RIGEL PHARMACEUTICALS INC
Form 424B3
April 30, 2007

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This prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-129650

SUBJECT TO COMPLETION, DATED APRIL 30, 2007

PRELIMINARY PROSPECTUS SUPPLEMENT TO PROSPECTUS
DATED DECEMBER 1, 2005

5,000,000 Shares

Common Stock

We are selling 5,000,000 shares of common stock.

Our common stock is traded on the NASDAQ Global Market under the symbol "RIGL." The last reported sale price of our common stock on the NASDAQ Global Market on April 26, 2007 was $11.57 per share.

The underwriters have an option to purchase from us a maximum of 750,000 additional shares to cover over-allotments of shares.

Investing in our common stock involves risks. See "Risk Factors" on page S-8.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Us
Per Share	$	$	$
Total	$	$	$

Delivery of the shares of common stock will be made on or about , 2007.

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

Credit Suisse **Lehman Brothers**

Thomas Weisel Partners LLC

The date of this prospectus supplement is , 2007.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement. You should read the entire prospectus supplement and the accompanying prospectus carefully, particularly "Risk Factors," before making an investment decision. The name Rigel Pharmaceuticals and our logo are our trademarks. All other trademarks or tradenames referred to in this prospectus supplement are the property of their respective owners. References in this prospectus supplement to "we," "us "and "our" refer to Rigel Pharmaceuticals, Inc.

Overview

We are a clinical-stage drug development company that discovers and develops novel, small molecule drugs for the treatment of inflammatory/autoimmune diseases, cancer and viral diseases. Our goal is to file one new investigative new drug, or IND, application in a significant indication each year. We have achieved this goal each year beginning in 2002. Our pioneering research focuses on intracellular signaling pathways and related targets that are critical to disease mechanisms. Our productivity has resulted in strategic collaborations with large pharmaceutical partners to develop and market our product candidates. We have internal product development programs in inflammatory/autoimmune diseases, such as rheumatoid arthritis and thrombocytopenia, and cancer, as well as partnered product development programs relating to asthma and cancer.

During 2006 and to date in 2007, we:

- Initiated a Phase 2 clinical trial in rheumatoid arthritis, or RA, with our product candidate R788;
- Initiated a Phase 2 clinical trial in immune thrombocytopenia purpura, or ITP, with R788;
- Initiated a Phase 1/2 clinical trial in lymphoma with R788;
- Selected our product candidate R348, an orally-available selective inhibitor of janus kinase 3, or JAK3, to enter preclinical studies;
- Announced that Merck Serono, S.A., or Merck Serono, initiated two Phase 1 clinical trials with our product candidate R763, the first for the treatment of patients with refractory solid tumors and the second for the treatment of patients with hematological tumors; and
- Announced that Pfizer, Inc., or Pfizer, selected our product candidate R343 for advanced preclinical development in allergic asthma, triggering a $5.0 million milestone payment to us.

Product Development Programs

Our product development portfolio features multiple novel small molecule drug candidates whose specialized mechanisms of action are intended to provide therapeutic benefit for a range of inflammatory and immune/autoimmune disease areas, as well as cancers.

Pipeline	Current Stage	Outlook
R788 Oral SYK Inhibitor		
RA	Phase 2	Top-line data expected in the second half of 2007
ITP	Phase 2	Top-line data expected by the end of 2007
B-cell lymphoma	Phase 1/2	Interim results expected in the second half of 2007; top-line data expected in 2008

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R348 Oral JAK3 Inhibitor			
RA	Preclinical		Plan to initiate a Phase 1 clinical trial by the end of 2007
R763 Oral Aurora Kinase Inhibitor			
Solid tumors	Phase 1	Merck Serono	Interim results expected in the second half of 2007
Hematological malignancies	Phase 1	Merck Serono	Interim results expected in the second half of 2007
R343 Inhaled SYK Inhibitor			
Asthma	Preclinical	Pfizer	Pfizer scheduled to commence a Phase 1 clinical trial by the end of 2007

Generally, "Phase 1" refers to clinical testing in human volunteers to evaluate initial safety of the investigational compound. Generally, "Phase 2" refers to clinical testing of the investigational compound to evaluate initial efficacy, and further characterize safety and dosing in a population with the target indication.

Clinical Stage Programs

Rheumatoid Arthritis

Disease background. RA is an autoimmune disease characterized by chronic inflammation affecting multiple tissues, but typically produces its most pronounced symptoms in the joints. RA is often progressive and debilitating and affects nearly 2.1 million people in the United States.

The current treatment options for RA have significant potential side effects and other shortfalls, including gastrointestinal complications and kidney damage. RA patients receive multiple drugs depending on the extent and aggressiveness of their disease. Most RA patients eventually require some form of disease modifying anti-rheumatic drug, or DMARD. DMARDs include methotrexate, an anti-cancer agent, and/or a variety of intravenously-delivered immunomodulatory agents (TNF inhibitors and co-stimulation inhibitors).

Orally-available Syk Inhibitor Program. We intend to focus our RA program on the development of a safe oral DMARD that can be used early in the course of the disease, preventing its progression prior to major bone and cartilage destruction.

R788 is our lead product candidate. It has a novel mechanism of action, blocking IgG receptor signaling in macrophages and B-cells. Previously, we studied R788 in a Phase 1 single center, double-blind, randomized placebo-controlled clinical trial evaluating the safety and pharmacokinetics of escalating single and multiple doses of R788. We also completed a clinical trial of R788 to evaluate its safety and pharmacokinetics in combination with methotrexate, a commonly prescribed treatment for RA. Results of this clinical trial suggested that there is not an adverse interaction between R788 and methotrexate. In September 2006, we commenced a Phase 2, multicenter, ascending dose, randomized, double-blind, placebo-controlled, dose ranging clinical trial to evaluate up to three doses of R788 over a 90-day period in RA patients who were taking methotrexate. We have completed the first dose group in the clinical trial and are currently enrolling patients in the second dose group. To date, R788 appears to be well tolerated by the first dose group. We expect to receive top-line results from this clinical trial in the second half of 2007.

Immune Thrombocytopenia Purpura

Disease background. ITP, also referred to as thrombocytopenia, is a blood disorder whereby the immune system attacks and destroys platelets in the blood, resulting in an abnormally low platelet count, which can result in easy bruising, bleeding gums and internal bleeding. Approximately 200,000 people in the United States suffer from ITP. The majority of cases are in women, with 50% of the new cases found in children.

First line medical therapy for ITP consists primarily of steroids, which help prevent bleeding by decreasing the rate of platelet destruction. The current treatment options for chronic ITP have potentially significant side effects and lack long-term effectiveness. When steroid therapy fails, the patient's spleen may need to be removed, which poses the risk of other significant complications. There is no consensus on the appropriate management for chronic ITP, but due to the fact that sustained remission is infrequent, new therapies are needed. We are focusing our ITP program on the chronic form of the disorder, targeting the underlying autoimmune cause of the disease.

Orally-available Syk Inhibitor Program. Platelet destruction from ITP is mediated by IgG signaling, and R788 is a potent inhibitor of IgG signaling. In preclinical studies, R788 was shown to improve thrombocytopenia in an ITP mouse model. We commenced an exploratory Phase 2 clinical trial of R788 in January 2007 to evaluate its safety and efficacy in chronic ITP patients. In this clinical trial, R788 was orally administered in varying doses for 30 or more days. We have observed encouraging preliminary drug activity in raising platelet counts in a number of the patients studied to date. Based on these initial results, we have submitted an amended protocol to the Food and Drug Administration, or FDA, to expand this trial to allow for a greater range of dose regimens and to continue to treat those patients that are responding beyond 90 days. We expect to receive top-line results from this clinical trial by the end of 2007.

B-Cell Lymphoma

Disease background. Lymphoma is a large class of blood cancers that affect the lymphatic system, which is part of the immune system. In 2006, lymphoma affected an estimated 500,000 people in the United States, of which 332,000 suffered from non-Hodgkin's varieties of the disease. Diffuse large B-cell lymphoma is the most common type of non-Hodgkin's lymphoma and is generally categorized as aggressive, marked by rapidly growing tumors in the lymph nodes, spleen, liver, bone marrow and other organs.

A variety of treatment options exist, including chemotherapy and radiation, but the five year survival rates for non-Hodgkin's lymphoma patients are only approximately 50%. For those who do survive, recurrences of the disease are common, warranting additional and novel approaches to treatment of the lymphoma.

Orally-available Syk Inhibitor Program. Research has shown that overactivity of the signaling enzyme spleen tyrosine kinase, or Syk, is an essential mechanism in several types of B-cell lymphoma survival and that R788 inhibits the growth of B-cell lymphoma driven by Syk overactivity. In April 2007, we began enrolling patients in a multicenter, Phase 1/2 clinical trial to evaluate the safety and efficacy of R788 for the treatment of patients with B-cell lymphoma. The clinical trial is expected to enroll a total of approximately 60 patients at 10 major treatment centers in the United States and will focus on certain types of B-cell lymphomas. Depending on enrollment, we expect to receive interim results from this clinical trial in the second half of 2007, with top-line results in 2008.

Preclinical Programs

We are conducting proprietary research in three broad disease areas: immunology/inflammation, virology and oncology. With each disease area, we are investigating mechanisms of action of pathogens as well as screening compounds against potential novel intracellular targets and optimizing those leads that appear to have the greatest potential. Our most advanced preclinical program is in the area of immunology/inflammation. Currently, we are researching autoimmune mediated inflammation disorders, such as RA, transplant rejection, graft vs. host disease, psoriasis, multiple sclerosis and inflammation of the bowel. We have identified more than one kinase that may be inhibited in order to treat inflammation-related disorders, and we are in the process of screening compounds against various kinases in order to find additional lead compounds to potentially treat inflammation-related disorders.

Our most advanced preclinical program is our JAK3 program. In October 2006, we selected R348, an orally-available potent, selective JAK3 inhibitor to enter preclinical studies. JAK3 is a cytoplasmic tyrosine kinase that plays an important role in lymphocyte differentiation and proliferation in a variety of autoimmune diseases. JAK3 is an attractive target based on its selectivity. Our JAK3 program is directed at RA, organ transplant and other immune disorders, though initially we intend to focus on RA. Our objective is to initiate a Phase 1 clinical trial of R348 by the end of 2007.

Partnered Programs in Development

Oncology

Disease background. Cancer is the second leading cause of death in the United States. More than one million people in the United States are diagnosed with cancer each year, and nearly half of all men and over one-third of all women in the United States will develop cancer during their lifetimes.

Aurora Kinase Inhibitor Program. Aurora kinase plays a central role in the cell division process, and the over-expression of aurora kinase can cause cells to quickly form an abnormal number of chromosomes. As such, aurora kinase is frequently associated with various solid tumor human cancers, such as cancers of the breast, bladder, colon, ovary, head and neck and pancreas. Increased knowledge of aurora kinase and its potential to regulate cell growth may be the basis for treating and even preventing some cancers.

We have identified R763 as a lead compound in our aurora kinase inhibition program targeting cancer cell proliferation. R763 is a potent, highly-selective, small-molecule inhibitor of aurora kinase. In October 2005, we signed a licensing agreement with Merck Serono that gave Merck Serono an exclusive license to develop and commercialize inhibitors in our aurora kinase program, including R763. Under the agreement, Merck Serono is responsible for the further development and commercialization of R763. In September 2006, Merck Serono initiated a Phase 1 multicenter clinical trial to evaluate R763 for the treatment of patients with refractory solid tumors. In February 2007, Merck Serono began an additional Phase 1 clinical trial evaluating R763 on patients with hematological malignancies. Interim results from each of these Phase 1 clinical trials are expected in the second half of 2007.

Asthma

Disease background. Allergic asthma is a chronic inflammatory disorder of the airways. Asthma affects the lower respiratory tract and is marked by episodic flare-ups, or attacks, that can be life threatening. In some patients, allergens, such as pollen, trigger the production of immunoglobulin E antibodies, or IgE antibodies, which then bind to mast cells and cause an intracellular signal that results in the release of various chemical mediators. When this process occurs repeatedly over time, it creates persistent inflammation of the airway passages, resulting in the chronic congestion and airway obstruction associated with allergic rhinitis and asthma, respectively.

Inhaled Syk Inhibitor Program. In the first quarter of 2005, we announced a collaborative research and license agreement with Pfizer for the development of inhaled products for the treatment of allergic asthma and other respiratory diseases, such as chronic obstructive pulmonary disease. The collaboration is focused on our preclinical small molecule compounds, which inhibit IgE receptor signaling in respiratory tract mast cells by blocking Syk, a novel drug target for respiratory diseases. Mast cells play important roles in both early and late phase allergic reactions, and Syk inhibitors could prevent both phases.

In May 2006, Pfizer selected R343 to commence advanced preclinical development in allergic asthma via intrapulmonary delivery. Pfizer has informed us that it is scheduled to commence a Phase 1 clinical trial of R343 by the end of 2007.

Corporate Collaborations

We conduct research and development programs independently and in connection with our corporate collaborations. We currently have collaborations with six major pharmaceutical/biotechnology companies. These collaborations are: one with Janssen Pharmaceutica N.V., a division of Johnson & Johnson, relating to oncology therapeutics and diagnostics; two with Pfizer, one initiated in 1999 in immunology and the other in January 2005, relating to intrapulmonary asthma and allergy therapeutics; one with Novartis Pharma AG, or Novartis, with four different programs relating to immunology, oncology and chronic bronchitis; one with Daiichi Pharmaceuticals Co., Ltd., or Daiichi, relating to oncology; one with Merck & Co., Inc., or Merck, also relating to oncology, and another with Merck Serono, relating to our aurora kinase inhibitor program.

Our Strategy

Our research team is focused on creating a portfolio of product candidates that can be developed into small molecule therapeutics for our own proprietary programs as well as with potential collaborative partners. We recognize that the product development process is subject to both high costs and a high risk of failure. We believe that identifying a variety of product candidates and working in conjunction with other pharmaceutical companies may minimize the risk of failure, fill the product pipeline gap at major pharmaceutical companies and ultimately, increase the likelihood of advancing clinical development and commercial success.

The key elements to our scientific and business strategy are to:

- utilize our robust discovery engine to rapidly discover and validate new product candidates in a broad range of therapeutic indications;

- develop a diverse portfolio of drug candidates that address a large range of therapeutic indications or that represent significant market opportunities;

- advance at least one new product candidate or indication into the clinic each year; and

- establish strategic collaborations with pharmaceutical and biotechnology companies, preferably after Phase 2 trials, to develop and market our product candidates.

We were incorporated in Delaware in June 1996, and we are based in South San Francisco, California.

THE OFFERING

Common stock we are offering	5,000,000 shares
Common stock outstanding immediately following this offering	30,180,687 shares
Over-allotment option	750,000 shares
NASDAQ Global Market symbol	RIGL
Use of proceeds	We anticipate using the net proceeds to us from the sale of the common stock offered by this prospectus supplement and the accompanying prospectus for research and development and general corporate purposes.

The number of shares of common stock to be outstanding after the offering is based on the number of shares outstanding as of December 31, 2006 and excludes:

- 174,533 shares of common stock underlying warrants outstanding as of December 31, 2006 at a weighted average exercise price of $13.23 per share;

- 4,405,211 shares of common stock underlying options outstanding as of December 31, 2006 at a weighted average exercise price of $14.50 per share; and

- 1,315,261 shares available for issuance or future grant under our 2000 Equity Incentive Plan, 67,601 shares available for issuance under our 2000 Employee Stock Purchase Plan and 160,945 shares available for issuance or future grant under our 2000 Non-Employee Directors' Stock Option Plan, as of December 31, 2006.

Unless otherwise stated, all information contained in this prospectus supplement and the accompanying prospectus assumes that the underwriters do not exercise their over-allotment option.

SUMMARY FINANCIAL DATA

The table below presents summary statement of operations and balance sheet data. The summary financial data for the years ended December 31, 2004 through December 31, 2006 are derived from our audited financial statements for those periods. This information is only a summary. You should read it in conjunction with our historical financial statements and related notes contained in our annual reports, quarterly reports and other information on file with the Securities and Exchange Commission, or SEC. For more details on how you can obtain our SEC reports and other information, you should read the section of the accompanying prospectus entitled "Where You Can Find More Information". The as adjusted balance sheet data gives effect to the sale by us of 5,000,000 shares of our common stock in this offering at an assumed public offering price of $11.57 per share, after deducting the estimated underwriting discounts and commissions and estimated offering expenses of $300,000 payable by us.

	Fiscal year ended December 31,		
	2004	2005	2006
		(In thousands, except per share amounts)	
Contract revenues from collaborations	$ 4,733	$ 16,526	$ 33,473
Costs and expenses:			
Research and development	48,523	52,038	56,968
General and administrative	13,077	12,410	19,552
	61,600	64,448	76,520
Loss from operations	(56,867)	(47,922)	(43,047)
Loss on disposal/sale of property and equipment	(30)		
Interest income	966	2,942	5,700
Interest expense	(324)	(276)	(290)
Net loss	$ (56,255)	$ (45,256)	$ (37,637)
Net loss per share, basic and diluted	$ (3.12)	$ (2.07)	$ (1.51)
Weighted average shares used in computing net loss per share basic and diluted	18,053	21,857	24,936

	As of December 31, 2006	
Balance sheet data	**Actual**	**As adjusted(1)**
	(in thousands)	
Cash, cash equivalents and available-for-sale securities(2)	$ 104,471	$ 158,550
Working capital	96,776	150,855
Total assets	113,240	167,319
Long-term liabilities	14,773	14,773
Accumulated deficit	(295,159)	(295,159)
Total stockholders' equity	87,229	141,308

(1) Each $1.00 increase (decrease) in the assumed public offering price of $11.57 per share would increase (decrease) each of cash, cash equivalents and available-for-sale securities, working capital, total assets and total stockholders' equity by approximately $4.7 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus supplement, remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We may also increase or decrease the number of shares we are offering. Each increase (decrease) of 1.0 million shares in the number of shares offered by us would increase (decrease) each of cash, cash equivalents and available-for-sale securities, working capital, total assets and total stockholders' equity by approximately $10.9 million, assuming that the assumed

public offering price remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. The as adjusted information discussed above is illustrative only and will adjust based on the actual public offering price and other terms of this offering determined at pricing.

(2) While we have not finalized our full financial results for the first quarter of fiscal 2007, we expect to report that we had $88.6 million of cash, cash equivalents and available-for-sale securities as of March 31, 2007.

RISK FACTORS

You should consider carefully the following risks and other information in this prospectus supplement before you decide to purchase shares of our common stock. If any of the following risks actually occur, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our common stock could decline and you could lose part or all of your investment.

We will need additional capital in the future to sufficiently fund our operations and research.

We have consumed substantial amounts of capital to date, and operating expenditures are expected to increase over the next several years as we expand our research and development activities. We believe that our existing capital resources and anticipated proceeds from current collaborations, together with the anticipated net proceeds of this offering, will be sufficient to support our current operating plan through at least the next 12 months. Our operations will require significant additional funding in large part due to our research and development expenses, future preclinical and clinical-testing costs, and the absence of any meaningful revenues for the foreseeable future. The amount of future funds needed will depend largely on the timing and structure of potential future collaborations. We do not know whether additional financing will be available when needed, or that, if available, we will obtain financing on terms favorable to our stockholders or us. As of December 31, 2006, we had cash, cash equivalents and available-for-sale securities of $104.5 million. While we have not finalized our full financial results for the first quarter of fiscal 2007, we expect to report that we had $88.6 million of cash, cash equivalents and available-for-sale securities as of March 31, 2007.

To the extent we raise additional capital by issuing equity securities, our stockholders could at that time experience substantial dilution. To the extent that we raise additional funds through collaboration and licensing arrangements, we may be required to relinquish some rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us.

Our future funding requirements will depend on many uncertain factors.

Our future funding requirements will depend upon many factors, including, but not limited to:

- the progress and success of clinical trials and preclinical activities (including studies and manufacture of materials) of our product candidates conducted by us or our collaborative partners or licensees;
- our ability to establish new collaborations and to maintain our existing collaboration partnerships;
- the progress of research programs carried out by us;
- any changes in the breadth of our research and development programs;
- our ability to meet the milestones identified in our collaborative agreements that trigger payments;
- the progress of the research and development efforts of our collaborative partners;
- our ability to acquire or license other technologies or compounds that we seek to pursue;
- our ability to manage our growth;
- competing technological and market developments;
- the costs and timing of obtaining, enforcing and defending our patent and intellectual property rights;
- the costs and timing of regulatory approvals and filings by us and our collaborators; and

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expenses associated with unforeseen litigation.

Insufficient funds may require us to delay, scale back or eliminate some or all of our research or development programs, to lose rights under existing licenses or to relinquish greater or all rights to product candidates at an earlier stage of development or on less favorable terms than we would otherwise choose or may adversely affect our ability to operate as a going concern.

Our success as a company is uncertain due to our history of operating losses and the uncertainty of future profitability.

Due in large part to the significant research and development expenditures required to identify and validate new product candidates and pursue our development efforts, we have not been profitable and have incurred operating losses since we were incorporated in June 1996. The extent of our future losses and the timing of potential profitability are highly uncertain, and we may never achieve profitable operations. We incurred net losses of approximately $37.6 million in 2006, $45.3 million in 2005 and $56.3 million in 2004. Currently, our revenues are generated solely from research payments pursuant to our collaboration agreements and licenses and are insufficient to generate profitable operations. As of December 31, 2006, we had an accumulated deficit of approximately $295.2 million. We expect to incur losses for at least the next several years and expect that these losses could increase as we expand our research and development activities and incur significant clinical and testing costs.

There is a high risk that drug discovery and development efforts might not successfully generate good product candidates.

At the present time, the majority of our operations are in various stages of drug identification and development. We currently have two product compounds in the clinical testing stage: one with indications for RA, ITP and B-Cell Lymphoma, which is proprietary to our company, and the other with two indications for oncology, which is subject to a collaboration agreement with Merck Serono. In our industry, it is statistically unlikely that the limited number of compounds that we have identified as potential product candidates will actually lead to successful product development efforts, and we do not expect any drugs resulting from our research to be commercially available for several years, if at all. Our compounds in clinical trials and our future leads for potential drug compounds are subject to the risks and failures inherent in the development of pharmaceutical products. These risks include, but are not limited to, the inherent difficulty in selecting the right drug and drug target and avoiding unwanted side effects as well as unanticipated problems relating to product development, testing, regulatory compliance, manufacturing, competition and costs and expenses that may exceed current estimates. The results of preliminary studies do not necessarily predict clinical or commercial success, and larger later-stage clinical trials may fail to confirm the results observed in the preliminary studies. With respect to our own compounds in development, we have established anticipated timelines with respect to the initiation or completion of clinical studies based on existing knowledge of the compound. However, we cannot provide assurance that we will meet any of these timelines for clinical development.

Because of the uncertainty of whether the accumulated preclinical evidence (pharmacokinetic, pharmacodynamic, safety and/or other factors) or early clinical results will be observed in later clinical trials, we can make no assurances regarding the likely results from our future clinical trials or the impact of those results on our business.

We might not be able to commercialize our product candidates successfully if problems arise in the clinical testing and approval process.

