

Seven Arts Entertainment Inc.
Form 10-K/A
November 09, 2012

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

FORM 10-K/A
Amendment No. 1

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

For the fiscal year ended June 30, 2012

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

For the transition period from _____ to _____

Commission File Number: 001-34250

SEVEN ARTS ENTERTAINMENT, INC.
(Formerly Seven Arts Pictures, PLC)
(Exact name of Registrant as specified in its charter)

Nevada
(State of Incorporation)

45-3138068
(I.R.S. Employer Identification No.)

8439 Sunset Blvd., Suite 402
Los Angeles, California
(Address of principal executive offices)

90069
(Zip Code)

Registrant's telephone number: Phone: (323) 372-3080; Fax: (323) 389-0664

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

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

Common Stock; \$0.01 Par Value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accredited filer	<input type="checkbox"/>	Accredited filer	<input type="checkbox"/>
Non-accredited filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

The aggregate market value of common stock, par value \$0.01 per share, held by non-affiliates of the registrant, based on the average bid and asked prices of the common stock on June 30, 2012 (the last business day of the registrant's most recently completed fiscal year) was approximately \$3,011,829. For purposes of this computation, all officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant.

Number of common shares outstanding as of October 8, 2012 was 11,636,677.

DOCUMENTS INCORPORATED BY REFERENCE

Listed below are documents incorporated herein by reference and the part of this Report into which each such document is incorporated:

None

SEVEN ARTS ENTERTAINMENT, INC.
FORM 10-K
TABLE OF CONTENTS

	Page No.
PART I	
ITEM 1 BUSINESS	4
ITEM 1A RISK FACTORS	20
ITEM 1B UNRESOLVED STAFF COMMENTS	34
ITEM 2 PROPERTIES	34
ITEM 3 LEGAL PROCEEDINGS	34
PART II	
ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	37
ITEM 6 SELECTED FINANCIAL DATA	41
ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	41
ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	54
ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	54
ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	55
ITEM 9A CONTROLS AND PROCEDURES	55
ITEM 9B OTHER INFORMATION	56
PART III	
ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	57
ITEM 11 EXECUTIVE COMPENSATION	64
ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	65
ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	67
ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES	69
PART IV	
ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES	70

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to in this annual report as the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to in this annual report as the Exchange Act. Forward-looking statements are not statements of historical fact but rather reflect our current expectations, estimates and predictions about future results and events. These statements may use words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “predict,” “project” and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management’s beliefs and assumptions, using information currently available to us. These forward-looking statements are subject to risks, uncertainties and assumptions, including but not limited to, risks, uncertainties and assumptions discussed in this annual report. Factors that can cause or contribute to these differences include those described under the headings “Risk Factors” and “Management Discussion and Analysis and Plan of Operation.”

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statement you read in this annual report reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this annual report. The Company expressly disclaims any obligation to release publicly any updates or revisions to these forward-looking statements to reflect any change in its views or expectations. The Company can give no assurances that such forward-looking statements will prove to be correct.

PART I

ITEM 1. BUSINESS

Corporate History and Current Corporate Structure

We are the continuation of the business and the successor of the NASDAQ listing to PLC whose predecessor Seven Arts Pictures Inc. (“SAP”) 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. As discussed herein, in late February 2012, the Company launched Seven Arts Music and acquired 52 completed sound recordings with the rights to additional albums. On June 30, 2012, Seven Arts Filmed Entertainment, LLC (“SAFELA”) was transferred to the Company. SAFELA, which is 60% owned by the Company, has a 30 year lease to operate a film production and post-production facility at 807 Esplanade Avenue in New Orleans, Louisiana. The post-production facility commenced operations on July 1, 2012.

On June 11, 2010, we were formed and became a wholly owned subsidiary of PLC. As of June 11, 2010, we 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 us, in exchange for our assumption of certain indebtedness and for one share of common stock of ours for each ordinary share of PLC which have been distributed to shareholders. Additionally, 28,571 shares of our common stock 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 our common stock for PLC’s NASDAQ listing, effective at the opening of trading on September 1, 2011. On that date, each of PLC’s ordinary shares was exchanged for one share of our common stock and commenced trading on NASDAQ as the successor to PLC’s NASDAQ listing. This transaction was approved by PLC’s shareholders at its Extraordinary General Meeting on June 11, 2010.

