period.

The Company has determined the fair value of the earn-out with regard to the proving of the media credits is $50,000, as of March 31, 2013 and June 30, 2012 which the Board believes is the value of an equivalent public relations campaign for the two projects for which the credits have been used. Mr. Sharpiro does have the right to seek an independent valuation.

Asset Transfer Agreement:

On June 11, 2010, Seven Arts Entertainment, Inc. ("SAE"), a Nevada Corporation, was formed and became a wholly 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, 28,571 (2,000,000 pre-split) shares of SAE were issued to PLC in order to satisfy any remaining obligations. This transfer was approved by the PLC shareholders at an Extraordinary General Meeting on June 11, 2010. The purpose of this transfer was to eliminate our status as a foreign private issuer and to assume compliance with all obligations of a domestic issuer under all applicable state and Federal securities laws. Our intention in executing this transaction was to redomicile our business with no change in the economic interests of our shareholders.

The assets and certain of the liabilities of PLC were brought across at net book value. All related party balances of PLC were left in the original company as were the shares in SAFE(UK) Ltd and Cinematic Finance Ltd. All disputed debts were left with the PLC. The "price" paid for the asset transfer was a one for one share issue in SAE and an issuance of n additional pre-split 2,000,000 (28,571 post-split) shares in SAE . The issuance of the 2,000,000 shares was booked at the closing market price on August 31 2011, which was $0.66/share.

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Earnings 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 March 31, 2013 and 2011, due to the loss from continuing operations, as they would have an anti-dilutive effect on EPS.

Share Based Payments:

The Company accounts for share based payments using a fair value based method whereby compensation cost is measured at the grant date based on the value of the services received and is recognized over the service period. The Company uses the Black-Scholes-Merton pricing model to calculate the fair value of options and warrants issued. In calculating this fair value, there are certain assumptions used such as the expected life of the option, risk-free interest rate, dividend yield, volatility and forfeiture rate. The use of a different estimate for any one of these components could have a material impact on the amount of calculated compensation expense.

Segment Reporting:

The Company now operates in three business segments as a motion picture producer and distributor; as a music label managing the assets of David Michery and Big Jake Music and as a provider of both production and post-production services at its facility at 807 Esplanade in New Orleans. The Company believes that its businesses should be reported as three business segments (See Note 2 - Segment Information).

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.

Reclassification:

Certain prior year balances were reclassified to conform with current year presentation.

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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.

In the quarter ended March 31, 2012, the Company formed a new subsidiary, Seven Arts Music, and acquired music assets from David Michery and purchased the stock of Big Jake Music. This was a new line of business for the Company. All music company sales relate to the release of the first DMX “Undisputed” album.

On June 30, 2012, the Company acquired SAFELA, which was previously a related party company. SAFELA owns, in its capacity, a 30 year lease on 807 Esplanade, New Orleans, Louisiana, which was constructed as a production and post-production facility for the Company’s use. The post production facility commenced operations on July 1, 2012. This is also a new line of business for the Company.

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

	Three Months Ended March 31, 2013			
	Film (SAFE)	Music (SAM)	Post-Production (SAFELA)	Total
Revenue	$350,636	$-	$21,624	$372,260
Cost of revenue	(382,980)	(139,406)	(42,392)	(564,778)
Gross loss	(32,344)	(139,405)	(20,768)	(192,518)
Operating expenses	(185,120)	(128,244)	(48,316)	(361,681)
Loss from operations	$(217,464)	$(267,650)		