Commercialization of our product candidates depends upon successful completion of preclinical studies and clinical trials. Preclinical testing and clinical development are long, expensive and uncertain processes. We do not know whether we, or any of our collaborative partners, will be permitted to undertake clinical trials of potential products beyond the trials already concluded and the trials currently in process. It will take us or our collaborative partners several years to complete any such testing, and failure can occur at any stage of testing. Interim results of trials do not necessarily predict final results, and acceptable results in early trials may not be repeated in later trials. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after achieving promising results in earlier trials. Moreover, we or our collaborative partners or regulators may decide to discontinue development of any or all of these projects at any time for commercial, scientific or other reasons.

Delays in clinical testing could result in increased costs to us.

Significant delays in clinical testing could materially impact our product development costs and timing. We do not know whether planned clinical trials will begin on time, will need to be halted or revamped or will be completed on schedule, or at all. Clinical trials can be delayed for a variety of reasons, including delays in obtaining regulatory approval to commence a study, delays from scale up, delays in reaching agreement on acceptable clinical study agreement terms with prospective clinical sites, delays in obtaining institutional review board approval to conduct a study at a prospective clinical site or delays in recruiting subjects to participate in a study.

In addition, we typically rely on third-party clinical investigators to conduct our clinical trials and other third-party organizations to oversee the operations of such trials and to perform data collection and analysis. As a result, we may face additional delaying factors outside our control if these parties do not perform their obligations in a timely fashion. While we have not yet experienced delays that have materially impacted our clinical trials or product development costs, delays of this sort could occur for the reasons identified above or other reasons. If we have delays in testing or approvals, our product development costs will increase. For example, we may need to make additional payments to third-party investigators and organizations to retain their services or we may need to pay recruitment incentives. If the delays are significant, our financial results and the commercial prospects for our product candidates will be harmed, and our ability to become profitable will be delayed.

We lack the capability to manufacture compounds for development and rely on third parties to manufacture our product candidates, and we may be unable to obtain required material in a timely manner, at an acceptable cost or at a quality level required to receive regulatory approval.

We currently do not have manufacturing capabilities or experience necessary to produce our product candidate R788. We rely on a single manufacturer for the R788 product for clinical trials. We will rely on manufacturers to deliver materials on a timely basis and to comply with applicable regulatory requirements, including the FDA's current Good Manufacturing Practices, or GMP. These outsourcing efforts with respect to manufacturing preclinical and clinical supplies will result in a dependence on our suppliers to timely manufacture and deliver sufficient quantities of materials produced under GMP conditions to enable us to conduct planned preclinical studies, clinical trials and, if possible, to bring products to market in a timely manner.

Our current and anticipated future dependence upon these third-party manufacturers may adversely affect our ability to develop and commercialize product candidates on a timely and competitive basis. These manufacturers may not be able to produce material on a timely basis or manufacture material at the quality level or in the quantity required to meet our development timelines and applicable regulatory requirements. We may not be able to maintain or renew our existing third-party manufacturing arrangements, or enter into new arrangements, on acceptable terms, or at all. Our third-party manufacturers could terminate or decline to renew our manufacturing arrangements based on their own business priorities, at a time that is costly or inconvenient for us. If we are unable to contract for the production of materials in sufficient quantity and of sufficient quality on acceptable terms, our planned clinical trials may be significantly delayed. Manufacturing delays could postpone the filing of our IND applications and/or the initiation of clinical trials that we have currently planned.

Our third-party manufacturers may not be able to comply with the GMP regulations, other applicable FDA regulatory requirements or similar regulations applicable outside of the United States. Additionally, if we are required to enter into new supply arrangements, we may not be able to obtain approval from the FDA of any alternate supplier in a timely manner, or at all, which could delay or prevent the clinical development and commercialization of any related product candidates. Failure of our third-party manufacturers or us to obtain approval from the FDA or to comply with applicable regulations could result in sanctions being imposed on us, including fines, civil penalties, delays in or failure to grant marketing approval of our product candidates, injunctions, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of products and compounds, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect our business.

Because most of our expected future revenues are contingent upon collaborative and license agreements, we might not meet our strategic objectives.

Our ability to generate revenue in the near term depends on our ability to enter into additional collaborative agreements with third parties and to maintain the agreements we currently have in place. Our ability to enter into new collaborations and the revenue, if any, that may be recognized under these collaborations is highly uncertain. If we are unable to enter into new collaborations, our business prospects could be harmed, which could have an immediate adverse effect on the trading price of our stock.

To date, most of our revenues have been related to the research phase of each of our collaborative agreements. Such revenues are for specified periods, and the impact of such revenues on our results of operations is partially offset by corresponding research costs. Following the completion of the research phase of each collaborative agreement, additional revenues may come only from milestone payments and royalties, which may not be paid, if at all, until some time well into the future. The risk is heightened due to the fact that unsuccessful research efforts may preclude us from receiving any milestone payments under these agreements. Our receipt of revenues from collaborative arrangements is also significantly affected by the timing of efforts expended by us and our collaborators and the timing of lead compound identification. In late 2001, we recorded the first revenue from achievement of milestones in both the Pfizer and Johnson & Johnson collaborations. In addition, we have subsequently received milestone payments from Novartis, Daiichi, Merck, Merck Serono and Pfizer. Under many agreements, however, milestone payments may not be earned until the collaborator has advanced product candidates into clinical testing, which may never occur or may not occur until some time well into the future. If we are not able to generate revenue under our collaborations when and in accordance with our expectations or the expectations of industry analysts, this failure could harm our business and have an immediate adverse effect on the trading price of our stock.

Our business requires us to generate meaningful revenue from royalties and licensing agreements. To date, we have not received any revenue from royalties for the commercial sale of drugs, and we do not know when we will receive any such revenue, if at all. Likewise, we have not licensed any lead compounds or drug development candidates to third parties, and we do not know whether any such license will be entered into on acceptable terms in the future, if at all.

If our current corporate collaborations or license agreements are unsuccessful, our research and development efforts could be delayed.

Our strategy depends upon the formation and sustainability of multiple collaborative arrangements and license agreements with third parties in the future. We rely on these arrangements for not only financial resources, but also for expertise that we expect to need in the future relating to clinical trials, manufacturing, sales and marketing, and for licenses to technology rights. To date, we have entered into several such arrangements with corporate collaborators; however, we do not know if such third parties will dedicate sufficient resources or if any development or commercialization efforts by third parties will be successful. Should a collaborative partner fail to develop or commercialize a compound or product to which it has rights from us for any reason including corporate restructuring, such failure might delay our ongoing research and development efforts, because we might not receive any future milestone payments, and we would not receive any royalties associated with such compound or product. In addition, the continuation of some of our partnered drug discovery and development programs may be dependent on the periodic renewal of our corporate collaborations.

The research phase of our collaboration with Johnson & Johnson ended in 2003, and the research phases conducted at our facilities under our broad collaboration with Novartis ended in 2004. The research phase of our corporate collaboration agreement with Daiichi ended in 2005. In 2004, we signed a new corporate collaboration with Merck, and the research phase of that collaboration will end in May 2007. In 2005, we signed additional collaborations with Pfizer and Merck Serono. Each of our collaborations could be terminated by the other party at any time, and we may not be able to renew these collaborations on acceptable terms, if at all, or negotiate additional corporate collaborations on acceptable terms, if at all. If these collaborations terminate or are not renewed, any resultant loss of revenues from these collaborations or loss of the expertise of our collaborative partners could adversely affect our business.

Conflicts also might arise with collaborative partners concerning proprietary rights to particular compounds. While our existing collaborative agreements typically provide that we retain milestone payments and royalty rights with respect to drugs developed from certain derivative compounds, any such payments or royalty rights may be at reduced rates, and disputes may arise over the application of derivative payment provisions to such drugs, and we may not be successful in such disputes.

We are also a party to various license agreements that give us rights to use specified technologies in our research and development processes. The agreements pursuant to which we have in-licensed technology permit our licensors to terminate the agreements under certain circumstances. If we are not able to continue to license these and future technologies on commercially reasonable terms, our product development and research may be delayed.

If conflicts arise between our collaborators or advisors and us, any of them may act in their self-interest, which may be adverse to our stockholders' interests.

If conflicts arise between us and our corporate collaborators or scientific advisors, the other party may act in its self-interest and not in the interest of our stockholders. Some of our corporate collaborators are conducting multiple product development efforts within each disease area that is the subject of the collaboration with us or may be acquired or merged with a company having a competing program. In some of our collaborations, we have agreed not to conduct, independently or with any third party, any research that is competitive with the research conducted under our collaborations. Our collaborators, however, may develop, either alone or with others, products in related fields that are competitive with the products or potential products that are the subject of these collaborations. Competing products, either developed by our collaborators or to which our collaborators have rights, may result in their withdrawal of support for our product candidates.

If any of our corporate collaborators were to breach or terminate its agreement with us or otherwise fail to conduct the collaborative activities successfully and in a timely manner, the preclinical or clinical development or commercialization of the affected product candidates or research programs could be delayed or terminated. We generally do not control the amount and timing of resources that our corporate collaborators devote to our programs or potential products. We do not know whether current or future collaborative partners, if any, might pursue alternative technologies or develop alternative products either on their own or in collaboration with others, including our competitors, as a means for developing treatments for the diseases targeted by collaborative arrangements with us.

Our success is dependent on intellectual property rights held by us and third parties, and our interest in such rights is complex and uncertain.

Our success will depend to a large part on our own, our licensees' and our licensors' ability to obtain and defend patents for each party's respective technologies and the compounds and other products, if any, resulting from the application of such technologies. We have over 160 pending patent applications and over 80 issued patents in the United States that are owned or exclusively licensed in our field as well as pending corresponding foreign patent applications. In the future, our patent position might be highly uncertain and involve complex legal and factual questions. For example, we may be involved in interferences before the United States Patent and Trademark Office. Interferences are complex and expensive legal proceedings and there is no assurance we will be successful in such proceedings. An interference could result in our losing our patent rights and/or our freedom to operate and/or require us to pay significant royalties. Additional uncertainty may result because no consistent policy regarding the breadth of legal claims allowed in biotechnology patents has emerged to date. Accordingly, we cannot predict the breadth of claims allowed in our or other companies' patents.

Because the degree of future protection for our proprietary rights is uncertain, we cannot ensure that:

- we were the first to make the inventions covered by each of our pending patent applications;
- we were the first to file patent applications for these inventions;
- others will not independently develop similar or alternative technologies or duplicate any of our technologies;
- any of our pending patent applications will result in issued patents;
- any patents issued to us or our collaborators will provide a basis for commercially-viable products or will provide us with any competitive advantages or will not be challenged by third parties;
- we will develop additional proprietary technologies that are patentable; or
- the patents of others will not have a negative effect on our ability to do business.

We rely on trade secrets to protect technology where we believe patent protection is not appropriate or obtainable; however, trade secrets are difficult to protect. While we require employees, collaborators and consultants to enter into confidentiality agreements, we may not be able to adequately protect our trade secrets or other proprietary information in the event of any unauthorized use or disclosure or the lawful development by others of such information.

We are a party to certain in-license agreements that are important to our business, and we generally do not control the prosecution of in-licensed technology. Accordingly, we are unable to exercise the same degree of control over this intellectual property as we exercise over our internally-developed technology. Moreover, some of our academic institution licensors, research collaborators and scientific advisors have rights to publish data and information in which we have rights. If we cannot maintain the confidentiality of our technology and other confidential information in connection with our collaborations, then our ability to receive patent protection or protect our proprietary information will be impaired. In addition, some of the technology we have licensed relies on patented inventions developed using U.S. government resources. The U.S. government retains certain rights, as defined by law, in such patents, and may choose to exercise such rights. Certain of our in-licenses may be terminated if we fail to meet specified obligations. If we fail to meet such obligations and any of our licensors exercise their termination rights, we could lose our rights under those agreements. If we lose any of our rights, it may adversely affect the way we conduct our business. In addition, because certain of our licenses are sublicenses, the actions of our licensors may affect our rights under those licenses.

If a dispute arises regarding the infringement or misappropriation of the proprietary rights of others, such dispute could be costly and result in delays in our research and development activities and partnering.

Our success will also depend, in part, on our ability to operate without infringing or misappropriating the proprietary rights of others. There are many issued patents and patent applications filed by third parties relating to products or processes that are similar or identical to ours or our licensors, and others may be filed in the future. There can be no assurance that our activities, or those of our licensors, will not infringe patents owned by others. We believe that there may be significant litigation in the industry regarding patent and other intellectual property rights, and we do not know if we or our collaborators would be successful in any such litigation. Any legal action against our collaborators or us claiming damages or seeking to enjoin commercial activities relating to the affected products, our methods or processes could:

- require our collaborators or us to obtain a license to continue to use, manufacture or market the affected products, methods or processes, which may not be available on commercially reasonable terms, if at all;
- prevent us from using the subject matter claimed in the patents held by others;
- subject us to potential liability for damages;
- consume a substantial portion of our managerial and financial resources; and
- result in litigation or administrative proceedings that may be costly, whether we win or lose.

If we are unable to obtain regulatory approval to market products in the United States and foreign jurisdictions, we might not be permitted to commercialize products from our research and development.

Due, in part, to the early stage of our product candidate research and development process, we cannot predict whether regulatory clearance will be obtained for any product that we, or our collaborative partners, hope to develop. Satisfaction of regulatory requirements typically takes many years, is dependent upon the type complexity and novelty of the product and requires the expenditure of substantial resources. Of particular significance to us are the requirements relating to research and development and testing.

Before commencing clinical trials in humans in the United States, we, or our collaborative partners, will need to submit and receive approval from the FDA of an IND. Clinical trials are subject to oversight by institutional review boards and the FDA and:

- must be conducted in conformance with the FDA's good clinical practices and other applicable regulations;
- must meet requirements for institutional review board oversight;
- must meet requirements for informed consent;
- are subject to continuing FDA oversight;
- may require large numbers of test subjects; and
- may be suspended by us, our collaborators or the FDA at any time if it is believed that the subjects participating in these trials are being exposed to unacceptable health risks or if the FDA finds deficiencies in the IND or the conduct of these trials.

While we have stated that we intend to file additional INDs, this is only a statement of intent, and we may not be able to do so because we may not be able to identify potential product candidates. In addition, the FDA may not approve any IND in a timely manner, or at all.

Before receiving FDA approval to market a product, we must demonstrate that the product is safe and effective in the patient population and the indication that will be treated. Data obtained from preclinical and clinical activities are susceptible to varying interpretations that could delay, limit or prevent regulatory approvals. In addition, delays or rejections may be encountered based upon additional government regulation from future legislation or administrative action or changes in FDA policy during the period of product development, clinical trials and FDA regulatory review. Failure to comply with applicable FDA or other applicable regulatory requirements may result in criminal prosecution, civil penalties, recall or seizure of products, total or partial suspension of production or injunction, as well as other regulatory action against our potential products or us. Additionally, we have limited experience in conducting and managing the clinical trials necessary to obtain regulatory approval.

If regulatory approval of a product is granted, this approval will be limited to those indications or disease states and conditions for which the product is demonstrated through clinical trials to be safe and efficacious. We cannot ensure that any compound developed by us, alone or with others, will prove to be safe and efficacious in clinical trials and will meet all of the applicable regulatory requirements needed to receive marketing approval.

Outside the United States, our ability, or that of our collaborative partners, to market a product is contingent upon receiving a marketing authorization from the appropriate regulatory authorities. This foreign regulatory approval process typically includes all of the risks associated with FDA approval described above and may also include additional risks.

If our competitors develop technologies that are more effective than ours, our commercial opportunity will be reduced or eliminated.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Many of the drugs that we are attempting to discover will be competing with existing therapies. In addition, a number of companies are pursuing the development of pharmaceuticals that target the same diseases and conditions that we are targeting. We face competition from pharmaceutical and biotechnology companies both in the United States and abroad.

Our competitors may utilize discovery technologies and techniques or partner with collaborators in order to develop products more rapidly or successfully than we, or our collaborators, are able to do. Many of our competitors, particularly large pharmaceutical companies, have substantially greater financial, technical and human resources than we do. In addition, academic institutions, government agencies and other public and private organizations conducting research may seek patent protection with respect to potentially competitive products or technologies and may establish exclusive collaborative or licensing relationships with our competitors.

We believe that our ability to compete is dependent, in part, upon our ability to create, maintain and license scientifically-advanced technology and upon our and our collaborators' ability to develop and commercialize pharmaceutical products based on this technology, as well as our ability to attract and retain qualified personnel, obtain patent protection or otherwise develop proprietary technology or processes and secure sufficient capital resources for the expected substantial time period between technological conception and commercial sales of products based upon our technology. The failure by us or any of our collaborators in any of those areas may prevent the successful commercialization of our potential drug targets.

Our competitors might develop technologies and drugs that are more effective or less costly than any that are being developed by us or that would render our technology and potential drugs obsolete and noncompetitive. In addition, our competitors may succeed in obtaining the approval of the FDA or other regulatory agencies for product candidates more rapidly. Companies that complete clinical trials, obtain required regulatory agency approvals and commence commercial sale of their drugs before their competitors may achieve a significant competitive advantage, including certain patent and FDA marketing exclusivity rights that would delay or prevent our ability to market certain products. Any drugs resulting from our research and development efforts, or from our joint efforts with our existing or future collaborative partners, might not be able to compete successfully with competitors' existing or future products or obtain regulatory approval in the United States or elsewhere.

Our ability to generate revenues will be diminished if our collaborative partners fail to obtain acceptable prices or an adequate level of reimbursement for products from third-party payors or government agencies.

The drugs we hope to develop may be rejected by the marketplace due to many factors, including cost. Our ability to commercially exploit a drug may be limited due to the continuing efforts of government and third-party payors to contain or reduce the costs of health care through various means. For example, in some foreign markets, pricing and profitability of prescription pharmaceuticals are subject to government control. In the United States, we expect that there will continue to be a number of federal and state proposals to implement similar government control. In addition, increasing emphasis on managed care in the United States will likely continue to put pressure on the pricing of pharmaceutical products. Cost control initiatives could decrease the price that any of our collaborators would receive for any products in the future. Further, cost control initiatives could adversely affect our collaborators' ability to commercialize our products and our ability to realize royalties from this commercialization.

Our ability to commercialize pharmaceutical products with collaborators may depend, in part, on the extent to which reimbursement for the products will be available from:

- government and health administration authorities;
- private health insurers; and
- other third-party payors.

Significant uncertainty exists as to the reimbursement status of newly-approved healthcare products. Third-party payors, including Medicare, are challenging the prices charged for medical products and services. Government and other third-party payors increasingly are attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for new drugs and by refusing, in some cases, to provide coverage for uses of approved products for disease indications for which the FDA has not granted labeling approval. Third-party insurance coverage may not be available to patients for any products we discover and develop, alone or with collaborators. If government and other third-party payors do not provide adequate coverage and reimbursement levels for our products, the market acceptance of these products may be reduced.

If product liability lawsuits are successfully brought against us, we may incur substantial liabilities and may be required to limit commercialization of our products.

The testing and marketing of medical products entail an inherent risk of product liability. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products although we are not currently aware of any specific causes for concern with respect to clinical liability claims. We currently do not have product liability insurance, and our inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of pharmaceutical products we develop, alone or with corporate collaborators. We, or our corporate collaborators, might not be able to obtain insurance at a reasonable cost, if at all. While under various circumstances we are entitled to be indemnified against losses by our corporate collaborators, indemnification may not be available or adequate should any claim arise.

Our research and development efforts will be seriously jeopardized, if we are unable to attract and retain key employees and relationships.

As a small company with only 152 employees as of December 31, 2006, our success depends on the continued contributions of our principal management and scientific personnel and on our ability to develop and maintain important relationships with leading academic institutions, scientists and companies in the face of intense competition for such personnel. In particular, our research programs depend on our ability to attract and retain highly skilled chemists, other scientists, and development, regulatory and clinical personnel. If we lose the services of any of our personnel, our research and development efforts could be seriously and adversely affected. Our employees can terminate their employment with us at any time.

We depend on various scientific consultants and advisors for the success and continuation of our research and development efforts.

We work extensively with various scientific consultants and advisors. The potential success of our drug discovery and development programs depends, in part, on continued collaborations with certain of these consultants and advisors. We, and various members of our management and research staff, rely on certain of these consultants and advisors for expertise in our research, regulatory and clinical efforts. Our scientific advisors are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us. We do not know if we will be able to maintain such consulting agreements or that such scientific advisors will not enter into consulting arrangements, exclusive or otherwise, with competing pharmaceutical or biotechnology companies, any of which would have a detrimental impact on our research objectives and could have a material adverse effect on our business, financial condition and results of operations.

If we use biological and hazardous materials in a manner that causes injury or violates laws, we may be liable for damages.

Our research and development activities involve the controlled use of potentially harmful biological materials as well as hazardous materials, chemicals and various radioactive compounds. We cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for damages that result, and such liability could exceed our resources. We are also subject to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of compliance with, or any potential violation of, these laws and regulations could be significant.

Our facilities are located near known earthquake fault zones, and the occurrence of an earthquake or other catastrophic disaster could cause damage to our facilities and equipment, which could require us to cease or curtail operations.

Our facilities are located in the San Francisco Bay Area near known earthquake fault zones and are vulnerable to significant damage from earthquakes. We are also vulnerable to damage from other types of disasters, including fires, floods, power loss, communications failures and similar events. If any disaster were to occur, our ability to operate our business at our facilities would be seriously, or potentially completely, impaired, and our research could be lost or destroyed. In addition, the unique nature of our research activities and of much of our equipment could make it difficult for us to recover from a disaster. The insurance we maintain may not be adequate to cover our losses resulting from disasters or other business interruptions.

Our stock price may be volatile, and our stockholders' investment in our stock could decline in value.

The market prices for our securities and those of other biotechnology companies have been highly volatile and may continue to be highly volatile in the future. The following factors, in addition to other risk factors described in this section, may have a significant impact on the market price of our common stock:

- the progress and success of clinical trials and preclinical activities (i.e., studies, manufacture of materials) of our product candidates conducted by us or our collaborative partners or licensees;
- the receipt or failure to receive the additional funding necessary to conduct our business;
- selling by large stockholders;
- announcements of technological innovations or new commercial products by our competitors or us;
- developments concerning proprietary rights, including patents;
- developments concerning our collaborations;
- publicity regarding actual or potential medical results relating to products under development by our competitors or us;
- regulatory developments in the United States and foreign countries;
- litigation;
- economic and other external factors or other disaster or crisis; and
- period-to-period fluctuations in financial results.

Anti-takeover provisions in our charter documents and under Delaware law may make an acquisition of us, which may be beneficial to our stockholders, more difficult.

Provisions of our amended and restated certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders. These provisions:

- establish that members of the board of directors may be removed only for cause upon the affirmative vote of stockholders owning a majority of our capital stock;
- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;
- limit who may call a special meeting of stockholders;

- prohibit stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;
- establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings;
- provide for a board of directors with staggered terms; and
- provide that the authorized number of directors may be changed only by a resolution of our board of directors.

In addition, Section 203 of the Delaware General Corporation Law, which imposes certain restrictions relating to transactions with major stockholders, may discourage, delay or prevent a third party from acquiring us.

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $54,079,000 ($62,235,850 if the underwriters' over-allotment option is exercised in full), assuming a public offering price of $11.57 per share, after payment of estimated underwriting discounts and commissions and estimated offering expenses of $300,000 payable by us.