On November 8, 2011, PLC, was placed into involuntary creditors liquidation under English law. 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 28,571 shares of our common stock in order to satisfy these obligations.

In February 2012, the Company acquired the music assets of Mr. Michery and 100% of the stock of BJ M., As a result, the Company is now also an independent distributor and producer of sound recordings through Seven Arts Music Inc.

The 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. The commitments and liabilities assumed were a promissory note dated June 15, 2010 in the amount of \$200,000, and outstanding recording costs of the performances of DMX in amounts to be approved by us but not to exceed \$140,000.

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In connection with the acquisition of the music assets of Mr Michery, the Company issued 50,000 shares of our Series B Preferred to Mr Michery and his assigns and issued an additional 50,000 shares of our Series B Preferred into an escrow in favor of Mr. Michery and his assigns if two DMX albums and two Bone Thugs-N-Harmony albums generate 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.

In February of 2012, the Company also acquired Big Jake Music Inc. (“BJM”) and issued 10,000 shares of our Series B Preferred to Jake Shapiro and his assigns and issued an additional 70,000 shares of our Series B Preferred into an escrow in favor of Mr. Shapiro and his assigns if certain specific terms are met: 40,000 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.

On June 30, 2012 Seven Arts Filmed Entertainment LLC (“SAFELA”) was transferred to the Group. SAFELA has a 30 year lease to run a production and post-production facility at 807 Esplanade, New Orleans. (“807 Esplanade”) The post production facility began trading on July 1, 2012. Seven Arts Pictures Louisiana LLC, Seven Arts Pictures Louisiana LLC (“SAPLA”) a related party and/or an affiliate of the Company, entered into a Credit Agreement with Advantage Capital Community Development Fund LLC (“Advantage Capital”) 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 further \$750,000 is owed in tax credits earned to Advantage Capital. A construction loan of \$1,850,000 previously guaranteed by the Company has now also been assumed by the Company for the grant of a 30 year lease on the property 807 Esplanade to run a 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 . The new CUSIP number is 81783N 201. By virtue of the reverse split, every seventy 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.

Seven Arts also announced that, subject to appropriate and required regulatory filings and approvals, it has declared a warrant dividend to those persons beneficially owning its common stock as of the close of the markets on August 31, 2012. For every ten pre-reverse split shares of common stock held as of such date and time, the holders thereof will be entitled to receive one warrant as a dividend. Until its expiry date, each warrant, once distributed following such approvals, will be exercisable for the purchase of one share of the Company's post-reverse split common stock at a price equivalent to today's post-reverse split closing bid price. The warrants will expire on the earlier of (i) the date that the holder disposes of the common stock in respect of which the warrant dividend was declared, if such disposition occurs on or before the close of the markets on October 31, 2012, or (ii) 5:00 p.m., PST, on January 31, 2013. Seven Arts does not expect that a secondary market will develop for such warrants.

On September 14, 2012 the Company’s common stock began trading on the OTC Markets’ OTCQB marketplace . The Company’s common shares trade under the Company’s symbol “SAPX.” The Company is applying to trade on the highest OTC marketplace, OTCQX, but is trading on the OTCQB tier until the Company is eligible to trade on the OTCQX.

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 could not meet the \$1 minimum bid price 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.

Capital Structure

SAE’s authorized capital total 250,000,000 consists of:

35,667,840 shares of common stock, \$.01 par value per share.. As of June 30, 2012, there were 1,739,900 shares of common stock outstanding, all of which are fully paid and non-assessable. (including the 28,571 shares issued to SAP Plc as part of the asset transfer agreement approved by the SEC in January 2011). Each outstanding share of common stock entitles the holder thereof to one vote per share on matters submitted to a vote of stockholders.

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125,125 Series A preferred shares with a \$10.00 par value per share, 125,125 shares were issued to one shareholder in November 2011 for a transaction completed in August 2011. These shares have a conversion price to common stock of \$10.50/share.

200,000 Series B preferred shares \$100.00 par value per share .180,000 shares have been issued to two shareholders in February 2012 and 120,000 of such shares are held in escrow subject to earn out provisions. The per-share conversion price for the Series B Preferred Stock will be confirmed after September 30, 2012, as a function of 110% of the net asset value per share as of September 30, 2011, as then modified for any issuances of shares during the one-year period thereafter if such issuances are at or below 80% or below of \$1.10 per share

214,007,035 shares of unallocated capital stock

SAE is now a United States issuer and commenced regular quarterly reporting from the first quarter ended September 30, 2011.