We intend to use the net proceeds to us from the sale of the common stock offered by this prospectus supplement and the accompanying prospectus for research and development and general corporate purposes. We may also use a portion of the net proceeds to acquire or invest in businesses, products and technologies that are complementary to our own, although we currently are not planning or negotiating any such transactions. As of the date of this prospectus supplement, we cannot specify with certainty all of the particular uses for the net proceeds we will have upon completion of the offering. Accordingly, we will retain broad discretion over the use of these proceeds.

Pending the use of the net proceeds, we intend to invest the net proceeds in investment-grade, interest-bearing securities.

PRICE RANGE OF COMMON STOCK

Our common stock commenced trading publicly on a predecessor to the NASDAQ Global Market on December 7, 2000 and is traded under the symbol "RIGL." The following table sets forth, for the periods indicated, the high and low intraday sale prices of our common stock as reported on the NASDAQ Global Market (or predecessor markets):

Year ended December 31, 2005	High	Low
First quarter	$ 24.99	$ 15.56
Second quarter	20.24	14.52
Third quarter	23.79	18.83
Fourth quarter	24.86	7.43

Year ended December 31, 2006	High	Low
First quarter	11.68	7.18
Second quarter	11.61	8.82
Third quarter	10.95	8.88
Fourth quarter	12.38	10.00

Year ended December 31, 2007	High	Low
First quarter	12.14	9.31
Second quarter (through April 26, 2007)	12.46	10.76

As of February 28, 2007, there were 185 holders of record of our common stock. On April 26, 2007, the last sale price reported on the NASDAQ Global Market for our common stock was $11.57 per share.

DIVIDEND POLICY

We have never paid our stockholders dividends, and we do not anticipate paying any cash dividends in the foreseeable future as we intend to retain any earnings for use in our business.

CAPITALIZATION

The following table shows our cash, cash equivalents and available-for-sale securities and capitalization as of December 31, 2006:

- on an actual basis; and
- on an as adjusted basis to give effect to the sale by us of 5,000,000 shares of our common stock in this offering at an assumed public offering price of $11.57 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses of $300,000 payable by us.

This table should be read with "Management's discussion and analysis of financial condition and results of operations" and our financial statements and notes thereto incorporated by reference in this prospectus supplement and the accompanying prospectus.

	As of December 31, 2006	
	Actual	**As adjusted(1)**
	(In thousands, except share data)	
Cash, cash equivalents and available-for-sale securities(2)	$ 104,471	$ 158,550
Long-term liabilities	$ 14,773	$ 14,773
Stockholders' equity:		
Common stock, $0.001 par value; 100,000,000 shares authorized; 25,180,687 shares issued and outstanding, actual; 30,180,687 shares issued and outstanding, as adjusted	25	30
Additional paid-in capital	382,350	436,424
Accumulated other comprehensive income	13	13
Accumulated deficit	(295,159)	(295,159)
Total stockholders' equity	87,229	141,308
Total capitalization	$ 102,002	$ 156,081

(1) Each $1.00 increase (decrease) in the assumed public offering price of $11.57 per share would increase (decrease) each of cash, cash equivalents and available-for-sale securities, additional paid-in capital, total stockholders' equity and total capitalization by approximately $4.7 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus supplement, remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We may also increase or decrease the number of shares we are offering. Each increase (decrease) of 1.0 million shares in the number of shares offered by us would increase (decrease) each of cash, cash equivalents and available-for-sale securities, additional paid-in capital, total stockholders' equity and total capitalization by approximately $10.9 million, assuming that the assumed public offering price remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. The as adjusted information discussed above is illustrative only and will adjust based on the actual public offering price and other terms of this offering determined at pricing.

(2) While we have not finalized our full financial results for the first quarter of fiscal 2007, we expect to report that we had $88.6 million of cash, cash equivalents and available-for-sale securities as of March 31, 2007.

The number of shares of common stock outstanding is based on the number of shares outstanding as of December 31, 2006 and excludes:

- 174,533 shares of common stock underlying warrants outstanding as of December 31, 2006 at a weighted average exercise price of $13.23 per share;

- 4,405,211 shares of common stock underlying options outstanding as of December 31, 2006 at a weighted average exercise price of $14.50 per share; and

- 1,315,261 shares available for issuance or future grant under our 2000 Equity Incentive Plan, 67,601 shares available for issuance under our 2000 Employee Stock Purchase Plan and 160,945 shares available for issuance or future grant under our 2000 Non-Employee Directors' Stock Option Plan, as of December 31, 2006.

DILUTION

The net tangible book value of our common stock on December 31, 2006 was approximately $87.2 million, or $3.46 per share. Net tangible book value per share is equal to the amount of our total tangible assets, less total liabilities, divided by the number of shares of common stock outstanding. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the net tangible book value per share of our common stock immediately afterwards. After giving effect to the sale by us of 5,000,000 shares of common stock in this offering at an assumed offering price of $11.57 per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses of $300,000 payable by us, our net tangible book value at December 31, 2006 would have been approximately $141.3 million, or $4.68 per share. This represents an immediate increase in net tangible book value of $1.22 per share to existing stockholders and an immediate dilution of $6.89 per share to new investors purchasing shares of common stock in this offering. The following table illustrates this dilution:

Assumed public offering price per share		$ 11.57
Net tangible book value per share as of December 31, 2006	$ 3.46	
Increase per share attributable to new investors	1.22	
Net tangible book value per share after this offering		4.68
Dilution per share to new investors		$ 6.89

Each $1.00 increase (decrease) in the assumed public offering price of $11.57 per share would increase (decrease) our net tangible book value after this offering by approximately $4.7 million, or approximately $0.16 per share, and the dilution per share to new investors by approximately $0.84 per share, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus supplement, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We may also increase or decrease the number of shares we are offering. An increase (decrease) in the number of shares offered by us of one million shares would increase (decrease) our net tangible book value after this offering by approximately $10.9 million, or $0.20 per share, and the dilution per share to new investors by $0.20 per share, assuming that the assumed public offering price remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. The information discussed above is illustrative only and will adjust based on the actual public offering price and other terms of this offering determined at pricing.

If the underwriters exercise their option in full to purchase 750,000 additional shares of common stock in this offering, the net tangible book value per share after the offering would be $4.83 per share, the increase in the net tangible book value per share to existing stockholders would be $1.37 per share and the dilution to the new investors would be $6.74 per share.

The foregoing table does not take into effect further dilution to new investors that could occur upon the exercise of outstanding options having a per share exercise price less than the offering price per share in this offering. As of December 31, 2006, there were:

- 174,533 shares of common stock underlying warrants outstanding as of December 31, 2006 at a weighted average exercise price of $13.23 per share;
- 4,405,211 shares of common stock underlying options outstanding as of December 31, 2006 at a weighted average exercise price of $14.50 per share; and
- 1,315,261 shares available for issuance or future grant under our 2000 Equity Incentive Plan, 67,601 shares available for issuance under our 2000 Employee Stock Purchase Plan and 160,945 shares available for issuance or future grant under our 2000 Non-Employee Directors' Stock Option Plan, as of December 31, 2006.

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO NON-UNITED STATES HOLDERS

The following summary describes the material United States federal income and estate tax consequences of the acquisition, ownership and disposition of common stock acquired in this offering by a Non-U.S. Holder (as defined below). This discussion does not address all aspects of United States federal income and estate taxes and does not deal with foreign, state and local consequences that may be relevant to Non-U.S. Holders in light of their particular circumstances. Special rules may apply to certain Non-U.S. Holders, such as financial institutions, insurance companies, tax-exempt organizations, broker-dealers and traders in securities, United States expatriates, "controlled foreign corporations," "passive foreign investment companies," corporations that accumulate earnings to avoid United States federal income tax, persons that hold our common stock as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or integrated investment, partnerships and other pass-through entities, and investors in such pass-through entities, that are subject to special treatment under the Internal Revenue Code of 1986, as amended (the "Code"). Such Non-U.S. Holders are urged to consult their own tax advisors to determine the United States federal, state, local and other tax consequences that may be relevant to them. Furthermore, the discussion below is based upon the provisions of the Code, and Treasury regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified, perhaps retroactively, so as to result in United States federal income and estate tax consequences different from those discussed below.

The following discussion is for general information only and is not tax advice. Persons considering the purchase of common stock are urged to consult their own tax advisors concerning the United States federal income and estate tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction including any state, local or foreign tax consequences.

Except as otherwise described in the discussion of estate tax below, a "Non-U.S. Holder" is a beneficial holder of common stock that is not a U.S. Holder. A "U.S. Holder" means a beneficial holder of common stock that is for United States federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation or other entity treated as a corporation created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust if it (x) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (y) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership (including any entity or arrangement treated as a partnership for United States federal income tax purposes) acquires common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Persons who are partners of partnerships holding the common stock are urged to consult their tax advisors.

Distributions

Subject to the discussion below, distributions, if any, made to a Non-U.S. Holder of our common stock out of our current or accumulated earnings and profits generally will constitute dividends for United States tax purposes and will be subject to withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. To obtain a reduced rate of withholding under a treaty, a Non-U.S. Holder generally will be required to provide us with a properly-executed IRS Form W-8BEN certifying the Non-U.S. Holder's entitlement to benefits under that treaty. Treasury Regulations provide special rules to determine whether, for purposes of determining the applicability of a tax treaty, dividends paid to a Non-U.S. Holder that is an entity should be treated as paid to the entity or to those holding an interest in that entity. If a Non-U.S. Holder holds stock through a financial institution or other agent acting on the holder's behalf, the holder will be required to provide appropriate documentation to such agent.

We generally are not required to withhold tax on dividends paid to a Non-U.S. Holder that are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States if a properly-executed IRS Form W-8ECI, stating that the dividends are so connected, is filed with us. But see the discussion of backup withholding below. Instead, the effectively connected dividends will be subject to regular United States income tax, generally in the same manner as if the Non-U.S. Holder were a United States citizen or resident alien or a domestic corporation, as the case may be, unless a specific treaty exemption applies. A corporate Non-U.S. Holder receiving effectively connected dividends may also be subject to an additional "branch profits tax", which is imposed, under certain circumstances, at a rate of 30% (or such lower rate as may be specified by an applicable treaty) of the corporate Non-U.S. Holder's effectively connected earnings and profits, subject to certain adjustments. If you are eligible for a reduced rate of withholding tax pursuant to a tax treaty, you may obtain a refund of any excess amounts currently withheld if you file an appropriate claim for refund with the United States Internal Revenue Service (which we refer to as the "IRS").

To the extent distributions on our common stock, if any, exceed our current and accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock, but not below zero, and then will be treated as gain from the sale of stock.

Gain on disposition of common stock

A Non-U.S. Holder generally will not be subject to United States federal income tax with respect to gain realized on a sale or other disposition of our common stock unless (i) the gain is effectively connected with a trade or business of such holder in the United States and a specific treaty exemption does not apply to eliminate the tax, (ii) if a tax treaty would otherwise apply to eliminate the tax, the gain is attributable to a permanent establishment of the Non-U.S. Holder in the United States, (iii) in the case of Non-U.S. Holders who are nonresident alien individuals and hold our common stock as a capital asset, such individuals are present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met, (iv) the Non-U.S. Holder is subject to tax pursuant to the provisions of the Code regarding the taxation of United States expatriates, or (v) we are or have been a "United States real property holding corporation" within the meaning of Code Section 897(c)(2) at any time within the shorter of the five-year period preceding such disposition or such holder's holding period. We believe that we are not, and do not anticipate becoming, a United States real property holding corporation. Even if we are treated as a United States real property holding corporation, gain realized by a Non-U.S. Holder on a disposition of our common stock will not be subject to United States federal income tax so long as (1) the Non-U.S. Holder owned directly, indirectly and constructively, no more than five percent of our common stock at all times within the shorter of (a) the five year period preceding the disposition or (b) the holder's holding period and (2) our common stock is regularly traded on an established securities market. There can be no assurance that our common stock will continue to qualify as regularly traded on an established securities market.

If you are a Non-U.S. Holder described in (i) or (ii) above, you will be required to pay tax on the net gain derived from the sale at generally applicable United States federal income tax rates, and corporate Non-U.S. Holders described in (i) or (ii) above may be subject to the branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. If you are an individual Non-U.S. Holder described in (iii) above, you will be required to pay a flat 30% tax (or a reduced rate under an applicable income tax treaty) on the gain derived from the sale, which tax may be offset by United States source capital losses (even though you are not considered a resident of the United States).

Information reporting requirements and backup withholding

Generally, we must report to the IRS the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder. Pursuant to tax treaties or certain other agreements, the IRS may make its reports available to tax authorities in the recipient's country of residence.

Backup withholding will generally not apply to payments of dividends made by us or our paying agents to a Non-U.S. Holder if the holder has provided its federal taxpayer identification number, if any, or the required certification that it is not a United States person (which is generally provided by furnishing a properly-executed IRS Form W-8BEN), unless the payer otherwise has knowledge or reason to know that the payee is a United States person. Backup withholding is generally not required on payments to corporations, whether domestic or foreign.

Under current United States federal income tax law, information reporting and backup withholding will apply to the proceeds of a disposition of our common stock effected by or through a United States office of a broker unless the disposing holder certifies as to its non-United States status or otherwise establishes an exemption. Generally, United States information reporting and backup withholding will not apply to a payment of disposition proceeds where the transaction is effected outside the United States through a non-United States office of a non-United States. broker. Backup withholding will apply to a payment of disposition proceeds if the broker has actual knowledge that the holder is a United States person.

Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is furnished to the IRS.

Federal estate tax

An individual who at the time of death is not a citizen or resident of the United States and who is treated as the owner of, or has made certain lifetime transfers of, an interest in our common stock will be required to include the value thereof in his gross estate for United States federal estate tax purposes, and may be subject to United States federal estate tax unless an applicable estate tax treaty provides otherwise. The test for whether an individual is a resident of the United States for federal estate tax purposes differs from the test used for United States federal income tax purposes. Some individuals, therefore, may be "Non-U.S. Holders" for United States federal income tax purposes, but not for United States federal estate tax purposes, and vice versa.

THE PRECEDING DISCUSSION OF UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK.

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated , 2007, we have agreed to sell to the underwriters named below, for whom Credit Suisse Securities (USA) LLC, Lehman Brothers Inc. and Thomas Weisel Partners LLC are acting as representatives, the following respective numbers of shares of common stock:

Underwriter	Number of Shares
Credit Suisse Securities (USA) LLC	
Lehman Brothers Inc.	
Thomas Weisel Partners LLC	
Total	5,000,000

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 750,000 additional shares from us at the public offering price on the cover page of this prospectus supplement less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus supplement and to selling group members at that price less a selling concession of $ per share. After the initial public offering the representatives may change the public offering price and concession.

The following table summarizes the compensation and estimated expenses we will pay:

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting discounts and commissions payable by us	$	$	$	$
Expenses payable by us	$	$	$	$

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act of 1933 (the "Securities Act") relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse Securities (USA) LLC and Lehman Brothers Inc. for a period of 45 days after the date of this prospectus supplement. The foregoing restrictions will not apply to issuances of shares of our common stock pursuant to the conversion or exchange of convertible or exchangeable securities or the exercise of warrants or options, in each case outstanding on the date of this prospectus supplement, grants of employee stock options pursuant to the terms of a plan in effect on the date of this prospectus supplement, or issuances of shares of our common stock pursuant to the exercise of such options.

Our officers and directors have agreed that, subject to certain exceptions, they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse Securities (USA) LLC and Lehman Brothers Inc. for a period of 45 days after the date of this prospectus supplement.

We have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

Our shares of common stock are quoted on the NASDAQ Global Market under the symbol "RIGL".

Some of the underwriters and their respective affiliates may have from time to time performed and may in the future perform various financial advisory, commercial banking and investment banking services for us in the ordinary course of business, for which they received, or will receive, customary fees.

In connection with the offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, penalty bids and passive market making in accordance with Regulation M under the Securities Exchange Act of 1934.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

- In passive market making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The NASDAQ Global Market or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representatives may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of common stock described in this prospectus may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the common stock that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or

to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts or

in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of common stock described in this prospectus located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an "offer to the public" in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the common stock have not authorized and do not authorize the making of any offer of the common stock through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the common stock as contemplated in this prospectus. Accordingly, no purchaser of the common stock, other than the underwriters, is authorized to make any further offer of the common stock on behalf of the sellers or the underwriters.

Notice to Prospective Investors in the United Kingdom

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors") that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant persons should not act or rely on this document or any of its contents.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis only and is exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Accordingly, any resale of the common stock in Canada must be made in accordance with applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Canadian Investors are advised to seek legal advice prior to any resale of the common stock.

The Company is not a "reporting issuer", as such term is defined under applicable Canadian securities legislation, in any province or territory of Canada. Canadian investors are advised that the Company currently does not intend to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the shares to the public in any province or territory of Canada.

Representations of Purchasers

By purchasing the common stock in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent,
- the purchaser has reviewed the text above under Resale Restrictions, and
- the purchaser acknowledges and consents to the provision of specified information concerning its purchase of the common stock to the regulatory authority that by law is entitled to collect the information.

Further details concerning the legal authority for this information is available on request.

Rights of Action Ontario Purchasers Only

Under Ontario securities legislation, certain purchasers who purchase a security offered by this prospectus supplement during the period of distribution will have a statutory right of action for damages, or while still the owner of the common stock, for rescission against in the event that this prospectus supplement contains a misrepresentation without regard to whether the purchaser relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the common stock. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the common stock. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the shares of common stock were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the common stock as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of the common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and about the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS

Cooley Godward Kronish LLP, Palo Alto, California will pass upon the validity of the issuance of the common stock offered by this prospectus supplement and the accompanying prospectus. Certain legal matters relating to the offering will be passed upon for the underwriters by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California.

PROSPECTUS

RIGEL PHARMACEUTICALS, INC.

$200,000,000

Common Stock
Preferred Stock
Debt Securities
Warrants
Units

From time to time, we may sell common stock, preferred stock, debt securities and/or warrants, either individually or in units, with a total value of up to $200 million. We may also offer common stock or preferred stock issuable upon conversion of debt securities, common stock issuable upon conversion of preferred stock, or common stock, preferred stock or debt securities issuable upon the exercise of warrants.

We will provide the specific terms of these offerings and securities in one or more supplements to this prospectus. We may also add, update or change in the prospectus supplement any of the information contained in this prospectus or in the documents incorporated by reference into this prospectus. You should read this prospectus and any prospectus supplement, as well as any documents incorporated by reference in this prospectus and any prospectus supplement, carefully before you invest.

Our common stock is traded on The Nasdaq National Market under the trading symbol "RIGL." The applicable prospectus supplement will contain information, where applicable, as to any other listing (if any) on The Nasdaq Stock Market's National Market or any securities exchange of the securities covered by the prospectus supplement. On November 7, 2005, the last reported sale price of our common stock on the Nasdaq National Market was $22.80 per share.

THIS PROSPECTUS MAY NOT BE USED TO OFFER OR SELL ANY SECURITIES UNLESS ACCOMPANIED BY A PROSPECTUS SUPPLEMENT.

The securities may be sold directly by us to investors, through agents designated from time to time or to or through underwriters or dealers. For additional information on the methods of sale, you should refer to the section entitled "Plan of Distribution." If any underwriters are involved in the sale of any securities with respect to which this prospectus is being delivered, the names of such underwriters and any applicable commissions or discounts will be set forth in a prospectus supplement. The net proceeds we expect to receive from such sale will also be set forth in a prospectus supplement.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

INVESTING IN OUR SECURITIES INVOLVES A HIGH DEGREE OF RISK. SEE THE SECTION ENTITLED "RISK FACTORS" BEGINNING ON PAGE 3 OF THIS PROSPECTUS.

The date of this prospectus is December 1, 2005.

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RIGEL

Rigel is a clinical stage drug development company that discovers and develops novel, small-molecule drugs for the treatment of inflammatory diseases, cancer and viral diseases. We have three product development programs: allergy/asthma, rheumatoid arthritis and cancer. We have two product candidates in clinical trials, R112 for allergic rhinitis and R406/788 for rheumatoid arthritis, and we expect to initiate clinical trials of R763 for the treatment of cancer later this year. We have not yet, however, obtained regulatory approval for the commercial sale of any products. Our business model is to develop a portfolio of product candidates for our own proprietary programs and with potential collaborative partners. Our goal is to move one new product candidate for a significant indication into the clinic each year. Our productivity has resulted in strategic collaborations with large pharmaceutical partners to develop and market our product candidates. Our drug discovery engine is based on advanced, proprietary techniques that allow us to identify targets with a demonstrable role in a disease pathway and to screen efficiently for those targets that are likely to be amenable to drug modulation. Our research focuses on intracellular signaling pathways and related targets that are critical to disease mechanisms, particularly in the areas of immunology/inflammation, oncology and virology. We have incurred net losses since inception and expect to incur substantial and increasing losses for the next several years as we continue to move drug candidates into and through preclinical and clinical stages of drug development and expand our research and development activities. To date, we have funded our operations primarily through the sale of equity securities, non-equity payments from collaborative partners and capital asset lease financings.

We were incorporated in Delaware on June 14, 1996. Our principal executive offices are located at 1180 Veterans Boulevard, South San Francisco, California 94080. Our telephone number is (650) 624-1100 and our website is http://www.rigel.com. We have not incorporated by reference into this prospectus the information on our website, and you should not consider it to be a part of this document. Our website address is included in this document as an inactive textual reference only.

Rigel Pharmaceuticals, Inc., the Rigel Pharmaceuticals, Inc. logo and all other Rigel names are trademarks of Rigel Pharmaceuticals, Inc. in the U.S. and in other selected countries. All other brand names or trademarks appearing in this prospectus are the property of their respective holders.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a "shelf" registration process. Under this shelf registration process, we may sell from time to time common stock, preferred stock, debt securities and/or warrants to purchase any of such securities, either individually or in units, in one or more offerings, up to a total dollar amount of $200 million. This prospectus provides you with a general description of the securities we may offer. Each time we sell common stock, preferred stock, debt securities and/or warrants, we will provide a prospectus supplement that will contain more specific information, as set forth below under "The Securities We May Offer." We may also add, update or change in the prospectus supplement any of the information contained in this prospectus or in the documents incorporated by reference into this prospectus. However, no prospectus supplement shall fundamentally change the terms that are set forth in this prospectus or offer a security that is not registered and described in this prospectus at the time of its effectiveness. This prospectus, together with applicable prospectus supplements and the documents incorporated by reference into this prospectus, includes all material information relating to this offering. Please carefully read both this prospectus and any prospectus supplement together with the additional information described below under "Where You Can Find More Information."

You should rely only on the information we have provided or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this prospectus. You must not rely on any unauthorized information or representation. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. You should assume that the information in this prospectus or any prospectus supplement is accurate only as of the date on the front of the document and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus or any sale of a security.

This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been filed or will be filed as exhibits to the registration statement of which this prospectus is a part or will be incorporated by reference from a current report on Form 8-K that we file with the Securities and Exchange Commission, and you may obtain copies of those documents as described below under "Where You Can Find More Information."

RISK FACTORS

Investment in our securities involves a high degree of risk. You should consider carefully the risk factors identified in our most recent annual and quarterly filings with the Securities and Exchange Commission, as well as other information in this prospectus and any prospectus supplements and the documents incorporated by reference herein or therein before purchasing any of our securities. Each of these risk factors could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our securities.

THE SECURITIES WE MAY OFFER

We may offer shares of our common stock and preferred stock, various series of debt securities and/or warrants to purchase any of such securities, either individually or in units, with a total value of up to $200 million, from time to time under this prospectus at prices and on terms to be determined by market conditions at the time of offering. This prospectus provides you with a general description of the securities we may offer. Each time we offer a type or series of securities under this prospectus, we will provide a prospectus supplement that will describe the specific amounts, prices and other important terms of the securities, including, to the extent applicable:

- designation or classification;
- aggregate principal amount or aggregate offering price;
- maturity, if applicable;
- rates and times of payment of interest or dividends, if any;
- redemption, conversion or sinking fund terms, if any;
- voting or other rights, if any;
- conversion prices, if any; and
- important United States federal income tax considerations.

The prospectus supplement also may add, update or change information contained in this prospectus or in documents we have incorporated by reference into this prospectus. However, no prospectus supplement shall fundamentally change the terms that are set forth in this prospectus or offer a security that is not registered and described in this prospectus at the time of its effectiveness.

This Prospectus May Not Be Used to Consummate a Sale of Securities Unless It Is Accompanied by a Prospectus Supplement.

We may sell the securities directly to investors or to or through agents, underwriters or dealers. We, and our agents or underwriters, reserve the right to accept or reject all or part of any proposed purchase of securities. If we do offer securities through agents or underwriters, we will include in the applicable prospectus supplement:

- the names of those agents or underwriters;
- applicable fees, discounts and commissions to be paid to them;

- details regarding over-allotment options, if any; and
- the net proceeds to us.

Common Stock. We may issue shares of our common stock from time to time. Holders of common stock are entitled to one vote per share on all matters submitted to a vote of stockholders. Subject to any preferences of outstanding shares of preferred stock, holders of common stock are entitled to dividends when and if declared by our board of directors.

Preferred Stock. We may issue shares of our preferred stock from time to time, in one or more series. Our board of directors shall determine the rights, preferences, privileges and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of any series. Convertible preferred stock will be convertible into our common stock. Conversion may be mandatory or at your option and would be at prescribed conversion rates.

If we sell any series of preferred stock under this prospectus and applicable prospectus supplements, we will fix the rights, preferences, privileges, qualifications and restrictions of the preferred stock of such series in the certificate of designation relating to that series. We will file as an exhibit to the registration statement of which this prospectus is a part, or will incorporate by reference from a current report on Form 8-K that we file with the Securities and Exchange Commission, the form of any certificate of designation that describes the terms of the series of preferred stock we are offering before the issuance of the related series of preferred stock. We urge you to read the prospectus supplements related to the series of preferred stock being offered, as well as the complete certificate of designation that contains the terms of the applicable series of preferred stock.

Debt Securities. We may issue debt securities from time to time, in one or more series, as either senior or subordinated debt or as senior or subordinated convertible debt. The senior debt securities will rank equally with any other unsubordinated debt that we may have and may be secured or unsecured. The subordinated debt securities will be subordinate and junior in right of payment, to the extent and in the manner described in the instrument governing the debt, to all or some portion of our indebtedness. Any convertible debt securities that we issue will be convertible into or exchangeable for our common stock or other securities of ours. Conversion may be mandatory or at your option and would be at prescribed conversion rates.

The debt securities will be issued under one or more documents called indentures, which are contracts between us and a trustee for the holders of the debt securities. In this prospectus, we have summarized certain general features of the debt securities. We urge you, however, to read the prospectus supplements related to the series of debt securities being offered, as well as the complete indentures that contain the terms of the debt securities. Indentures have been filed as exhibits to the registration statement of which this prospectus is a part, and supplemental indentures and forms of debt securities containing the terms of debt securities being offered will be filed as exhibits to the registration statement of which this prospectus is a part, or will be incorporated by reference from a current report on Form 8-K that we file with the Securities and Exchange Commission.

Warrants. We may issue warrants for the purchase of common stock, preferred stock and/or debt securities in one or more series. We may issue warrants independently or together with common stock, preferred stock and/or debt securities, and the warrants may be attached to or separate from these securities. In this prospectus, we have summarized certain general features of the warrants. We urge you, however, to read the prospectus supplements related to the series of warrants being offered, as well as the warrant agreements that contain the terms of the warrants. Forms of the warrant agreements and forms of warrants containing the terms of the warrants being offered have been filed as exhibits to the registration statement of which this prospectus is a part, and supplemental agreements and forms of warrants will be filed as exhibits to the registration statement of which this prospectus is a part, or will be incorporated by reference from a current report on Form 8-K that we file with the Securities and Exchange Commission.

We will evidence each series of warrants by warrant certificates that we will issue under a separate agreement. We will enter into the warrant agreements with a warrant agent. Each warrant agent will be a bank that we select that has its principal office in the United States and a combined capital and surplus of at least $50 million. We will indicate the name and address of the warrant agent in the applicable prospectus supplement relating to a particular series of warrants.

Units. We may issue units consisting of common stock, preferred stock, debt securities and/or warrants for the purchase of common stock, preferred stock and/or debt securities in one or more series. In this prospectus, we have summarized certain general features of the units. We urge you, however, to read the prospectus supplements related to the series of units being offered, as well as the unit agreements that contain the terms of the units. We will file as exhibits to the registration statement of which this prospectus is a part, or will incorporate by reference from a current report on Form 8-K that we file with the Securities and Exchange Commission, the form of unit agreement and any supplemental agreements that describe the terms of the series of units we are offering before the issuance of the related series of units.

We will evidence each series of units by unit certificates that we will issue under a separate agreement. We will enter into the unit agreements with a unit agent. Each unit agent will be a bank or trust company that we select. We will indicate the name and address of the unit agent in the applicable prospectus supplement relating to a particular series of units.

FORWARD-LOOKING INFORMATION

This prospectus, including the documents that we incorporate by reference, contains statements indicating expectations about future performance and other forward-looking statements that involve risks and uncertainties. We usually use words such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "future," "intend," "potential" or "continue" or the negative of these terms or similar expressions to identify forward-looking statements. These statements appear throughout this prospectus and are statements regarding our current intent, belief or expectation, primarily with respect to our operations and related industry developments. Examples of these statements include, but are not limited to, statements regarding the following: our business and scientific strategies; the progress of our product development programs, including clinical testing; our corporate collaborations, including revenues received from these collaborations; our drug discovery technologies; our research and development expenses; protection of our intellectual property; sufficiency of our cash resources; and our operations and legal risks. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Risk Factors" contained in our filings made with the Securities and Exchange Commission from time to time, including quarterly reports on Form 10-Q, annual reports on Form 10-K and any supplements to this prospectus. However, new factors emerge from time to time and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

RATIO OF EARNINGS TO FIXED CHARGES

Our earnings were insufficient to cover fixed charges in each of the years in the five-year period ended December 31, 2004 and in the nine -month period ended September 30, 2005. "Earnings" consist of income (loss) from continuing operations before income taxes, extraordinary items, cumulative effect of accounting changes, equity in net losses of affiliates and fixed charges. "Fixed charges" consist of interest expense and the portion of operating lease expense that represents interest. The extent to which earnings were insufficient to cover fixed charges is as follows:

	Year Ended December 31,					Nine Months Ended September 30, 2005
	2000	2001	2002	2003	2004	
	(in thousands)					
Deficiency of earnings available to cover fixed charges	$ (25,360)	$ (23,805)	$ (37,030)	$ (41,197)	$ (56,255)	$ (36,363)

USE OF PROCEEDS

Except as described in any prospectus supplement, we currently intend to use the net proceeds from the sale of our securities for research and development and general corporate purposes. We may also use a portion of the net proceeds to acquire or invest in businesses, products and technologies that are complementary to our own, although we currently are not planning or negotiating any such transactions. Pending these uses, the net proceeds will be invested in investment-grade, interest-bearing securities.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 100 million shares of common stock, $0.001 par value, and 10 million shares of preferred stock, $0.001 par value. As of November 3, 2005, there were 24,173,345 shares of our common stock outstanding and no shares of preferred stock outstanding. In addition, as of such date, certain stockholders held warrants to purchase 91,199 shares of our common stock and certain other individuals held options to purchase 3,973,968 shares of our common stock.

Common Stock

The holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of our common stock entitled to vote in any election of directors may elect all of the directors standing for election. Subject to preferences that may be applicable to any shares of our preferred stock that may become outstanding, the holders of our common stock are entitled to receive ratably such dividends as may be declared by the board of directors out of funds legally available therefor. Upon the liquidation, dissolution or winding up of Rigel, holders of our common stock are entitled to share ratably in all assets remaining available for distribution to our stockholders after payment of our liabilities and the liquidation preferences of any shares of our preferred stock then outstanding. Holders of our common stock have no preemptive rights and no right to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to our common stock. All outstanding shares of our common stock are, and all shares of our common stock that may be issued under this prospectus will be, fully paid and non-assessable.

Preferred Stock

Pursuant to our amended and restated certificate of incorporation, our board of directors has the authority, without further action by the stockholders, to issue up to 10 million shares of preferred stock, in one or more series. Our board of directors is authorized to fix or alter from time to time the designation, powers, preferences and rights of the shares of each series, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and sinking fund terms, as well as the qualifications, limitations or restrictions of any unissued series of preferred stock. Our board of directors may also establish from time to time the number of shares constituting any series of preferred stock, and to increase or decrease the number of shares of any series subsequent to the issuance of shares of that series, but not below the number of shares of any series then outstanding.

We will fix the rights, preferences, privileges and restrictions of the preferred stock of each series in the certificate of designation relating to that series. We will file as exhibits to the registration statement of which this prospectus is a part, or will incorporate by reference from a current report on Form 8-K that we file with the Securities and Exchange Commission, the form of any certificate of designation that describes the terms of the series of preferred stock we are offering before the issuance of the related series of preferred stock. This description will include:

- the title and stated value;
- the number of shares we are offering;
- the liquidation preference per share;
- the purchase price;
- the dividend rate, period and payment date and method of calculation for dividends;
- whether dividends will be cumulative or non-cumulative and, if cumulative, the date from which dividends will accumulate;

- the procedures for any auction and remarketing, if any;
- the provisions for a sinking fund, if any;
- the provisions for redemption or repurchase, if applicable, and any restrictions on our ability to exercise those redemption and repurchase rights;
- any listing of the preferred stock on any securities exchange or market;
- whether the preferred stock will be convertible into our common stock, and, if applicable, the conversion price, or how it will be calculated, and the conversion period;
- whether the preferred stock will be exchangeable into debt securities, and, if applicable, the exchange price, or how it will be calculated, and the exchange period;
- voting rights, if any, of the preferred stock;
- preemption rights, if any;
- restrictions on transfer, sale or other assignment, if any;
- whether interests in the preferred stock will be represented by depositary shares;
- a discussion of any material or special United States federal income tax considerations applicable to the preferred stock;
- the relative ranking and preferences of the preferred stock as to dividend rights and rights if we liquidate, dissolve or wind up our affairs;
- any limitations on issuance of any class or series of preferred stock ranking senior to or on a parity with the series of preferred stock as to dividend rights and rights if we liquidate, dissolve or wind up our affairs; and
- any other specific terms, preferences, rights or limitations of, or restrictions on, the preferred stock.

If we issue shares of preferred stock under this prospectus, the shares will be fully paid and non-assessable and will not have, or be subject to, any preemptive or similar rights.

The General Corporation Law of the State of Delaware, the state of our incorporation, provides that the holders of preferred stock will have the right to vote separately as a class on any proposal involving fundamental changes in the rights of holders of that preferred stock. This right is in addition to any voting rights that may be provided for in the applicable certificate of designation.

The issuance of preferred stock could adversely affect the voting power, liquidation rights, conversion or other rights of holders of our common stock. Preferred stock could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. Additionally, the issuance of preferred stock may have the effect of decreasing the market price of common stock.

Registration Rights

As of the date of this prospectus, holders of approximately 1,117,663 shares of our common stock and warrants to purchase our common stock are entitled to rights with respect to the registration of those shares of common stock under the Securities Act. If we propose to register any of our securities under the Securities Act for the account of others, the holders of 190,694 of these shares are entitled to notice of the registration and are entitled to include, at our expense, their shares of common stock in the registration and any related underwriting, provided, among other conditions, that the underwriters may limit the number of shares to be included in the registration. The holders of approximately 926,969 of these shares may require us, at our expense and subject to certain limitations, to file a registration statement under the Securities Act with respect to their shares of our common stock.

Stock Options and Warrants

As of November 3, 2005, there were 5,823,764 shares of our common stock reserved for issuance under our equity incentive plans, options and warrants. Of this number, 3,932,920 shares were reserved for issuance upon exercise of outstanding options that were previously granted under our stock options plans, 1,698,830 shares were reserved for issuance upon exercise of options that may be granted in the future under our stock options plans, 100,815 shares were reserved for issuance under our employee stock purchase plan, and 91,199 shares were reserved for issuance upon exercise of outstanding warrants.

Anti-Takeover Effects of Provisions of Delaware Law and Our Charter Documents

Delaware Takeover Statute. We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, the statute prohibits a publicly-held Delaware corporation such as Rigel from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a business combination includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an interested stockholder is a person who, together with affiliates and associates, owns (or within three years prior, did own) 15% or more of the corporation's voting stock.

Charter Documents. Our amended and restated certificate of incorporation requires that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by a consent in writing. Additionally, our amended and restated certificate of incorporation:

- does not provide for the use of cumulative voting in the election of directors;
- provides for a board of directors, classified into three classes of directors;
- provides that the authorized number of directors may be changed only by resolution of our board of directors; and
- provides for the authority of our board of directors to issue up to 10 million shares of "blank check" preferred stock and to determine the price, powers, preferences and rights of these shares, without stockholder approval.

Our amended and restated bylaws provide that candidates for director may be nominated only by our board of directors or by a stockholder who gives written notice to us no later than 90 days prior nor earlier than 120 days prior to the first anniversary of the last annual meeting of stockholders, subject to certain exceptions. The authorized number of directors is fixed in accordance with our amended and restated certificate of incorporation. Our board of directors may appoint new directors to fill vacancies or newly created directorships. Our amended and restated bylaws also limit who may call a special meeting of stockholders.

Delaware law and these charter provisions may have the effect of deterring hostile takeovers or delaying changes in control of our management, which could depress the market price of our common stock.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Wells Fargo Bank, N. A. Its address is 161 North Concord Exchange, South St. Paul, MN 55075-1139 and its telephone number is (800) 468-9716.

DESCRIPTION OF DEBT SECURITIES

The following description, together with the additional information we include in any applicable prospectus supplements, summarizes the material terms and provisions of the debt securities that we may offer under this prospectus. While the terms we have summarized below will generally apply to any future debt securities we may offer under this prospectus, we will describe the particular terms of any debt securities that we may offer in more detail in the applicable prospectus supplement. The terms of any debt securities we offer under a prospectus supplement may differ from the terms we describe below. However, no prospectus supplement shall fundamentally change the terms that are set forth in this prospectus or offer a security that is not registered and described in this prospectus at the time of its effectiveness.

We will issue the senior notes under the senior indenture which we will enter into with the trustee named in the senior indenture. We will issue the subordinated notes under the subordinated indenture which we will enter into with the trustee named in the subordinated indenture. We have filed forms of these documents as exhibits to the registration statement of which this prospectus is a part. We use the term "indentures" to refer to both the senior indenture and the subordinated indenture.

The indentures will be qualified under the Trust Indenture Act of 1939. We use the term "debenture trustee" to refer to either the senior trustee or the subordinated trustee, as applicable.

The following summaries of material provisions of the senior notes, the subordinated notes and the indentures are subject to, and qualified in their entirety by reference to, all the provisions of the indenture applicable to a particular series of debt securities. We urge you to read the applicable prospectus supplements related to the debt securities that we sell under this prospectus, as well as the complete indentures that contain the terms of the debt securities. Except as we may otherwise indicate, the terms of the senior indenture and the subordinated indenture are identical.

General

We will describe in the applicable prospectus supplement the terms relating to a series of debt securities, including:

- the title;
- the principal amount being offered, and, if a series, the total amount authorized and the total amount outstanding;
- any limit on the amount that may be issued;
- whether or not we will issue the series of debt securities in global form and, if so, the terms and who the depositary will be;
- the maturity date;
- the principal amount due at maturity, and whether the debt securities will be issued with any original issue discount;
- whether and under what circumstances, if any, we will pay additional amounts on any debt securities held by a person who is not a United States person for tax purposes, and whether we can redeem the debt securities if we have to pay such additional amounts;
- the annual interest rate, which may be fixed or variable, or the method for determining the rate, the date interest will begin to accrue, the dates interest will be payable and the regular record dates for interest payment dates or the method for determining such dates;
- whether or not the debt securities will be secured or unsecured, and the terms of any secured debt;

the terms of the subordination of any series of subordinated debt;

the place where payments will be payable;

restrictions on transfer, sale or other assignment, if any;

our right, if any, to defer payment of interest and the maximum length of any such deferral period;

the date, if any, after which, the conditions upon which, and the price at which we may, at our option, redeem the series of debt securities pursuant to any optional or provisional redemption provisions, and any other applicable terms of those redemption provisions;

provisions for a sinking fund, purchase or other analogous fund, if any;

the date, if any, on which, and the price at which we are obligated, pursuant to any mandatory sinking fund or analogous fund provisions or otherwise, to redeem, or at the holder's option to purchase, the series of debt securities;

whether the indenture will restrict our ability or the ability of our subsidiaries to:

- incur additional indebtedness;
- issue additional securities;
- create liens;
- pay dividends or make distributions in respect of our capital stock or the capital stock of our subsidiaries;
- redeem capital stock;
- place restrictions on our subsidiaries' ability to pay dividends, make distributions or transfer assets;
- make investments or other restricted payments;
- sell or otherwise dispose of assets;
- enter into sale-leaseback transactions;
- engage in transactions with stockholders or affiliates;
- issue or sell stock of our subsidiaries; or

effect a consolidation or merger;

whether the indenture will require us to maintain any interest coverage, fixed charge, cash flow-based, asset-based or other financial ratios;

a discussion of any material or special United States federal income tax considerations applicable to the debt securities;

information describing any book-entry features;

the procedures for any auction or remarketing, if any;

the denominations in which we will issue the series of debt securities, if other than denominations of $1,000 and any integral multiple thereof;

if other than dollars, the currency in which the series of debt securities will be denominated; and

any other specific terms, preferences, rights or limitations of, or restrictions on, the debt securities, including any events of default that are in addition to those described in this prospectus or any covenants provided with respect to the debt securities that are in addition to those described above, and any terms which may be required by us or advisable under applicable laws or regulations or advisable in connection with the marketing of the debt securities.

Conversion or Exchange Rights

We will set forth in the prospectus supplement the terms on which a series of debt securities may be convertible into or exchangeable for common stock or other securities of ours or a third party, including the conversion or exchange rate, as applicable, or how it will be calculated, and the applicable conversion or exchange period. We will include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at our option. We may include provisions pursuant to which the number of our securities or the securities of a third party that the holders of the series of debt securities receive upon conversion or exchange would, under the circumstances described in those provisions, be subject to adjustment, or pursuant to which those holders would, under those circumstances, receive other property upon conversion or exchange, for example in the event of our merger or consolidation with another entity.

Consolidation, Merger or Sale

The indentures in the forms initially filed as exhibits to the registration statement of which this prospectus is a part do not contain any covenant which restricts our ability to merge or consolidate, or sell, convey, transfer or otherwise dispose of all or substantially all of our assets. However, any successor of ours or acquiror of such assets would have to assume all of our obligations under the indentures and the debt securities.

If the debt securities are convertible for our other securities, the person with whom we consolidate or merge or to whom we sell all of our property would have to make provisions for the conversion of the debt securities into securities which the holders of the debt securities would have received if they had converted the debt securities before the consolidation, merger or sale.

Events of Default Under the Indenture

The following are events of default under the indentures with respect to any series of debt securities that we may issue:

- if we fail to pay interest when due and payable and our failure continues for 90 days and the time for payment has not been extended or deferred;

- if we fail to pay the principal, or premium, if any, when due and payable and the time for payment has not been extended or delayed;

- if we fail to observe or perform any other covenant contained in the debt securities or the indentures, other than a covenant specifically relating to another series of debt securities, and our failure continues for 90 days after we receive notice from the debenture trustee or holders of at least 25% in aggregate principal amount of the outstanding debt securities of the applicable series; and

- if specified events of bankruptcy, insolvency or reorganization occur.

If an event of default with respect to debt securities of any series occurs and is continuing, other than an event of default specified in the last bullet point above, the debenture trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series, by notice to us in writing, and to the debenture trustee if notice is given by such holders, may declare the unpaid principal of, premium, if any, and accrued interest, if any, due and payable immediately. If an event of default specified in the last bullet point above occurs with respect to us, the principal amount of and accrued interest, if any, of each issue of debt securities then outstanding would be due and payable without any notice or other action on the part of the debenture trustee or any holder.

The holders of a majority in principal amount of the outstanding debt securities of an affected series may waive any default or event of default with respect to the series and its consequences, except defaults or events of default regarding payment of principal, premium, if any, or interest, unless we have cured the default or event of default in accordance with the indenture.

Subject to the terms of the indentures, if an event of default under an indenture occurs and continues, the debenture trustee would be under no obligation to exercise any of its rights or powers under such indenture at the request or direction of any of the holders of the applicable series of debt securities, unless such holders have offered the debenture trustee reasonable indemnity. The holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the debenture trustee, or exercising any trust or power conferred on the debenture trustee, with respect to the debt securities of that series, provided that:

- the direction so given by the holder is not in conflict with any law or the applicable indenture; and
- subject to its duties under the Trust Indenture Act of 1939, the debenture trustee need not take any action that might involve it in personal liability or might be unduly prejudicial to the holders not involved in the proceeding.

A holder of the debt securities of any series will only have the right to institute a proceeding under the indentures or to appoint a receiver or trustee, or to seek other remedies if:

- the holder has given written notice to the debenture trustee of a continuing event of default with respect to that series;
- the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made written request, and such holders have offered reasonable indemnity to the debenture trustee to institute the proceeding as trustee; and
- the debenture trustee does not institute the proceeding, and does not receive from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series other conflicting directions within 90 days after the notice, request and offer.

These limitations do not apply to a suit instituted by a holder of debt securities if we default in the payment of the principal, premium, if any, or interest on, the debt securities.

We will periodically file statements with the debenture trustee regarding our compliance with specified covenants in the indentures.

Modification of Indenture; Waiver

We and the debenture trustee may change an indenture without the consent of any holders with respect to specific matters, including:

- to fix any ambiguity, defect or inconsistency in the indenture;
- to comply with the provisions described above under "Consolidation, Merger or Sale";
- to comply with any requirements of the Securities and Exchange Commission in connection with the qualification of any indenture under the Trust Indenture Act of 1939;

to evidence and provide for the acceptance of appointment by a successor trustee;

- to provide for uncertificated debt securities and to make all appropriate changes for such purpose;
- to add to, delete from, or revise the conditions, limitations and restrictions on the authorized amount, terms or purposes of issuance, authorization and delivery of debt securities of any series;
- to add to our covenants such new covenants, restrictions, conditions or provisions for the protection of the holders, to make the occurrence, or the occurrence and the continuance, of a default in any such additional covenants, restrictions, conditions or provisions an event of default, or to surrender any of our rights or powers under the indenture; or
- to change anything that does not materially adversely affect the interests of any holder of debt securities of any series.