Production History

In September 2004, one of our predecessor companies Seven Arts Pictures Limited (“SAPL”) and SAP, companies previously owned by Peter Hoffman, our Chief Executive Officer, transferred all beneficial and legal ownership to PLC of all of their interests in (i) 12 completed films, eight of which were co-produced through a joint venture between SAPL and Fireworks Pictures Inc., and four of which were produced by CineVisions, a predecessor of SAP, and (ii) the rights to certain development projects then owned by SAP, all for our common stock. The four motion pictures produced by CineVisions are now owned by our affiliate SFF except 9 ½ Weeks II for which we have lost all distribution rights. The remaining three films are: Johnny Mnemonic, Never Talk to Strangers, and Shattered Image. One development property transferred by SAP remains under active development by us; the motion picture rights to the published novel Neuromancer and screenplays based on that novel. SAP, its predecessor CineVisions, and SAPL were founded by our Chief Executive Officer and Director, Peter Hoffman, to produce and license for distribution independent motion pictures, as well as to provide consulting and financing services within the motion picture industry. SAP was incorporated on October 1, 2002 and assumed all the assets and liabilities of CineVisions, which had been incorporated in May, 1992.

Production Activities of Our Predecessors

No production activities were undertaken by us until January 1, 2005 and all the production activities prior to that date were engaged by our predecessors CineVisions, SAPL and SAP. All our production activities after January 1, 2005 were under our direction. All the films discussed below were produced or co-produced by our predecessors and were distributed by our predecessors. The Hustle and A Shot at Glory were only distributed by our predecessors and were not produced by our predecessors.

Films Produced and Distributed from 1994-1998

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

Films Produced and Acquired by SAPL and Fireworks

In 1998, SAPL entered into a joint venture agreement for the production and distribution of motion pictures with Fireworks. Fireworks is a subsidiary of CanWest Global Entertainment, Inc., a large diversified Canadian media company. Pursuant to that joint venture, Fireworks and SAPL produced, acquired and distributed 11 motion pictures (the “Fireworks Pictures”), one of which was returned to the owner and two of which are among the motion pictures now owned by us, Shot at Glory and The Hustle. All SAP’s interest in the Fireworks Pictures were assigned to us in 2004 by SAP, which is the subject of the copyright infringement litigation as discussed in Management’s Discussion And Analysis of Financial Condition and Results of Operations – Legal Proceedings.

Through SAPL, Mr. Hoffman produced and acquired Fireworks Rules of Engagement, Onegin, The Believer, Who Is Cletis Tout and American Rhapsody. These motion pictures are the subject of copyright infringement and contract claims that we, together with SAP and SAFE, have brought against Fireworks and Content Film. See Management’s Discussion and Analysis of Financial Condition and Results of Operations – Legal Proceeding. In particular, in these proceedings, we now claim based on assignment from SAP ownership of the following:

- a). All copyright and distribution rights to American Rhapsody and Who Is Cletis Tout.

- b). All international distribution rights to Onegin and The Believer.
- c). All distribution rights outside the United States and Canada to Rules of Engagement.

Films Co-Financed by SAPL

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

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We have since January 1, 2005 produced the following motion pictures:

Title	Talent	Delivery Date	1st U.S. Release	Date Distribution Rights Terminate
American Summer aka The Pool Boys (CR) (All Territories)	Director: J.B. Rogers Cast: Matthew Lillard Effren Ramirez	06/08	9/11	n/a
Autopsy (CR) (All Territories)	Director: Adam Gierasch Cast: Robert Patrick	06/08	1/09	n/a
Deal (CR) (All Territories)	Writer: Gil Cates, Jr. & Marc Weinstock Director: Gil Cates, Jr. Cast: Burt Reynolds Bret Harrison Shannon Elizabeth Jennifer Tilly	03/07	04/08	n/a
Knife Edge (All Territories)	Director: Anthony Hickox Cast: Joan Plowright Natalie Press	06/08	03/10	3/23/2031
Night of the Demons (CR)	Director: Adam Gierasch Cast: Shannon Elizabeth	06/09	10/10	n/a