In addition, under the indentures, the rights of holders of a series of debt securities may be changed by us and the debenture trustee with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding debt securities of each series that is affected. However, we and the debenture trustee may only make the following changes with the consent of each holder of any outstanding debt securities affected:

- extending the fixed maturity of the series of debt securities;
- reducing the principal amount, reducing the rate of or extending the time of payment of interest, or reducing any premium payable upon the redemption of any debt securities; or
- reducing the percentage of debt securities, the holders of which are required to consent to any supplemental indenture.

Discharge

Each indenture provides that we can elect to be discharged from our obligations with respect to one or more series of debt securities, except for obligations to:

- register the transfer or exchange of debt securities of the series;
- replace stolen, lost or mutilated debt securities of the series;
- maintain paying agencies;
- hold monies for payment in trust;
- recover excess money held by the debenture trustee;
- compensate and indemnify the debenture trustee; and
- appoint any successor trustee.

In order to exercise our rights to be discharged, we must deposit with the debenture trustee money or government obligations sufficient to pay all the principal of, any premium and interest on, the debt securities of the series on the dates payments are due.

Form, Exchange and Transfer

We will issue the debt securities of each series only in fully registered form without coupons and, unless we otherwise specify in the applicable prospectus supplement, in denominations of $1,000 and any integral multiple thereof. The indentures provide that we may issue debt securities of a series in temporary or permanent global form and as book-entry securities that will be deposited with, or on behalf of, The Depository Trust Company or another depositary named by us and identified in a prospectus supplement with respect to that series. See "Legal Ownership of Securities" for a further description of the terms relating to any book-entry securities.

At the option of the holder, subject to the terms of the indentures and the limitations applicable to global securities described in the applicable prospectus supplement, the holder of the debt securities of any series can exchange the debt securities for other debt securities of the same series, in any authorized denomination and of like tenor and aggregate principal amount.

Subject to the terms of the indentures and the limitations applicable to global securities set forth in the applicable prospectus supplement, holders of the debt securities may present the debt securities for exchange or for registration of transfer, duly endorsed or with the form of transfer endorsed thereon duly executed if so required by us or the security registrar, at the office of the security registrar or at the office of any transfer agent designated by us for this purpose. Unless otherwise provided in the debt securities that the holder presents for transfer or exchange, we will make no service charge for any registration of transfer or exchange, but we may require payment of any taxes or other governmental charges.

We will name in the applicable prospectus supplement the security registrar, and any transfer agent in addition to the security registrar, that we initially designate for any debt securities. We may at any time designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts, except that we will be required to maintain a transfer agent in each place of payment for the debt securities of each series.

If we elect to redeem the debt securities of any series, we will not be required to:

- issue, register the transfer of, or exchange any debt securities of any series being redeemed in part during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of any debt securities that may be selected for redemption and ending at the close of business on the day of the mailing; or

- register the transfer of or exchange any debt securities so selected for redemption, in whole or in part, except the unredeemed portion of any debt securities we are redeeming in part.

Information Concerning the Debenture Trustee

The debenture trustee, other than during the occurrence and continuance of an event of default under an indenture, undertakes to perform only those duties as are specifically set forth in the applicable indenture. Upon an event of default under an indenture, the debenture trustee must use the same degree of care as a prudent person would exercise or use in the conduct of his or her own affairs. Subject to this provision, the debenture trustee is under no obligation to exercise any of the powers given it by an indenture at the request of any holder of debt securities unless it is offered reasonable security and indemnity against the costs, expenses and liabilities that it might incur.

Payment and Paying Agents

Unless we otherwise indicate in the applicable prospectus supplement, we will make payment of the interest on any debt securities on any interest payment date to the person in whose name the debt securities, or one or more predecessor securities, are registered at the close of business on the regular record date for the interest.

We will pay principal of and any premium and interest on the debt securities of a particular series at the office of the paying agents designated by us, except that, unless we otherwise indicate in the applicable prospectus supplement, we may make interest payments by check which we will mail to the holder or by wire transfer to certain holders. Unless we otherwise indicate in a prospectus supplement, we will designate an office or agency of the debenture trustee in the City of New York as our sole paying agent for payments with respect to debt securities of each series. We will name in the applicable prospectus supplement any other paying agents that we initially designate for the debt securities of a particular series. We will maintain a paying agent in each place of payment for the debt securities of a particular series.

All money we pay to a paying agent or the debenture trustee for the payment of the principal of or any premium or interest on any debt securities which remains unclaimed at the end of two years after such principal, premium or interest has become due and payable will be repaid to us, and the holder of the debt security thereafter may look only to us for payment thereof.

Governing Law

The indentures and the debt securities will be governed by and construed in accordance with the laws of the State of New York, except to the extent that the Trust Indenture Act of 1939 is applicable.

Subordination of Subordinated Debt Securities

The subordinated debt securities will be subordinate and junior in priority of payment to certain of our other indebtedness to the extent described in a prospectus supplement. The indentures in the forms initially filed as exhibits to the registration statement of which this prospectus is a part do not limit the amount of indebtedness which we may incur, including senior indebtedness or subordinated indebtedness, and do not limit us from issuing any other debt, including secured debt or unsecured debt.

DESCRIPTION OF WARRANTS

The following description, together with the additional information we may include in any applicable prospectus supplements, summarizes the material terms and provisions of the warrants that we may offer under this prospectus and the related warrant agreements and warrant certificates. While the terms summarized below will apply generally to any warrants that we may offer, we will describe the particular terms of any series of warrants in more detail in the applicable prospectus supplement. If we indicate in the prospectus supplement, the terms of any warrants offered under that prospectus supplement may differ from the terms described below. However, no prospectus supplement shall fundamentally change the terms that are set forth in this prospectus or offer a security that is not registered and described in this prospectus at the time of its effectiveness.

We have filed forms of the warrant agreements and forms of warrant certificates containing the terms of the warrants being offered as exhibits to the registration statement of which this prospectus is a part. We will file as exhibits to the registration statement of which this prospectus is a part, or will incorporate by reference from a current report on Form 8-K that we file with the Securities and Exchange Commission, the form of warrant agreement, including a form of warrant certificate, that describes the terms of the particular series of warrants we are offering before the issuance of the related series of warrants. The following summaries of material provisions of the warrants and the warrant agreements are subject to, and qualified in their entirety by reference to, all the provisions of the warrant agreement and warrant certificate applicable to a particular series of warrants. We urge you to read the applicable prospectus supplements related to the particular series of warrants that we sell under this prospectus, as well as the complete warrant agreements and warrant certificates that contain the terms of the warrants.

General

We will describe in the applicable prospectus supplement the terms of the series of warrants, including:

- the offering price and aggregate number of warrants offered;
- the currency for which the warrants may be purchased;
- if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;
- if applicable, the date on and after which the warrants and the related securities will be separately transferable;
- in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at, and currency in which, this principal amount of debt securities may be purchased upon such exercise;
- in the case of warrants to purchase common stock or preferred stock, the number of shares of common stock or preferred stock, as the case may be, purchasable upon the exercise of one warrant and the price at which these shares may be purchased upon such exercise;
- the effect of any merger, consolidation, sale or other disposition of our business on the warrant agreements and the warrants;
- the terms of any rights to redeem or call the warrants;
- any provisions for changes to or adjustments in the exercise price or number of securities issuable upon exercise of the warrants;
- the dates on which the right to exercise the warrants will commence and expire;

- the manner in which the warrant agreements and warrants may be modified;
- federal income tax consequences of holding or exercising the warrants;
- the terms of the securities issuable upon exercise of the warrants; and
- any other specific terms, preferences, rights or limitations of or restrictions on the warrants.

Before exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including:

- in the case of warrants to purchase debt securities, the right to receive payments of principal of, or premium, if any, or interest on, the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture; or
- in the case of warrants to purchase common stock or preferred stock, the right to receive dividends, if any, or, payments upon our liquidation, dissolution or winding up or to exercise voting rights, if any.

Exercise of Warrants

Each warrant will entitle the holder to purchase the securities that we specify in the applicable prospectus supplement at the exercise price that we describe in the applicable prospectus supplement. Unless we otherwise specify in the applicable prospectus supplement, holders of the warrants may exercise the warrants at any time up to 5:00 P.M. New York time on the expiration date that we set forth in the applicable prospectus supplement. After the close of business on the expiration date, unexercised warrants will become void.

Holders of the warrants may exercise the warrants by delivering the warrant certificate representing the warrants to be exercised together with specified information, and paying the required amount to the warrant agent in immediately available funds, as provided in the applicable prospectus supplement. We will set forth on the reverse side of the warrant certificate and in the applicable prospectus supplement the information that the holder of the warrant will be required to deliver to the warrant agent.

Upon receipt of the required payment and the warrant certificate properly completed and duly executed at the corporate trust office of the warrant agent or any other office indicated in the applicable prospectus supplement, we will issue and deliver the securities purchasable upon such exercise. If fewer than all of the warrants represented by the warrant certificate are exercised, then we will issue a new warrant certificate for the remaining amount of warrants. If we so indicate in the applicable prospectus supplement, holders of the warrants may surrender securities as all or part of the exercise price for warrants.

Governing Law

The warrants and warrant agreements will be governed by and construed in accordance with the laws of the State of New York.

Enforceability of Rights by Holders of Warrants

Each warrant agent will act solely as our agent under the applicable warrant agreement and will not assume any obligation or relationship of agency or trust with any holder of any warrant. A single bank or trust company may act as warrant agent for more than one issue of warrants. A warrant agent will have no duty or responsibility in case of any default by us under the applicable warrant agreement or warrant, including any duty or responsibility to initiate any proceedings at law or otherwise, or to make any demand upon us. Any holder of a warrant may, without the consent of the related warrant agent or the holder of any other warrant, enforce by appropriate legal action its right to exercise, and receive the securities purchasable upon exercise of, its warrants.

DESCRIPTION OF UNITS

The following description, together with the additional information we may include in any applicable prospectus supplements, summarizes the material terms and provisions of the units that we may offer under this prospectus. While the terms we have summarized below will apply generally to any units that we may offer under this prospectus, we will describe the particular terms of any series of units in more detail in the applicable prospectus supplement. The terms of any units offered under a prospectus supplement may differ from the terms described below. However, no prospectus supplement will fundamentally change the terms that are set forth in this prospectus or offer a security that is not registered and described in this prospectus at the time of its effectiveness.

We will file as exhibits to the registration statement of which this prospectus is a part, or will incorporate by reference from a current report on Form 8-K that we file with the Securities and Exchange Commission, the form of unit agreement that describes the terms of the series of units we are offering, and any supplemental agreements, before the issuance of the related series of units. The following summaries of material terms and provisions of the units are subject to, and qualified in their entirety by reference to, all the provisions of the unit agreement and any supplemental agreements applicable to a particular series of units. We urge you to read the applicable prospectus supplements related to the particular series of units that we sell under this prospectus, as well as the complete unit agreement and any supplemental agreements that contain the terms of the units.

General

We may issue units comprised of one or more debt securities, shares of common stock, shares of preferred stock and warrants in any combination. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit will have the rights and obligations of a holder of each included security. The unit agreement under which a unit is issued may provide that the securities included in the unit may not be held or transferred separately, at any time or at any time before a specified date.

We will describe in the applicable prospectus supplement the terms of the series of units, including:

- the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances those securities may be held or transferred separately;
- any provisions of the governing unit agreement that differ from those described below; and
- any provisions for the issuance, payment, settlement, transfer or exchange of the units or of the securities comprising the units.

The provisions described in this section, as well as those described under "Description of Capital Stock," "Description of Debt Securities" and "Description of Warrants" will apply to each unit and to any common stock, preferred stock, debt security or warrant included in each unit, respectively.

Issuance in Series

We may issue units in such amounts and in such numerous distinct series as we determine.

Enforceability of Rights by Holders of Units

Each unit agent will act solely as our agent under the applicable unit agreement and will not assume any obligation or relationship of agency or trust with any holder of any unit. A single bank or trust company may act as unit agent for more than one series of units. A unit agent will have no duty or responsibility in case of any default by us under the applicable unit agreement or unit, including any duty or responsibility to initiate any proceedings at law or otherwise, or to make any demand upon us. Any holder of a unit may, without the consent of the related unit agent or the holder of any other unit, enforce by appropriate legal action its rights as holder under any security included in the unit.

Title

We, the unit agents and any of their agents may treat the registered holder of any unit certificate as an absolute owner of the units evidenced by that certificate for any purpose and as the person entitled to exercise the rights attaching to the units so requested, despite any notice to the contrary. See "Legal Ownership of Securities" below.

LEGAL OWNERSHIP OF SECURITIES

We can issue securities in registered form or in the form of one or more global securities. We describe global securities in greater detail below. We refer to those persons who have securities registered in their own names on the books that we or any applicable trustee maintain for this purpose as the "holders" of those securities. These persons are the legal holders of the securities. We refer to those persons who, indirectly through others, own beneficial interests in securities that are not registered in their own names, as "indirect holders" of those securities. As we discuss below, indirect holders are not legal holders, and investors in securities issued in book-entry form or in street name will be indirect holders.

Book-Entry Holders

We may issue securities in book-entry form only, as we will specify in the applicable prospectus supplement. This means securities may be represented by one or more global securities registered in the name of a financial institution that holds them as depositary on behalf of other financial institutions that participate in the depositary's book-entry system. These participating institutions, which are referred to as participants, in turn, hold beneficial interests in the securities on behalf of themselves or their customers.

Only the person in whose name a security is registered is recognized as the holder of that security. Securities issued in global form will be registered in the name of the depositary or its participants. Consequently, for securities issued in global form, we will recognize only the depositary as the holder of the securities, and we will make all payments on the securities to the depositary. The depositary passes along the payments it receives to its participants, which in turn pass the payments along to their customers who are the beneficial owners. The depositary and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the securities.

As a result, investors in a book-entry security will not own securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depositary's book-entry system or holds an interest through a participant. As long as the securities are issued in global form, investors will be indirect holders, and not holders, of the securities.

Street Name Holders

We may terminate a global security or issue securities in non-global form. In these cases, investors may choose to hold their securities in their own names or in "street name." Securities held by an investor in street name would be registered in the name of a bank, broker or other financial institution that the investor chooses, and the investor would hold only a beneficial interest in those securities through an account he or she maintains at that institution.

For securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the securities are registered as the holders of those securities, and we will make all payments on those securities to them. These institutions pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold securities in street name will be indirect holders, not holders, of those securities.

Legal Holders

Our obligations, as well as the obligations of any applicable trustee and of any third parties employed by us or a trustee, run only to the legal holders of the securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect holder of a security or has no choice because we are issuing the securities only in global form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depositary participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, we may want to obtain the approval of the holders to amend an indenture, to relieve us of the consequences of a default or of our obligation to comply with a particular provision of the indenture or for other purposes. In such an event, we would seek approval only from the holders, and not the indirect holders, of the securities. Whether and how the holders contact the indirect holders is up to the holders.

Special Considerations For Indirect Holders

If you hold securities through a bank, broker or other financial institution, either in book-entry form or in street name, you should check with your own institution to find out:

- how it handles securities payments and notices;
- whether it imposes fees or charges;
- how it would handle a request for the holders' consent, if ever required;
- whether and how you can instruct it to send you securities registered in your own name so you can be a holder, if that is permitted in the future;
- how it would exercise rights under the securities if there were a default or other event triggering the need for holders to act to protect their interests; and
- if the securities are in book-entry form, how the depositary's rules and procedures will affect these matters.

Global Securities

A global security is a security that represents one or any other number of individual securities held by a depositary. Generally, all securities represented by the same global securities will have the same terms.

Each security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depositary. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depositary for all securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depositary, its nominee or a successor depositary, unless special termination situations arise. We describe those situations below under "Special Situations When a Global Security Will Be Terminated." As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary or with another institution that does. Thus, an investor whose security is represented by a global security will not be a holder of the security, but only an indirect holder of a beneficial interest in the global security.

If the prospectus supplement for a particular security indicates that the security will be issued in global form only, then the security will be represented by a global security at all times unless and until the global security is terminated. If termination occurs, we may issue the securities through another book-entry clearing system or decide that the securities may no longer be held through any book-entry clearing system.

Special Considerations For Global Securities

As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depositary, as well as general laws relating to securities transfers. We do not recognize an indirect holder as a holder of securities and instead deal only with the depositary that holds the global security.

If securities are issued only in the form of a global security, an investor should be aware of the following:

- An investor cannot cause the securities to be registered in his or her name, and cannot obtain non-global certificates for his or her interest in the securities, except in the special situations we describe below;

- An investor will be an indirect holder and must look to his or her own bank or broker for payments on the securities and protection of his or her legal rights relating to the securities, as we describe above;

- An investor may not be able to sell interests in the securities to some insurance companies and to other institutions that are required by law to own their securities in non-book-entry form;

- An investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;

- The depositary's policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor's interest in a global security. We and any applicable trustee have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depositary in any way;

- The depositary may, and we understand that DTC will, require that those who purchase and sell interests in a global security within its book-entry system use immediately available funds, and your broker or bank may require you to do so as well; and

- Financial institutions that participate in the depositary's book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the securities. There may be more than one financial intermediary in the chain of ownership for an investor. We do not monitor and are not responsible for the actions of any of those intermediaries.

Special Situations When A Global Security Will Be Terminated

In a few special situations described below, the global security will terminate and interests in it will be exchanged for physical certificates representing those interests. After that exchange, the choice of whether to hold securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in securities transferred to their own name, so that they will be direct holders. We have described the rights of holders and street name investors above.

The global security will terminate when the following special situations occur:

- if the depositary notifies us that it is unwilling, unable or no longer qualified to continue as depositary for that global security and we do not appoint another institution to act as depositary within 90 days;
- if we notify any applicable trustee that we wish to terminate that global security; or
- if an event of default has occurred with regard to securities represented by that global security and has not been cured or waived.

The prospectus supplement may also list additional situations for terminating a global security that would apply only to the particular series of securities covered by the prospectus supplement. When a global security terminates, the depositary, and not we or any applicable trustee, is responsible for deciding the names of the institutions that will be the initial direct holders.

PLAN OF DISTRIBUTION

We may sell the securities through underwriters or dealers, through agents, or directly to one or more purchasers. One or more prospectus supplements will describe the terms of the offering of the securities, including:

- the name or names of any underwriters, if any;
- the purchase price of the securities and the proceeds we will receive from the sale;
- any over-allotment options under which underwriters may purchase additional securities from us;
- any agency fees or underwriting discounts and other items constituting agents' or underwriters' compensation;
- any initial public offering price;
- any discounts or concessions allowed or reallowed or paid to dealers; and
- any securities exchange or market on which the securities may be listed.

Only underwriters named in the prospectus supplement are underwriters of the securities offered by the prospectus supplement.

If underwriters are used in the sale, they will acquire the securities for their own account and may resell them from time to time in one or more transactions at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters to purchase the securities will be subject to the conditions set forth in the applicable underwriting agreement. We may offer the securities to the public through underwriting syndicates represented by managing underwriters or by underwriters without a syndicate. Subject to certain conditions, the underwriters will be obligated to purchase all the securities of the series offered by the prospectus supplement. Any public offering price and any discounts or concessions allowed or reallowed or paid to dealers may change from time to time. We may use underwriters with whom we have a material relationship. We will describe in the prospectus supplement, naming the underwriter, the nature of any such relationship.

We may sell securities directly or through agents we designate from time to time. We will name any agent involved in the offering and sale of securities and we will describe any commissions we will pay the agent in the prospectus supplement.

Unless the prospectus supplement states otherwise, our agent will act on a best efforts basis for the period of its appointment. However, no prospectus supplement shall fundamentally change the terms that are set forth in this prospectus or offer a security that is not registered and described in this prospectus at the time of its effectiveness.

We may authorize agents or underwriters to solicit offers by certain types of institutional investors to purchase securities from us at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. We will describe the conditions to these contracts and the commissions we must pay for solicitation of these contracts in the prospectus supplement.

We may provide agents and underwriters with indemnification against certain civil liabilities, including liabilities under the Securities Act, or contribution with respect to payments that the agents or underwriters may make with respect to such liabilities. Agents and underwriters may engage in transactions with, or perform services for, us in the ordinary course of business.

All securities we offer, other than common stock, will be new issues of securities with no established trading market. Any underwriters may make a market in these securities, but will not be obligated to do so and may discontinue any market making at any time without notice. We cannot guarantee the liquidity of the trading markets for any securities.

Any underwriter may engage in overallotment, stabilizing transactions, short covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934, as amended. Overallotment involves sales in excess of the offering size, which create a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Short covering transactions involve purchases of the securities in the open market after the distribution is completed to cover short positions. Penalty bids permit the underwriters to reclaim a selling concession from a dealer when the securities originally sold by the dealer are purchased in a covering transaction to cover short positions. Those activities may cause the price of the securities to be higher than it would otherwise be. If commenced, the underwriters may discontinue any of the activities at any time.

Any underwriters who are qualified market makers on The Nasdaq National Market may engage in passive market making transactions in the securities on The Nasdaq National Market in accordance with Rule 103 of Regulation M under the Securities Exchange Act of 1934, as amended, during the business day prior to the pricing of the offering, before the commencement of offers or sales of the securities. Passive market makers must comply with applicable volume and price limitations and must be identified as passive market makers. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for such security; if all independent bids are lowered below the passive market maker's bid, however, the passive market maker's bid must then be lowered when certain purchase limits are exceeded.

In compliance with guidelines of the National Association of Securities Dealers, or NASD, the maximum consideration or discount to be received by any NASD member or independent broker dealer may not exceed 8% of the aggregate amount of the securities offered pursuant to this prospectus and any applicable prospectus supplement.

LEGAL MATTERS

The validity of the securities being offered hereby will be passed upon by Cooley Godward LLP, Palo Alto, California.

EXPERTS

The financial statements of Rigel Pharmaceuticals, Inc. appearing in Rigel Pharmaceuticals, Inc.'s Annual Report (Form 10-K) for the year ended December 31, 2004, and Rigel Pharmaceuticals, Inc.'s management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 included therein, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon included therein and incorporated herein by reference. Such financial statements and management's assessment have been incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

With respect to the unaudited condensed consolidated interim financial information for the three-month period ended March 31, 2005, the three and six-month periods ended June 30, 2005, and the three and nine month periods ended September 30, 2005, incorporated by reference in this prospectus, Ernst & Young LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate reports dated April 19, 2005, July 19, 2005 and November 7, 2005 included in Rigel Pharmaceuticals, Inc.'s Quarterly Reports on Forms 10-Q for the quarters ended March 31, 2005, June 30, 2005, and September 30, 2005, respectively, and incorporated by reference herein, state that they did not audit and therefore do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their reports on such information should be restricted considering the limited nature of the review procedures applied. Ernst & Young LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 (the "Act") for their reports on the unaudited interim financial information because those reports are not "reports" or a "part" of the Registration Statement prepared or certified by Ernst & Young LLP within the meaning of Sections 7 and 11 of the Act.

WHERE YOU CAN FIND MORE INFORMATION

We are a reporting company and file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. We have filed with the Securities and Exchange Commission a registration statement on Form S-3 under the Securities Act with respect to the shares of common stock, preferred stock, debt securities, warrants and/or units we are offering under this prospectus. This prospectus does not contain all of the information set forth in the registration statement and the exhibits to the registration statement. For further information with respect to us and the securities we are offering under this prospectus, we refer you to the registration statement and the exhibits and schedules filed as a part of the registration statement. You may read and copy the registration statement, as well as our reports, proxy statements and other information, at the Securities and Exchange Commission's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents by writing to the Securities and Exchange Commission and paying a fee for the copying costs. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for more information about the operation of the public reference room. Our Securities and Exchange Commission filings are also available at the Securities and Exchange Commission's web site at http://www.sec.gov. In addition, you can read and copy our Securities and Exchange Commission filings at the office of the National Association of Securities Dealers, Inc. at 1735 K Street, N.W., Washington, D.C. 20006.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The Securities and Exchange Commission allows us to "incorporate by reference" information that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus. Information in this prospectus supersedes information incorporated by reference that we filed with the Securities and Exchange Commission prior to the date of this prospectus, while information that we file later with the Securities and Exchange Commission will automatically update and supersede this information. We incorporate by reference into this registration statement and prospectus the documents listed below and any future filings (other than current reports furnished under Item 2.02 or Item 7.01 of Form 8-K and exhibits filed on such form that are related to such items) we will make with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of the initial registration statement but prior to effectiveness of the registration statement and after the date of this prospectus but prior to the termination of the offering of the securities covered by this prospectus. Any statements in any such future filings will automatically be deemed to modify and supersede any information in any document we previously filed with the Securities and Exchange Commission that is incorporated or deemed to be incorporated herein by reference to the extent that statements in the later filed document modify or replace such earlier statements.

The following documents filed with the Securities and Exchange Commission are incorporated by reference in this prospectus:

1. Our annual report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission on March 16, 2005;

2. Our quarterly report on Form 10-Q for the quarter ended March 31, 2005, filed with the Securities and Exchange Commission on May 6, 2005;

3. Our quarterly report on Form 10-Q for the quarter ended June 30, 2005, filed with the Securities and Exchange Commission on August 5, 2005;

4. Our quarterly report on Form 10-Q for the quarter ended September 30, 2005, filed with the Securities and Exchange Commission on November 8, 2005;

5. Amendment No. 1 to our quarterly report on Form 10-Q for the quarter ended September 30, 2005, filed with the Securities and Exchange Commission on November 8, 2005;

6. Our current report of Form 8-K, filed with the Securities and Exchange Commission on January 20, 2005;

7. Our current report of Form 8-K, filed with the Securities and Exchange Commission on February 2, 2005;

8. Our current report of Form 8-K, filed with the Securities and Exchange Commission on February 3, 2005;

9. Our current report of Form 8-K, filed with the Securities and Exchange Commission on June 6, 2005;

10. Our current report of Form 8-K, filed with the Securities and Exchange Commission on July 15, 2005;

11. Our current report of Form 8-K, filed with the Securities and Exchange Commission on October 6, 2005;

12. The description of our common stock set forth in our registration statement on Form 8-A, filed with the Securities and Exchange Commission on October 3, 2000, including any amendments or reports filed for the purposes of updating this description.

We will furnish without charge to you, upon written or oral request, a copy of any or all of the documents incorporated by reference, including exhibits to these documents. You should direct any requests for documents to Rigel Pharmaceuticals, Inc., Attention: Corporate Secretary, 1180 Veterans Blvd., South San Francisco, California 94080. Our phone number is (650) 624-1100.

QuickLinks

making operations in developing countries.

In addition, our results can be affected by trends, developments and other events in individual countries. There can be no assurance that in the future other country-specific trends, developments or other events will not have such a significant adverse effect on our business, results of operations or financial condition. Unfavorable conditions can depress sales in any given market and prompt promotional or other actions that affect our margins.

Our business may be adversely affected by competitive market conditions and we may not be able to execute our business strategy.

We intend to increase revenues and cash flow through a business strategy which requires us, among other things, to continue to maximize the value of our music assets, to significantly reduce costs to maximize flexibility and adjust to new realities of the market, to continue to act to contain digital piracy and to diversify our revenue streams into growing segments of the music business by entering into expanded-rights deals with recording artists and by operating our artist services businesses and to capitalize on digital distribution and emerging technologies.

Each of these initiatives requires sustained management focus, organization and coordination over significant periods of time. Each of these initiatives also requires success in building relationships with third parties and in anticipating and keeping up with technological developments and consumer preferences and may involve the implementation of new business models or distribution platforms. The results of our strategy and the success of our implementation of this strategy will not be known for some time in the future. If we are unable to implement our strategy successfully or properly react to changes in market conditions, our financial condition, results of operations and cash flows could be adversely affected.

A significant portion of our music publishing revenues are subject to rate regulation either by government entities or by local third-party collection societies throughout the world and rates on other income streams may be set by arbitration proceedings, which may limit our profitability.

Mechanical royalties and performance royalties are the two largest sources of income to our Music Publishing business and mechanical royalties are a significant expense to our Recorded Music business. In the U.S., mechanical rates are set pursuant to an arbitration process under the U.S. Copyright Act unless rates are determined through voluntary industry negotiations and performance rates are set by performing rights societies and subject to challenge by performing rights licensees. Outside the United States., mechanical and performance rates are typically negotiated on an industry-wide basis. The mechanical and performance rates set pursuant to such processes may adversely affect us by limiting our ability to increase the profitability of our Music Publishing business. If the mechanical rates are set too high it may also adversely affect us by limiting our ability to increase the profitability of our Recorded Music business. In addition, rates our recorded music business receives in the United States for, among other sources of income and potential income, webcasting and satellite radio are set by an arbitration process under the United States Copyright Act unless rates are determined through voluntary industry negotiations. It is important as sales shift from physical to diversified distribution channels that we receive fair value for all of the uses of our intellectual property as our business model now depends upon multiple revenue streams from multiple sources. If the rates for Recorded Music income sources that are established through legally prescribed rate-setting processes are set too low, it could have a material adverse impact on our recorded music business or our business prospects.

Unfavorable currency exchange rate fluctuations could adversely affect our results of operations.

The reporting currency for our financial statements is the U.S. dollar. We have assets, liabilities, revenues and costs denominated in currencies other than U.S. dollars. To prepare our consolidated financial statements, we must translate those assets, liabilities, revenues and expenses into U.S. dollars at then-applicable exchange rates. Consequently, increases and decreases in the value of the U.S. dollar versus other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. These translations could result in significant changes to our results of operations from period to period.

If we acquire or invest in other businesses, we will face certain risks inherent in such transactions.

We may acquire, make investments in, or enter into strategic alliances or joint ventures with, companies engaged in businesses that are similar or complementary to ours. If we make such acquisitions or investments or enter into strategic alliances, we will face certain risks inherent in such transactions. For example, gaining regulatory approval for significant acquisitions or investments could be a lengthy process and there can be no assurance of a successful outcome and we could increase our leverage in connection with acquisitions or investments. We could face difficulties in managing and integrating newly acquired operations. Additionally, such transactions would divert management resources and may result in the loss of recording artists or songwriters from our rosters. If we invest in companies involved in new businesses or develop our own new business opportunities, we will need to integrate and effectively manage these new businesses before any new line of business can become successful, and as such the progress and success of any new business is uncertain. In addition, investments in new business may result in an increase in capital expenditures to build infrastructure to support our new initiatives. We cannot assure you that if we make any future acquisitions, investments, strategic alliances or joint ventures that they will be completed in a timely manner, that they will be structured or financed in a way that will enhance our credit-worthiness or that they will meet our strategic objectives or otherwise be successful. We also may not be successful in implementing appropriate operational, financial and management systems and controls to achieve the benefits expected to result from these transactions. Failure to effectively manage any of these transactions could result in material increases in costs or reductions in expected revenues, or both. In addition, if any new business in which we invest or which we attempt to develop does not progress as planned, we may not recover the funds and resources we have expended and this could have a negative impact on our businesses or our Company as a whole.

Risks Relating to this Offering and Our Shares

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

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

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

The offering price of our shares of common stock will be substantially higher than the net tangible book value per share of our outstanding shares of common stock immediately after the offering. If you purchase shares of common stock in this offering, you will incur immediate and substantial dilution in the net tangible book value per share of common stock from the price you pay. At an offering price of $0.03 per share, you will experience a net asset value dilution per share of common stock of $____ in comparison to our net asset value per share at December 31 , 2012, of $ 0.41 .

The exercise of stock options, the conversion of convertible notes or the later sales of our shares of common stock may further dilute your shares of shares of common stock.

As of December 31 , 2012, we have outstanding 11,429 options for the purchase of our common stock and 124,408 warrants for the purchase of our common stock.

As of December 31 , 2012 we had outstanding approximately $2, 765,768 convertible notes, which convert at different rates into shares of our common stock. We may in the future issue additional shares of common stock to finance our operations.

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

Our Articles of Incorporation and our by-laws provide indemnification for officers, directors and employees.

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

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

The stock market in general, and the market for motion picture stocks in particular, has experienced extreme price and volume fluctuations. These broad market and industry fluctuations may adversely affect the market price of our shares of common stock, irrespective of our actual operating performance. Additional factors which could influence the market price of our shares of common stock include statements and claims made by us and other participants in our industry and public officials. The public offering price for the shares of common stock may not be above that which will subsequently prevail in the market.

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

The market price of our shares of common stock could fall substantially if our existing stockholders or existing creditors who levy on or convert into one share of common stock sell large amounts of our shares of common stock in the public market following this offering. These sales, or the possibility that these sales may occur, could also make it more difficult for us to sell equity or equity-related securities if we need to do so in the future to address then-existing financing needs. U.S. federal securities laws requiring the registration or exemption from registration in connection with the sale of securities limit the number of shares of common stock available for sale in the public market. In addition, lock-up agreements that restrict us, our directors and officers and certain of our existing stockholders from selling or otherwise disposing of any shares of common stock for a period of 180 days after the date of this prospectus without the prior written consent of the underwriters' representative also restrict sales of our shares of common stock. The underwriters' representative may, however, in its sole discretion and without notice, release all or any portion of the shares of common stock from the restrictions in the lock-up agreements.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

USE OF PROCEEDS

We estimate the gross proceeds from the offering, prior to the estimated offering expenses payable by us, will be approximately $610,410 , if all Warrants are exercised and all common stock is acquired by holders of the Warrants. This estimate is based on an exercise price of $0.03 per Warrant for each of the 20,346,990 Warrants to be issued, and the exercise of each Warrant. Inasmuch as we do not expect that all of the Warrants will be exercised, and we cannot provide any assurance that any of the Warrants will be exercised, you should expect that our gross proceeds may be materially less than the estimate set forth above. Noting the cautionary language of the immediately preceding sentence, and our estimated expenses in connection with this offering of approximately $[_____], consisting of legal, accounting, printing costs, transfer agent fees, and fees of The Depository Trust & Clearing Corporation ("DTCC") and your brokerage firm.

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

The amounts actually spent by us for any specific working capital purpose may vary significantly from budget from time-to-time. Accordingly, our management has broad discretion to allocate the net proceeds. Pending their use, we intend to deposit the net proceeds of this offering in one or more bank accounts or invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities.

DIVIDEND POLICY

As of the date of this prospectus, we have not paid any cash dividends to stockholders. We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business, and we do not expect to pay cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects and other factors that the board of directors may deem relevant.

CAPITALIZATION

The following table sets forth our capitalization as of December 31 , 2012 and June 30, 2012, both on a current basis.

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

	As of December 31 , 2012 $	As at June 30, 2012 $	As Adjusted) $
Indebtedness:			
Bank and other production loans	6, 760,148	6,124,428	6, 760,148
Other Loans	8,095,937	7,163,731	8,095,937

Stockholders' Equity	12,062,745	13,449,284	--
Shares of Common stock			
Total Shares Issued and Outstanding	29,506,536	1,739,900	
Total Shares Authorized	35,667,840	35,667,840	
Shares of Series A Preferred Stock			
Total Shares Issued and Outstanding	125,125	125,125	
Total Shares Authorized	125,125	125,125	
Shares of Series B Preferred Stock			
Total Shares Issued and Outstanding	143 ,850	181,850	
Total Shares Authorized	200,000	200.000	

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DILUTION

As of December 31 , 2012, we had a net tangible book value of $ 12,062,745 or $ 0.41 per share, based on shares outstanding on December 31 , 2012 of 29,506,536 which represents all shares issued by us on or before that date, but does not assume conversion of any convertible debentures or exercise of any stock options. Net tangible book value represents our total tangible assets (including investment in film rights and materials as per note 2 below), less all liabilities, and net tangible book value per share of common stock represents the net tangible book value divided by the number of shares of common stock outstanding. Without taking into account any changes in such net tangible book value after December 31 , 2012, other than to give effect to our sale of shares offered hereby, the pro forma net tangible book value per share at December 31,, 2012 would have been $____. This amount represents an immediate increase in tangible net book value of $___ per share to our current stockholders and an immediate dilution in net book value of $____ per share to our Warrant holders exercising their Warrants in this offering as illustrated in the following table:

Public offering price per share	$
Net tangible book value per share before the offering (1)	$
InIncrease in tangible net book value per share attributable to exercising Warrant holders (after deduction of the estimated offering expenses)	$
Pro forma net tangible book value per share after the offering)	$
DiDilution per share to exercising Warrant holders (determined by subtracting the adjusted net tangible book value after the offering from the amount of cash paid by an exercising Warrant holder for one share)	$

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

The following table sets forth, on a pro forma basis as of December 31 , 2012, the average price per share paid by the exercising Warrant holders at the Warrant exercise price of $0.03 and before deductions of the offering expenses:

	Shares Purchased	Percent	Total Consideration Amount (in 000's)	Percent	Average Price Per Share (1)
New Investors	20,346,990	39.62%	$ 610,410	%	$ 0.03
Total	51,353,526	100%	$ --	100%	$ --

SELECTED HISTORICAL FINANCIAL INFORMATION

The following sets forth a summary of our consolidated profit and loss and balance sheet information for the fiscal years ended June 30, 2012 and 2011 all of which have been derived from our audited consolidated financial statements and related notes included elsewhere in this Prospectus, along with the unaudited six month periods ended December 31, 2012 and 2011. The summary consolidated historical financial and operating information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the related notes thereto and the other financial information included elsewhere in this Prospectus.

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

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

	Six Months Ended Dec. 31 , 2012	Six Months Ended Dec. 31, 2011	Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011
Summary Profit & Loss				
Total Revenues	$ 1, 340	$ 800	$ 8,364	$ 3,328
Cost of Sales	(1,143)	(1,100)	(4,896)	(3,448)
Gross Profit/(Loss)	197	(299)	3,468	(120)
Other operating expenses	(1,452)	(1,036)	(9,018)	(2,087)
Other income	-	-	31	4,427
Net interest expense	(1,903)	(743)	(2,753)	(758)
Profit/(Loss) Before Taxes	(3,158)	(2,078)	(8,272)	1,462
Taxes	-	-	-	-
Net Profit/(Loss)	(3,158)	(2,078)	(8,272)	1,462
Less: Net loss attributable to non-controlling interests	(172)	-	-	-
Net loss attributable to Seven Arts Entertainment, Inc.	$ (2,985)	$ (2,078)	-	-
Foreign exchange translation gain/(loss)	-	-	(14)	(250)
Comprehensive income/(loss)	(2,985)	$ (2,078)	(8,286)	1,212
Weighted average Primary Shares, Outstanding (in '000's)	10,935	225	453	27
Weighted average Fully Diluted Shares, Outstanding (in '000's)	10,935	225	453	27
Weighted Average Earnings Per Share	$ (0. 27)	$ (9. 24)	$ (18.29)	$ 54.17
Weighted Average Fully Diluted Earnings Per Share	$ (0. 27)	$ (9. 24)	$ (18.29)	$ 54.17
Summary Balance Sheet				
Total Loans	$ 14,856	$ 8,025	$ 13,288	$ 12, 646
Total Assets	34,511	$ 28,729	$ 32,923	$ 30,140

Shareholders’ Equity	$ 12,063	$ 15,250	$ 13,449	$ 7,958

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

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

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.

We are an independent motion picture production company engaged in developing, financing, producing and licensing theatrical motion pictures with budgets in the range of $2 million to $15 million for exhibition in domestic (i.e. the United States and Canada) and foreign theatrical markets and for subsequent post-theatrical worldwide release in other forms of media, including DVD, home video, pay-per-view, and free television. Our pictures have in the last few years received only a limited theatrical release (50-300 theaters in the United States), or may even be released directly to post-theatrical markets, primarily DVD. Our pictures that receive limited theatrical release or post-theatrical release typically benefit from lower prints and advertising ("P & A") cost and, in turn, improved gross profit margins.

We determine the size of a theatrical release in the United States based on distributor and our estimates of the commercial prospects of theatrical box office and our own evaluation of the level of expected theatrical release costs as opposed to our estimation of potential theatrical box office in the United States.

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

We also are now in the business of producing and distributing recorded music and, as of July 1 2012, our post-production facility at 807 Esplanade in New Orleans commenced operations.

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.

Music Company

Seven Arts Music Inc. ("SAM") became a wholly owned subsidiary 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 .

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 post-production facility at 807 Esplanade Avenue in New Orleans. The facility commenced operations on July 1, 2012.

Company Outlook

The principal factors that affected our results of operations have been:

1. the number of motion pictures and recorded music delivered in a fiscal period,
2. the distribution rights of motion pictures and recorded music produced by others acquired in a fiscal period,
3. the choice of motion pictures and recorded music produced or acquired by us,
4. management's and talents' execution of the screenplay and production plan for each picture and recorded music the distribution and market reactions to the motion pictures and recorded music once completed,
5. management's ability to obtain financing and to re-negotiate financing on beneficial terms,
6. the performance of our third-party distributors and
7. our ability to take advantage of tax-incentivized financing.

These factors will continue to be, in our opinion, the principal factors affecting future results of operation and our future financial condition. 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 and recorded music. 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. In some fiscal periods, a significant portion of our revenue is derived from sources other than motion picture distribution, including the cancellation of debt and interest income on a financing transaction.

We have also benefited significantly from our ability to raise third party film equity investments such as in tax advantaged transactions under which we transfer to third party investor's tax benefits for motion picture production and distribution. These types of investments have enabled us to substantially reduce the cost basis of our motion pictures and even to record significant fee-related revenues.

Results Of Operations

Results of Operations for the Three-Month Period Ended December 31 , 2012 vs. 2011

We generated a net loss of $ 1, 710,601 for the three months ended December 31 , 2012, (after non-controlling interest) compared to $ 1,099,422 for the three months ended December 31 , 2011. A discussion of the key components of our statements of operations and material fluctuations for the three months ended December 31 , 2012 and 2011 is provided below.

Revenue

A)Film revenue totalled $164,719 for the three months ended December 31, 2012, compared to $207,790 for the three months ended December 31, 2011. A comparison of the 2012 and 2011 sales is as follows:

- The majority of 2012 sales came from releasing 'Ninth Cloud' from Deferred Income to Sales and continuing income on Pool Boys.

- The majority of 2011 sales came from the US digital release of the movie " The Pool Boys" $111k . Royalty income was spread over several titles "Deal" $46k, Autopsy $14k, Knife Edge $13k, Nine Miles Down $12k, Noise $5k and Boo $5k.

B)No further revenues were recorded for the music division for this quarter.

C)The post production facility operations continued to grow during the period to $11k despite on-going construction works.

There were no fee-related revenues in either period.

Cost of Sales

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 that the current year's revenue bear's to management's estimates of ultimate revenue expected to be recognized from the exploitation or sale of the films.

- An amortization charge of $94,886 was made in the period to December 31, 2012 spread over several titles but mainly "Pool Boys" and "Knife Edge" in line with revenue forecasts.

- The equivalent charge during the quarter ended December 31, 2011 was $336,527 mainly related to the release of "Pool Boys ".

B)The music company assets have also been amortiz ed 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. No charge was levied for the period as there was no income but long term forecasts remain constant. No amortization was recorded in the previous year as the music company was acquired on February 23, 2012.

C)The leasehold improvements related to the post-production facility are being written off to costs of sales over the 30 year period of the lease, and were $42,848 for the three month ended December 31, 2012.

Other costs of revenue in the period totalling $129,351 compared to $283,949 in the same quarter in 2011 . The 2011 figure was inflated by the write-off of the cost of distribution of "The Pool Boys" The 2012 charge is mainly fees for the music company for distribution fees from Fontana.

Administration Expenses

General and administrative expenses increased from $ 360,612 for the three months ended December 31 , 2011 to $ 781,667 for the three-months ended December 31 , 2012.

However:

1) The addition of the three new divisions resulted in an additional general and administrative cost of $ 266,620.
2) In the three month period to December 31, 2011, $228,000 of distribution costs previously charged to G&A in the first quarter 2011 were reallocated to cost of sales which created a positive "adjustment" in the 2011 period.
3) Approximately $110,000 less overhead was capitaliz ed to movies in the December 2012 quarter than the equivalent period in 2011.

Taking the above adjustments into account overhead decreased in the 2012 quarter by almost $200,000 mainly in legal and professional and IT costs.

Interest expense in the three months ended December 31 , 2012 was $ 927,488 compared to $ 328,942 in the same period in 2011. This reflects interest charges on approximately $2.7 million in convertible debentures as compared to the December 31, 2012 loan balance. Additionally, the 2012 interest expense includes an additional $ 138 ,000 related to SAFELA for the mortgage and construction loan not included in the 2011 equivalent quarter and a penalty of $102,990 charged against the Tonaquint loan. $50,000 of this penalty is reduced if the loan is settled within the loan period .

Interest on movie and production loans was $ 523 ,000 during the second quarter ended December 31 , 2012 versus December 31 , 2011 of $ 219 ,000. The 2012 amount includes disputed interest expense that was not included in the 2011 charge plus a full quarter's charge for "The Pool Boys".

No tax expense was recognized in either period.

Results of Operations for the Six Months Ended June 30 , 2012 Compared To Year Ended June 30, 2011

Our total revenues increased from $3,328,388 for the fiscal year ended June 30, 2011 to $8,363,904 in the fiscal year ended June 30, 2012. This increase principally relates to the fee income earned from SAPLA related to the production/post-production facility located at 807 Esplanade in New Orleans, Louisiana. The gross fee recorded of $9, 447,544 represents the proceeds from disposition of the tax credits to be received by SAPLA for Louisiana and Federal historic rehabilitation expenses and Louisiana film infrastructure expenses, less a provision of $1, 906,646 for the costs of deposing of these tax credits and any reductions resulting from Louisiana or Federal revenue authority adjusting the audited expenses submitted by the Company on which the tax credits are based.

Revenues derived from the licensing and distribution of motion pictures decreased from $2,758,359 in the previous fiscal year to $823,006 in this fiscal year, due to a decrease in sales on the motion pictures Deal and American Summer. The digital release of Pool Boys (American Summer) in the Autumn of 2011 was less than management expectation.

Fee-related revenues in the fiscal year ended June 30, 2011 derived from:

a) Producer's fees of $70,029 resulting from excess tax credits received on Night of the Demons.
b) $500,000 of production fees related to the production and preproduction of three films in Louisiana.

There are no such revenues in the fiscal year ended to June 30, 2012.

Costs of revenue increased from $3,447,996 to $4,895,641 including certain distribution costs, producers' costs and other third party payments, and amortization and impairment of film costs of $3,996,576. The amortization charge represents the amortization of the film assets calculated as the portion of the current year revenue compared to management's estimate of the ultimate revenue from the films.

Consequently, the Group recorded a gross profit of $3,468,263 in the year-ended June 30, 2012 compared to a gross loss of ($119,608) in the year-ended June 30, 2011

General and administrative expenses increased to $2,251,139, from $1,852,303. External legal and professional fees were significantly increased by approximately $400,000, as a result of investigations carried out in the year by government authorities, as well as a significant increase in NASDAQ compliance matters. The acquisition of the music assets has increased general and administrative expense although a substantial proportion of such expenses was capitalized into music assets, with the development of the DMX album and videos.

Management's reserve for doubtful accounts increased to $307,481 compared to $234,429 due to the continued consolidation in the international film business.

The Company had a one-time revaluation due to asset transfer of $6,459,24 7 during the year ended June 30, 2012 of film costs, the most significant of which related to the decreased revenue estimates on the film, The Pool Boys, which was released in September 2011.

We recorded $4,458,621 in other income for the fiscal year ended June 30, 2011 reflecting forgiveness of debt mainly from a Workout Agreement reached with Palm Finance Inc. and Arrowhead Consulting Group, compared to $31,100 in "other income" in the fiscal year ended June 30, 2012.

Net interest expense increased from $758,197 to $2,752,68 2 , reflecting settlement agreements with senior lenders Blue Rider, Cold Fusion and 120db, and accrual of a full year's interest charge on the Pool Boys,Autopsy and Nine Miles Down production loans. Interest of these production loans was forgiven in the prior fiscal year ended June 30, 2011. The Company disputes $957,696 of the interest expense charged to the Pool Boys/Autopsy and Nine Miles Down loans as it has a different interpretation of the contract to that of Palm. Management believes this dispute will be resolved in the near future.

We recorded no tax provision in the fiscal year ended June 30, 2012, because we had no taxable income.

As result of the aforementioned results, we recorded a net loss of ($8,271,186) in the fiscal year ended June 30, 2012 compared to a net profit of $1,461,554 for the fiscal year ended June 30, 2011.

Liquidity And Capital Resources

SFF, owned by SAP, one of our affiliates and a company that was owned by Peter Hoffman, our Chief Executive Officer, obtained financing of $8,300,000 (the "Arrowhead Loan") from Arrowhead Target Fund Ltd. ("Arrowhead") in February 2006, at an interest rate of 15% per annum. Although the loan is secured by certain assets of Seven Arts Future Flows I, LLC, we are not required to repay the Arrowhead Loan from any of our other assets or revenues.

The specific film assets which secure the Arrowhead Loan were our distribution rights in the following motion pictures: Asylum, Stander, I'll Sleep When I'm Dead, No Good Deed, Supercross, Popstar, Red Riding Hood, Johnny Mnemonic, Shattered Image, Never Talk to Strangers, The Hustle, and A Shot at Glory.

Our estimates of the amount of time it would take to repay the Arrowhead Loan from the proceeds of the film assets securing the loan have not been met. The Arrowhead Loan matured on February 15, 2009, and then due in full. SFF received a default notice from Arrowhead to that effect, and as a result Arrowhead is now collecting directly all sums receivable by us with respect to these motion pictures and has appointed a new servicing agent for these motion pictures, with the result that we no longer control the licensing of these motion pictures. As a result of the foregoing, we have removed all investment and receivables related to the twelve motion pictures pledged to Arrowhead as assets and have removed all limited recourse indebtedness relating to these motion pictures as a liability.

Arrowhead filed an action on September 22, 2010 which seeks recovery from the Group of the monies which the Group has retained under its interpretation of the relevant agreements with Arrowhead. In addition, Arrowhead makes substantial additional claims against the Group, Mr. Hoffman and Seven Arts Pictures 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 Group for these breaches of warranties for damages are $8,300,000 although Arrowhead states no basis for this amount. The Group had moved to dismiss the action against all defendants other than SFF, which is not part of the Group. On August 9, 2011, the New York Supreme Court granted the Group's motion and dismissed all defendants except Seven Arts Filmed Entertainment Limited ("SAFE") in its capacity as a collateral agent, which is not a material element of Arrowhead claim. Arrowhead has refiled its claim against the dismissed defendants under an "alter ego" theory. SAFE and SFF have moved to dismiss these claims. The Group continues to believe that Arrowhead's claims against the Group are without substantial merit.

We borrowed an aggregate of $7,500,000 from (i) Arrowhead Consulting Group LLC ("ACG") for $1,000,000 ("ACG Loan") and (ii) Cheyne Specialty Finance Fund L.P. ("Cheyne") for $6,500,000 ("Cheyne Loan") in December 2006, secured by certain of our motion picture assets. The ACG Loan and Cheyne Loan bear interest at 19% and 18% per annum, respectively. The Cheyne Loan matured on September 30, 2007, and a subsidiary acquired the Cheyne Loan plus interest thereon for payment of $6,500,000, and obtained an assignment of their senior position and subordination agreement with Arrowhead. Our estimates of the amount of time it would take to repay the ACG Loan from the proceeds of the film assets securing the loan have not been met. In October 2008, we received a notice of default from ACG in connection with this loan. The ACG Loan is secured by Noise, Deal, Pool Hall Prophets, Boo, A Broken Life, and Mirror Wars and a second position security interest in the motion pictures listed above which are pledged to Arrowhead. ACG has now filed suit to collect the ACG Loan and has obtained summary judgment against one of the subsidiaries, which is on appeal. See Legal Proceedings.

On October 15, 2008 the Group borrowed £1,000,000 (approximately $1,500,000) from Trafalgar Capital Special Investment Fund ("Trafalgar" (in liquidation)). A portion of this loan the Group advanced to the EBT for it to use as the first instalment for the acquisition of all the Preference Shares owned by Armadillo. On September 2, 2009 the Group repaid Trafalgar $1,000,000 (approximately £698,934) as a partial payment against this loan, with the remaining balance subject to repayment in cash or convertible to the ordinary shares of the Group at the conversion terms as agreed between Trafalgar and the Group. On June 22, 2010 an amended agreement was entered into with Trafalgar for an extension of the due date of the convertible debentures to December 31, 2010, and the Group agreed to issue 68,000 ordinary shares to settle a portion of the debt. Trafalgar agreed to reduce the loan amount from the proceeds it received from selling the 68,000 ordinary shares. The transaction was consummated subsequent to the date of the financial statements and all of the 68,000 shares have been sold in the market before December 31, 2011. Subsequent to June 30, 2010, a further amended agreement was entered into with Trafalgar for an extension of the due date of the convertible debentures to March 31, 2011, and the Group agreed to issue 85,000 ordinary shares to settle a portion of the debt. Trafalgar agreed to reduce the loan amount from the proceeds it received from selling the 85,000 ordinary shares. The balance outstanding on the loan after sale of these 85,000 shares is approximately $500,000. The per-share value is determined as the amount recovered by Trafalgar on sale thereof in the market and Trafalgar may "put" these shares to us at $1.00 per share on March 31, 2011 if not previously sold. We intend to pay the balance of the sum due to Trafalgar by similar conversion of our shares

We entered into two senior financing loan and security agreements with Palm to finance the production costs of The Pool Boys, Autopsy and Nine Miles Down dated May 7, 2007 and December 17, 2007. These loans are secured by the revenues to be collected from these motion pictures. The revenues so far collected have been insufficient to repay the majority of these loans, primarily as result of management's decision to delay the release of these films. We have entered into an agreement with Palm extending the due date of these loans to December 31, 2011. The original principal amount of the Palm loan for The Pool Boys and Autopsy are $5,250,000 including $500,000 accrued interest, and for Nine Miles Down was $4,000,000 including $750,000 accrued interest.

We have also entered into a new financing agreement with Palm in November, 2010 to refinance the existing indebtedness secured by our production and post-production facility in New Orleans, Louisiana under which Palm has acquired the existing credit facility of $3,700,000 plus accrued interest of our affiliate SAPLA for $1,000,000 and advanced an additional $1,800,000 to complete renovation and construction of this facility. Palm's advance and interest at the rate of 15% per annum are due and payable within five years and are secured by the property at 807 Esplanade Avenue in New Orleans and Louisiana film infrastructure and historical rehabilitation credits, as well as Federal historical rehabilitation credits associated with the Property. See Our Business – Production.

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.

Short Term Liquidity

The Company has an accumulated deficit of $ 11,750,533 as of December 31 , 2012. Management believes that, as a result of the proceeds derived from the proposed offering (registration statement, Form S-1, filed November 2012) , and based on historical revenues generated from the licensing of the distribution rights on our motion pictures and the new revenues generated from the music division and post-production facility, we will have sufficient working capital to operate for the next twelve months. Fiscal 2013 will be a year of exploitation of the developed music and post-production businesses, as well as a full year of consolidated operations and having strengthened the balance sheet through conversion of debt to equity. This is still anticipated to lead to positive cash flow from operations during fiscal 2013.

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. Cash flow from Operating Activities is expected to become positive in fiscal 2013 due to the impact of the release of the first DMX album, the operation of the post-production facility and on-going film revenues.

Cash Flows

Operating Activities: Net cash used in operating activities in the six months ended December 31 , 2012 was $ 1, 478,376. An increase in other receivables from music company revenue and accounts receivable, as well as increases in amounts due from related parties was offset by a provision for returns, accrued interest, amortization of film costs , music assets and amortization of leasehold improvements , and the obligation to repurchase the pledged shares.

Investing Activities: Net cash used in investing activities in the quarter ended December 31 , 2012 was $ 375,420 which is attributable to cost associated with leasehold improvements for the post-production facility.

Financing Activities: Net cash provided by financing activities during the year ended June 30, 2012 was $1, 749,614 mainly due to the proceeds from additional debt and issuance of common stock for cash.

Capital Resources

As of December 31 , 2012, 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 : Working capital at December 31 , 2012 was $(12,568 ,090), which is consistent with our position as of June 30, 2012 of ($ 10, 248,134).

Working capital is negative due to the fact that all the loans are classified as current even with longer-term workout agreements. The receivables for the fee income from related parties will be paid out over the next four years and, accordingly, are reported long and short-term. The majority of the other loans are convertible to stock 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.

Shareholder's Equity (Deficit): Shareholder's Equity at December 31 , 2012 was $ 12,062,745 decreasing slightly from June 30, 2012 $13,449,284. The change was primarily due to the conversion of debt to equity through the issuance of common shares offset against the revaluation of the shares pledged to certain loans.

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.

The Company has the following indebtedness as of December 31 , 2012:

Lender	Balance including accrued interest	Interest Rate	Issuance Date	Maturity Date	
Film and Production Loans:					
Palm Finance Corporation	$ 4,763,537	18 %			Forbearance agreement
Palm Finance Corporation	1,868,061	18 %			Forbearance agreement
120db Film Finance LLC	4,425	Not stated		8/25/2008	Due on demand
Safron Capital Corp	20,700	10 %	10/31/2012	3/31/2013	Due on demand
Palm Finance Corporation	103,425	10 %	7/30/2012		Due on demand or on settlement of the Content litigation
Total Film and Production Loans	$ 6,760,148				
Trafalgar Capital	$ 584,403	9 %	10/15/2008	8/31/2009	Due on demand
Lion House Eden Finance	50,000		1/22/2009		Due on demand
JMJ Financial	525,205	10 %	6/29/2012	10/27/2012	Due on demand
GHP	137,573	18 %	1/21/2011	4/30/2012	Due on demand
Lotus Capital	100,993	5 %	8/8/2012	12/7/2012	Due on demand
Tonaquint, Inc.	576,144	8 %	8/22/2012		Amended on October 5, 2012
	$ 1,974,319				
Convertibles					
Tripod Group, LLC	$ 37,510	12 %	12 /15/2011	6/30/2012	Due on demand
CMS Capital	37,508	12 %	12 /15/2011	6/30/2012	Due on demand
Rachel Cohen Skydell	37,508	12 %	12 /15/2011	6/30/2012	Due on demand
Runway Investments, LTD	160,609	12 %	1/11/2012	9/30/2012	Due on demand
Tripod Group, LLC	55,737	12 %	1/16/2012	6/30/2012	Due on demand
Isaac Capital Group LLC	105,045	12 %	1/20/2012	6/30/2012	Due on demand
Sendero Capital Ltd	278,027	12 %	1/24/2012	9/30/2012	Due on demand
Tripod Group, LLC	162,946	12 %	2/1/2012	2/1/2013	
Hanover Holdings LLC	427,312	10 %	2/23/2012	8/23/2012	Due on demand
Beaufort Ventures, PLC	108,811	12 %	4/6/2012	4/5/2013	
Beaufort Ventures, PLC	80,887	12 %	4/13/2012	10/16/2012	
Old Capital Ltd	267,507	12 %	5/31/2012	5/30/2013	
Firerock Capital Inc	32,679	10 %	6/21/2012	12/21/2012	Due on demand
Agua Alta (Cold Fusion)	106,180	12 %	6/25/2012	6/25/2013	
Beaufort Ventures PLC	53,074	12 %	6/26/2012	6/26/2013	
Beaufort Ventures, PLC	76,695	10 %	7/19/2012	7/19/2013	
Beaufort Ventures, PLC	51,130	10 %	7/19/2012	7/19/2013	

Beaufort Ventures PLC		153,247	10	%	7/26/2012	1/25/2013	Due on demand
Beaufort Ventures PLC		224,611	10	%	7/31/2012	8/30/2012	Due on demand
Tangiers Investment Group, LLC		50,993	10	%	8/8/2012	8/8/2013	
Beaufort Ventures, PLC		25,476	10	%	8/14/2012	2/8/2013	
Tangiers Investment Group, LLC		7,372	10	%	9/26/2012	9/26/2013	
Tangiers Investment Group, LLC		53,475	10	%	10/23/2012	4/3/2013	
Dominion Capital LLC		109,284	10	%	10/24/2012	2/18/2013	
Dominion Capital LLC		59,045	10	%	10/24/2012	2/18/2013	
Safron Capital Corp.		3,098	10	%	5/7/2012	12/7/2012	
	$	2,765,768					
Total convertible debentures	$	4,740,087					
807 Esplanade							
Palm Finance Corporation-mortgage and construction loan	$	3,355,850	15	%			Forbearance agreement
Total mortgage and construction	$	3,355,850					

* 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.

Key:

C = convertible notes, which convert at different rates into shares of our common stock

Management believes that, based on historical revenues generated from the licensing of the distribution rights on our motion pictures, we will have sufficient working capital to operate for the next twelve months.

We currently borrow funds for the financing of each of our motion pictures from several 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.

Contractual Obligations (as of December 31 , 2012)

The following table sets forth our obligations and commitments to make future payments under contracts and other commitments.

Payments due by Period

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Film and other production loans (1)	$ 6, 760,148	$ 6, 760,148			
Trafalgar Capital Special Investment Fund (4)	$ 584,403	$ 584,403			
JMJ Financial (7)	$ 525, 205	$ 525, 205			
Tonaquint Inc (8)	$ 576,144	$ 576,144			
Convertible Loans (9)	$ 2, 765,768	$ 2, 765,768			
Loans relating to 807 Esplanade (2)	$ 3, 355,850	$ 3, 355,850			
Other Loans	$ 288,566	$ 288,566			
Sums due to Producers (5)	$ 123,267	$ 123,267			
Provision for earn-out (6)	$ 50,000			$ 50,000	
Deferred income	$ 923,180	$ 923,180			
Total	$ 15,952,531	$ 15,902,531	$ 0	$ 50,000	$ 0

Guarantees

Armadillo Investments Plc/EBT (3)	$ 1,900,000	$ 1,900,000
Total	$ 1,900,000	$ 1,900,000

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(1) The current and long-term bank and production loans include approximately $ 6,700 ,000 in special purpose financing arranged for American Summer, Autopsy, and Nine Miles Down produced by us and owed to Palm. The balance of the film debt is the remainder of production financing left on two films.

(2) SAPLA entered into a Credit Agreement with Advantage Capital dated October 11, 2007 for the acquisition and improvement of a production and post- production facility located at 807 Esplanade Avenue in New Orleans, Louisiana. The aggregate borrowing amount under this facility was $3,700,000, all of which was drawn down as of April 30, 2010.

In November 2010 Palm acquired this facility for $1,000,000 and up to $750,000 of the tax credits achieved and agreed to extend a construction facility of $1,850,000 to complete the facility. The facility has been renovated and has obtained a certificate of occupancy. We have guaranteed the indebtedness to Palm and have now included it in our total indebtedness in the amount of $3, 355,850. We also borrowed $800,000 in convertible notes to fund the leasehold improvements, $ 460 ,000 plus interest is still outstanding.

We expect to realize substantial film production, film infrastructure, historic rehabilitation and other state and federal tax credits and other tax incentives from the acquisition, renovation, and operation of this property as a post-production facility. Expenditures by SAPLA for this facility have generated approximately net $3,500,000 in Louisiana Film Infrastructure tax credits (awaiting approval) approximately $2,500,000 in Louisiana State Rehabilitation tax credits (now approved by the State) and $2,500,000 in Federal Historic Preservation tax credits(now approved by the State).

(3) The Group have guaranteed an additional £1,115,000 (approximately $1,672,500) due from the EBT to Armadillo, including £115,000 of interest. Additional interest of about £100,000 (approximately $150,000) is also now due. This liability will be met by the EBT from the funds that we advance to it from the proceeds of a future offering. The second and third payments to Armadillo were due in April and October 2009, and the EBT did not make those payments. In February 2011, 2,143 new shares were pledged to Armadillo in repayment for them extending the repayment date of the £1,000,000 (approximately $1,500,000) to June 30, 2011. These amounts are now due.

(4) A portion of the loan due to Trafalgar Capital Special Investment Fund was advanced by us to the EBT for the partial acquisition of the Preference Shares owned by Armadillo. The loan to Trafalgar came due on June 30, 2009 and we have made a partial payment of $1,000,000 on September 2, 2009. On June 22, 2010 we entered into an amended agreement with Trafalgar for an extension of the due date of the convertible debentures to December 31, 2010 and the issuance of 971 shares in July 2010. This agreement has been further extended, in January 2011, to March 31, 2011 for the issuance of another 1,214 shares against the loan principal.

(5) Includes estimated amounts due to producers of motion pictures. These amounts are not included in Total Debt in the Summary and Selected Financial Data Tables.

(6) The Company's Asset Purchase Agreement with Mr. Michery provided for 50,000 shares of Series B Preferred, 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. 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 fair value of the earn-out as of September 30, 2012 to be $0 and has therefore not reflected it as a liability as of June 30, 2012.

The Company has determined that Mr Jake Shapiro has earned $50,000 from the use of the media tax credits he supplied. The value the Board has placed on the credits used is that of the cost of a public relations firm for the two projects managed, i.e., $50,000.

(7) The Company entered into a Securities Purchase Agreement dated June 27, 2012 with JMJ Financial ("JMJ Securities Purchase Agreement"), with the following material terms:

1. Loan to the Company of $500,000 at a 10% one-time interest charge due October 27, 2012.
2. If unpaid at maturity, the loan is convertible into common stock at the election of JMJ Financial at the lesser of $2.80 or 80% of the average of the three lowest trade prices in the 20 trading days previous to the conversion, subject to certain penalties, anti-dilution adjustments and reset provisions.
3. Warrants to purchase up to 119,098 shares of common stock at $2.10 per share, exercisable by June 27, 2016.
4. Issuance to JMJ Financial of 71,429 shares of common stock as an origination fee.
5. Full recourse personal guaranty by CEO Peter Hoffman with a pledge of 357,143 shares of common stock owned by Mr. Hoffman.

(8) On August 22, 2012 the Company entered into a purchase agreement for several convertible debentures (or "notes") with Tonaquint, Inc. ("Tonaquint"), in the principal amounts of $310,000, $255,000 and $125,000, The first convertible debenture under the agreement was issued on August 22, 2012 for $310,000, less a discount of $60,000 and $10,000 in expenses. On October 5, 2012, due to a delisting default, an amendment was entered into which called for one of the additional convertible debentures to be issued in the principle amount of $155,000 (less a $25,000 discount and $5,000 in fees) and the second in the principal amount of $125,000, to be issued in the future. This note has not been funded as of December 31, 2012. The debt discounts have been immediately expensed, based upon the short term nature of the notes, and the insignificance of the amount as compared to the total Convertible Debenture amount and to interest expense over the term of the note.

The convertible debentures are convertible at $0.20, which is above the market value of the Company's common stock on issuance date, so there is no beneficial element recognized. As a condition of the amendment the outstanding balance of the first note was increased to $412,990 (to be reduced by $50,000 if the note is paid on its maturity date). The notes are payable on certain installment dates, to be satisfied by conversion of the installment amount, or cash, at the option of the Company (provided no equity failure conditions, as defined in the agreement, exist, in which cash the installment payment must be in cash.) As part of the amendment, Tonaquint entered into a Pledge Agreement with Peter Hoffman, for 7,000,000 of the Company's common stock as collateral against repayment of the note. In the event of a default on the notes the holder may transfer and sell the pledged shares and apply the proceeds against the outstanding amounts on the notes.

(9) The Company has evaluated their convertible notes for embedded derivative features and has determined that no derivative liability exists. 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 thecontract. The conversion features were evaluated for any beneficial aspect and determined that no beneficial conversion feature is necessary to recognize.

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Critical 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 (“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." The Company does not have any variable interest or special purpose entities. Going forward, the Company will present Palm Finance's 40% share of SAFELA's profit or loss as a non-controlling interest. The Company prepares its financial statements on the accrual basis of accounting and in accordance with US GAAP. All material inter-company balances and transactions are eliminated. Management believes that all adjustments necessary for a fair presentation of the results of the period ended December 31 , 2012 and 2011 have been made.

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.

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 (i.e., SAE or a consolidated subsidiary) 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 inter-company 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.

Assets and liabilities generated in a currency other than the functional currency are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates in effect for the periods presented. The cumulative translation adjustment is included in the accumulated other comprehensive gain (loss) within stockholders' equity. 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.

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 $171,062 at both September 30, 2012 and June 30, 2012. 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 Inc. 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 enuring 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. As of December 31 , 2012, $ 1,934,579 was owed to Mr. Hoffman for unpaid salary and unreimbursed expenses, as well as repayment of cash he advanced the Company or its predecessors. During the quarter ended September 30, 2012, shares were issued in satisfaction of a portion of this liability. These shares are being held as collateral for two loans (JMJ Financial and Tonaquint Inc.) and will be returned to the Company if not called as collateral.

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 has, 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 inter-company 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 December 31 , 2012. Also included in other receivables is approximately $ 356 ,000 receivable from the Company's distributor of the DMX album. The Company released the album and shipped approximately 110,000 units in the September quarter. The receivable is net of a customary allowance for returns (25%).

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 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.

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.

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 ("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 SAE, in exchange for assumption by SAE of all booked indebtedness not disputed by us and for one share of common stock of SAE for each ordinary share of PLC which have been distributed to shareholders. In accordance with ASC 805-50-30-5, the assets were transferred from PLC to SAE on a historical cost basis, as they were transferred from our former parent company .

Additionally, 28,571 (2,000,000 pre-split) shares of SAE were issued to PLC as additional consideration based on our valuation of the assets acquired. 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

The assets and certain of the liabilities of PLC were transferred to us at net book value and we have made a one-time adjustment to net value of our film assets as of June 30, 2012 to reflect our valuation of those film assets. Our cost basis of all the film assets transferred was the same as recorded on the books of our former parent company, the transferor, as of June 30, 2011, under the terms of the Asset Transfer Agreement as amended. Four of the films performed and continued to perform at a level below what was originally expected, and in review at year end did not support the cost basis first recorded in our books as a result of the asset transfer transaction in the quarter ended September 30, 2011. We believe the adjustment was a re-valuation of the transfer cost basis of the film assets acquired and not an impairment.

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 remained liabilities of the PLC. The issuance of the 2,000,000 shares was booked at the closing market price on August 31 2011, which was $0.66 per share.

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. For the periods presented, there were no potentially dilutive securities outstanding, therefore basic earnings per share equals diluted earnings per share. Basic and diluted earnings per share ("EPS") are based on weighted-average common shares and exclude shares that would have an anti-dilutive effect. 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 June 30, 2012 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 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.

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

	Three Months Ended December 31 , 2012			
	Film (SAFE)	Music (SAM)	Post-Production(SAFELA)	Total
Revenue	$ 164,719	$ 6,450	$ 11,628	$ 182,797
Cost of revenue	(90,204)	(118,221)	(42,848)	(251,273)
Gross profit/(loss)	74,515	(111,771)	(31,220)	(68,476)
Operating expenses	(406,328)	(212,766)	(53,853)	(672,947)
Loss from operations	$ (331,813)	$ (324,537)	$ (85,073)	(741,423)
SAE Inc.				(124,532)
Total Operating Loss				$ (865,955)

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	Six Months Ended December 31, 2012			
	Film (SAFE)	Music (SAM)	Post-Production(SAFELA)	Total
Revenue	$ 394,112	$ 927,645	$ 18,078	$ 1,339,835
Cost of revenue	(198,753)	(847,398)	(80,775)	(1,126,926)
Gross profit/(loss)	195,359	80,247	(62,697)	212,909
Operating expenses	(782,581)	(245,745)	(88,386)	(1,116,712)
Loss from operations	$ (587,222)	$ (165,498)	$ (151,083)	(903,803)
SAE Inc.				(350,716)
Total Operating Loss				$ (1,254,519)

Assets

	December 31, 2012	June 30, 2012
Film assets	$ 15,069,063	$ 14,612,609
Music assets	3,108,323	2,923,474
Post-production assets	4,845,915	4,551,270

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 are 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.

BUSINESS

Corporate History and Current Corporate Structure

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 certain 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 39 completed motion pictures, subject in certain instances to the prior financial interests of other parties.

Seven Arts Music Inc. ("SAM") became a wholly owned subsidiary 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 commenced business activities commenced on those dates, but definitive agreements were not executed until February 23, 2012.

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 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 assets (as now reflected on our balance sheet) from PLC to SAE, in exchange for assumption by SAE of all booked indebtedness (now reflected on our balance sheet) and for one share of common stock of SAE for each ordinary share of PLC which have been distributed to shareholders. Additionally, 28,571 shares (2,000,000 shares as adjusted for the 1:70 reverse stock split discussed herein) of SAE were issued to PLC as additional consideration to PLC. 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.

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 stockholders at the Company's Extraordinary General Meeting on June 11, 2010. On August 31, 2012, the Company announced a 1-for-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. Certain indebtedness of PLC remained with PLC and will be subject to administration or payment in those administration proceedings.

In connection with the acquisition of the music assets of Michery, the Company issued 100 ,000 shares of our Series B convertible preferred stock, par value $100 convertible at approximately $1.10 per share) to Michery and his assigns 50,000 of these shares of the Company's Series B convertible preferred stock were placed in escrow. Based on performances to date and to satisfy other obligations to Michery , 20,000 of these shares have been vested in Michery (March 2013) and the balance have been cancelled.. Michery is a consultant to SAM.

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, stated value $100 convertible at approximately $1.10 per share) to Jake Shapiro and his assigns . 70,000 shares of our Series B convertible preferred stock were placed in escrow and have now been cancelled pursuant to a settlement agreement with Mr. Shapiro and his assigns in March 2013 .

Seven Arts Pictures Louisiana LLC, ("SAPLA"), 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 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.

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 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.

Subject to appropriate and required regulatory filings and approvals, we declared a dividend of Warrants to those persons beneficially owning our common stock as of the close of the markets on August 31, 2012. The shares of common stock underlying the Warrants are the subject of this Prospectus. 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 expiration date on June 30, 2014, 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 $0.03 per share. We do not expect that a secondary market will develop for the Warrants .

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

On September 14, 2012 our common stock began being quoted on the OTC Market Group Inc.'s OTCQB tier under our historical symbol "SAPX."

Capital Structure:

SAE’s authorized capital is 250,000,000 shares of capital stock. SAE has authorized the following classes of stock:

249,000,000 of common stock, $.01 par value per share. As of the date of this prospectus, there are [______________] shares of common stock outstanding . Each outstanding share of common stock entitles the holder thereof to one vote per share on matters submitted to a vote of stockholders.

125,125 shares of Series A Preferred Stock with a $10.00 stated value per share. All of such authorized shares were issued to one shareholder in November 2011. These shares have a conversion price to common stock of $10.50 per share.

200,000 shares Series B Preferred Stock with a $100.00 stated value per share. As of the date of this prospectus, there are 43,580 shares outstanding . The per share conversion price for the Series B Preferred Stock is $1.10 per share.

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

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 in by our predecessors, CineVisions, SAPLA and SAP. All our production activities after January 1, 2005 were under our direction or that of PLC. 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.

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	Director:	J.B. Rogers	06/08	9/11	n/a
The Pool Boys (CR)	Cast:	Matthew Lillard			
(All Territories)		Effren Ramirez			
Autopsy (CR)	Director:	Adam Gierasch	06/08	1/09	n/a
(All Territories)	Cast:	Robert Patrick			
Deal (CR)	Writer:	Gil Cates, Jr.	03/07	04/08	n/a
		& Marc			
(All Territories)		Weinstock			
	Director:	Gil Cates, Jr.			
	Cast:	Burt Reynolds			
		Bret Harrison			
		Shannon Elizabeth			
		Jennifer Tilly			
Knife Edge	Director:	Anthony Hickox	06/08	03/10	3/23/2031
	Cast:	Joan Plowright			
		Natalie Press			
(All Territories)					
Night of the Demons (CR)	Director:	Adam Gierasch	06/09	10/10	n/a
	Cast:	Shannon Elizabeth			
(All Territories)		Edward Furlong			
		Diora Baird			
Nine Miles Down (CR)	Director:	Anthony Waller	06/09	03/13 (scheduled)	n/a
	Cast:	Adrian Paul			
(All Territories)		Kate Nauta			
Noise aka	Writer/Director:	Henry Bean	03/07	05/08	n/a
The Rectifier	Cast:	Tim Robbins			
(CR)		William Hurt			
(All Territories)		Bridget Moynahan			
		William Baldwin			
Pool Hall Prophets aka	Writer/Director:	Keoni Waxman	09/05	12/05	n/a
Shooting Gallery					

(CR)	Cast:	Freddie Prinze, Jr.		
(All Territories)		Ving Rhames		
Schism (CR)	Writer / Director:	Adam Gierasch	10/13	scheduled 10/12
	Cast:	Callum Blue		
		Vinnie Jones		

(All Territories)
Films Acquired by Us

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We have acquired certain distribution rights to the following motion pictures since January 1, 2005

Title	Talent		Delivery Date	1st U.S. Release	Date Distribution Rights Terminate
Back In The Day	Writer:	Michael Raffanello	03/05	05/05	11/11/2019
(All International Territories)	Director:	James Hunter			
	Cast:	Ving Rhames			
		Ja Rule			
Boo (1)	Writer/Director:	Anthony C. Ferrante	03/05	10/05	5/14/2008
(All International Territories)	Cast:	Trish Cohen			
		Happy Mahaney			
A Broken Life	Writers:	Neil Coombs, Anna Lee	06/08	09/08	10/26/2026
(All International Territories)		& Grace Kosaka			
	Directors:	Neil Coombs			
	Cast:	Tom Sizemore			
		Ving Rhames			
		Grace Kosaka			
		Saul Rubinek			
Captivity	Writer:	Larry Cohen	03/06	07/07	5/10/2008
(All International Territories)	Director:	Roland Joffe			
	Cast:	Elisha Cuthbert			
Cemetery Gates (1)	Writer:	Brian Patrick O'Tolle	03/05	05/06	4/4/2020
(All International Territories)	Director:	Roy Knyrim			
	Cast:	Reggie Bannister			
Drunkboat	Writer:	Bob Meyer & Randy Buescher	12/08	07/12	4/28/2016
(All Territories)	Director:	Bob Meyer			
	Cast:	John Malkovich			
		John Goodman			
		Dana Delaney			
Gettin' It	Writer/Director:	Nick Gaitatjis	12/06	08/07	4/4/2017
(All Territories)	Cast:	Jessica Canseco			
		Patrick Censoplano			
		Cheryl Dent			
		Sandra Staggs			

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Hades aka The Black Waters of Echo Pond (All International Territories)	Director:	Gabriel Bologna	5/09	04/10	10/26/2027
	Cast:	Robert Patrick			
		Danielle Harris			
Men Don't Lie	Director:	Jane Spencer	not yet scheduled	not yet scheduled	
(All Territories)	Cast:	Michael Madsen			
		Elle Travis			
The Mesmerist	Writers:	Ron Marasco	06/02	09/02	n/a
(All International Territories)		& Michael Goorjian			
	Director:	Gil Cates, Jr.			
	Cast:	Neil Patrick Harris			
		Jessica Capshaw			
Mirror Wars	Writers:	Alex Kustanovich	11/06	07/07	2/3/2011
(All International Territories)		& Oleg Kapanets			
	Director:	Vasily Chiginsky			
	Cast:	Armand Assante			
		Malcolm McDowell			
		Rutger Hauer			
+ Popstar	Writer:	Timothy Barton	03/05	11/05	10/19/2014
(All International Territories)	Director:	Richard Gabai			
	Cast:	Aaron Carter			
		Alana Austin			
Radio Free Albemuth	Writer/Director:	John Alan Simon	6/10	NA	6/25
(International Territories)	Cast:	Alanis Morissette			
+ Red Riding Hood	Writer:	Timothy Dolan	03/06	06/06	5/2/2015
(All International Territories, ex. Indonesia, Israel, Japan, Latin American Satellite TV, Mexico, Middle East, Pan Asian Satellite TV, Portugal, Russia, Slovenia/Croatia, Thailand, Turkey)	Director:	Randall Kleiser			
	Cast:	Lainie Kazan			
		Morgan Thompson			
+ Supercross	Writer:	Ken Solarz	08/05	5/25/2019	
(All International Territories)	Director:	Steve Boyum			

	Cast:	Sophia Bush			
		Steve Howey			
		Cameron Richardson			
The Wedding Chest	Writer:	Ekaterina Tirdatova	3/08	not yet scheduled	10/4/2021
(All International	Director:	Nurbek Egen			
Territories excluding	Cast:	Natasha Regnier			
Russia, Germany and France)		Bolot Tentimyshov			

We have lost the right to manage twelve motion pictures (designated "+" in the table below) as a result of the exercise by the Arrowhead Target Fund of its rights under the Arrowhead Loan described above at "Risk Factors." As a result, Arrowhead is collecting all sums receivable with respect to these motion pictures and all interest in and receivables from these motion pictures has been removed from our financial statements effective June 30, 2009, but Arrowhead has not foreclosed on the copyright and distribution rights of our affiliate in these twelve motion pictures.

Our Business Strategy

We believe our current business strategy is:

To finance, produce and distribute two to four motion pictures per year with budgets of between $2 million and $15 million each. As previously stated, these pictures will receive only a limited theatrical release . There can be no assurance as to the number of theaters or “print & advertising” expenditures we will be able to arrange one any of these motion pictures. The current motion pictures scheduled for release in calendar year 20123 are Schism , and Nine Miles Down.

To acquire and distribute sound recordings throughout the world, both as singles .and albums of both established and new recording artists. We except to release 3 to 4 albums per calendar year, including albums by the established urban artists DMX and Bone Thugs-N-Harmony

To supplement our core strategy by producing an occasional higher cost motion picture (production budgets of $30 - $60 million). We will seek to license such projects to a major studio to guarantee a studio-wide release and obtain a commitment to cover a portion or all of P&A costs as well as other distribution expenses, although no such agreement has yet been completed.

To opportunistically acquire distribution rights to an additional two to five motion pictures produced by others, each year, for distribution in theatrical, video and television markets, as an agent, for a 15%-20% fee. We have acquired three motion pictures in the twelve months pursuant to this strategy.

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

To enter into arrangements with theatrical and video distributors, to gain more control over and increase our share of the revenues from distribution of our motion pictures . We have entered into such arrangements in the United States, United Kingdom and Spain in the last twelve months.

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

In the last year, we have engaged in substantial pre-production and development activities on our motion picture projects Winter Queen and Neuromancer , which will have production budgets of approximately $20 million and $60 million, respectively. By reason of the production costs, underlying materials and creative elements attached (director and actor), we believe these large budget motion pictures will obtain a substantial theatrical release in the United States and the international territories such as United Kingdom, Germany, Japan, France, Spain and Australia. We have also developed three lower budget motion pictures and acquired two as part of our distribution strategy.

Our Competitive Strength

We believe our competitive strengths include:

- The experience of our management and our relationships with independent motion picture distributors.
- Our relationships with “key talent” (e.g., writer, director, actor and producer) and with independent motion picture distributors around the world.
- Our expertise in structuring tax-preferred financings.
- Our exclusive recording agreements with DMX and Bone Thugs-N-Harmony.

Production

Since 1996, we and our predecessors have developed, financed, produced, and licensed 16 motion pictures, primarily with budgets in range of $2 million to $15 million, for domestic and international markets. Most of our pictures have either received only limited theatrical releases or were released directly to post-theatrical markets, primarily DVD. We may produce the occasional higher cost motion picture (production budgets of $30 - $60 million), and if we do so, we will most likely choose to co-produce any such project with a major studio if they guarantee a studio-wide release and provide a commitment to cover a portion or all of P&A costs or with one or more other independent production companies. The number of pictures that we are able to produce and the size of the budget of those films depend upon the funds available to us.

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

In 2007 Seven Arts Pictures Louisiana LLC (“ SAPLA ”), acquired real property in New Orleans, Louisiana, which has been completed as a production and post- production facility for motion pictures in Louisiana. Over the past five years, Louisiana has become a popular destination for the production of motion pictures due to very favorable tax incentives. Since 2005, we have produced five motion pictures under the Louisiana Motion Picture Incentive Act (the “Louisiana Incentives”), which provides substantial transferable tax credits for film production activities in Louisiana accredited to us whether we produce or acquire a motion picture. The Louisiana Incentives provide generally that the producer will receive both a 25% (now 30%) transferable investment tax credit on all film expenditures on Louisiana vendors and a 10% (now 5%) transferable labor tax credit on all expenditures for labor performed in Louisiana by Louisiana residents. We generally obtain loans during production of a motion picture in Louisiana secured by these tax credits after a “pre-certification” by the Louisiana Film Office that the applicable motion picture qualifies for the Louisiana Incentives. We are then able to transfer these tax credits at a discount to third parties upon completion of the motion picture, audit by independent accountants of the applicable expenditures and “certification” by the Louisiana Film Office of tax credits payable based on the audited expenditures. We use the proceeds from the transfer of the tax credits to third parties to repay the loan secured by the tax credits, at which time the lender releases its security interest in the tax credits.

We are able to obtain similar refundable (but not transferable) tax credits arising from film production expenditures in the United Kingdom, Canada, Ireland, Italy and Hungary which offer refundable tax credits for production expenditures in each of their territories.

Our post-production facility in Louisiana opened for business in July , 2012. We intend that this facility will be leased to our motion picture productions in Louisiana and to other motion picture productions produced by unrelated parties. SAPLA secured a credit facility in the aggregate principal amount of $3,700,000, which has been used to acquire and begin the improvements on the property. This credit facility carries an annual interest rate of 2% plus the Prime Rate as published in The Wall Street Journal. We have guaranteed the amounts that SAPLA borrows under this facility and no additional consideration is provided for this guarantee beyond the existing agreement between SAPLA and us.

We entered into a new financing agreement with Palm in November, 2010 to refinance the existing indebtedness secured by our production and post- production facility in New Orleans, Louisiana under which Palm has acquired the existing credit facility of $3,700,000 plus accrued interest of our affiliate SAPLA for $1,000,000 and agreed to advance an additional $1, 850 ,000 to complete renovation and construction of this facility. Palm's advance and interest at the rate of 15% per annum are due and payable within five years and are secured by the property at 807 Esplanade Avenue in New Orleans and Louisiana film infrastructure and historical rehabilitation credits, as well as Federal historical rehabilitation credits associated with the property. See Our Business – Production.

We do not anticipate the use of any material amount of our working capital to complete and operate this facility, and we expect to realize substantial film production, film infrastructure, historic rehabilitation and other state and federal tax credits and other tax incentives from the acquisition, renovation, and operation of this property as a post-production facility. In particular SAPLA anticipates approximately $3,500,000 in Louisiana film infrastructure tax credits, $2,500,000 in Louisiana state historic rehabilitation tax credits and $2,500,000 in Federal historic preservation tax credits will be available from expenditures in connection with this facility.

Licensing of Distribution Rights

We license distribution rights in our motion pictures in the United States and in most foreign territories prior to and during the production or upon the acquisition of rights to distribute a picture. We share in the commissions generated by the sales of the pictures. Sale of a license to distribute a motion picture prior to its delivery is termed a "pre-sale" and may occur at any time during the development and production process. In a typical license agreement, we license a picture to a distributor before it is produced or completed for an advance from the licensee, which advance is recoverable by the distributor from our share of the revenues generated by the distribution of the picture in the licensee's territory, after deduction of the distributor's expenses and distributor fee. The advance usually is in the form of a cash deposit plus a letter of credit or "bank letter" for the balance payable 10-20% on execution (i.e., the cash deposit) and the balance on delivery (i.e., the letter of credit or "bank letter"). The license grants the distributor the right to the post-theatrical release of the picture in all or certain media in their territory for a predetermined time period. After this time, the distribution rights revert back to us and we are then free to re-license the picture. The license specifies that the distributor is entitled to recoup its advance from the revenue generated by the release of the picture in all markets in its territory, as well as its release costs and distribution fees. After the distributor has recouped its advance, costs, and fees, any remaining revenue is shared with us according to a predetermined formula. This is known as an "overage" and can be a significant source of revenue for us from successful films. However, a film's poor reception in one market does not preclude it from achieving success in another market and generating significant additional revenue for us in the form of an "overage" in that territory. In all of our licensing arrangements, we retain ownership of our films and maintain our control of each copyright. We intend to continue the practice of retaining underlying rights to our film projects in order to continue to build our motion picture library to license or sell in the future.

Finance

We create a separate finance plan for each motion picture we produce. Accordingly, the sources of the funds for production of each motion picture vary according to each finance plan. We utilize 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.

Motion Picture Library

In total we and our predecessors have produced or acquired interests in the following motion pictures to date described below in the table. We own (directly or through grants of all rights in perpetuity of at least theatrical, video, and television rights) either (a) the copyright to each picture designated as “CR” in the table below, or (b) distribution rights in the markets in which we operate for territories outside the United States and Canada (i.e., “International Territory”) or for the territories designated in the table, for no less than 15 years. Historically, in any financial period a small number of motion pictures have accounted for the vast majority of our revenues generated from our motion picture library.

We have lost the right to manage twelve motion pictures (designated “+” in the table below) as a result of the exercise by the Arrowhead Target Fund of its rights under the Arrowhead Loan described above at “Risk Factors”. As a result, Arrowhead is collecting all sums receivable with respect to these motion pictures and all interest in and receivables from these motion pictures has been removed from our financial statements effective June 30, 2009, but Arrowhead has not foreclosed on the copyright and distribution rights of our affiliate in these twelve motion pictures.

For purposes of this table, “Delivery Date” refers to the date the applicable motion pictures is completed and available for delivery to distributors. The “1st US release” is the date on which the film is first released in any medium (e.g., theatrical, video, television) in the United States.

Title	Talent		Delivery Date	1st U.S. Release	Date Distribution Rights Terminate
American Summer aka	Director:	J.B. Rogers	06/08	9/11	n/a
The Pool Boys (CR)	Cast:	Matthew Lillard			
(All Territories)		Effren Ramirez			
+Asylum (CR)	Writer:	Patrick Marber	05/04	08/05	n/a
(All Territories)	Director:	David MacKenzie			
		Ian McKellan			
	Cast:	Natasha Richardson			
Autopsy (CR)	Director:	Adam Gierasch	06/08	1/09	n/a
(All Territories)	Cast:	Robert Patrick			
Back In The Day	Writer:	Michael Raffanello	03/05	05/05	11/11/2019
(All International Territories)	Director:	James Hunter			
	Cast:	Ving Rhames			
		Ja Rule			
Boo (1)	Writer/Director:	Anthony C. Ferrante	03/05	10/05	5/14/2008
(All International Territories)	Cast:	Trish Cohen			
		Happy Mahaney			
A Broken Life	Writers:	Neil Coombs, Anna Lee	06/08	09/08	10/26/2026
(All International Territories)		& Grace Kosaka			
	Directors:	Neil Coombs			
	Cast:	Tom Sizemore			
		Ving Rhames			
		Grace Kosaka			
		Saul Rubinek			
Captivity	Writer:	Larry Cohen	03/06	07/07	5/10/2008
(All International Territories)	Director:	Roland Joffe			
	Cast:	Elisha Cuthbert			
Cemetery Gates (1)	Writer:	Brian Patrick O'Tolle	03/05	05/06	4/4/2020
(All International Territories)	Director:	Roy Knyrim			
	Cast:	Reggie Bannister			

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Deal (CR)	Writer:	Gil Cates, Jr.	03/07	04/08	n/a
(All Territories)		& Marc Weinstock			
	Director:	Gil Cates, Jr.			
	Cast:	Burt Reynolds			
		Bret Harrison			
		Shannon Elizabeth			
		Jennifer Tilly			
Drunkboat	Writer:	Bob Meyer & Randy Buescher	12/08	7/12	4/28/2016
(All Territories)	Director:	Bob Meyer			
	Cast:	John Malkovich			
		John Goodman			
		Dana Delaney			
Gettin' It	Writer/Director:	Nick Gaitatjis	12/06	08/07	4/4/2017
(All Territories)	Cast:	Jessica Canseco			
		Patrick Censoplano			
		Cheryl Dent			
		Sandra Staggs			
Hades aka	Director:	Gabriel Bologna	5/09	04/10	10/26/2027
The Black Waters of Echo Pond	Cast:	Robert Patrick			
(All International Territories)		Danielle Harris			
+ The Hustle	Writers:	David Howard	10/02	12/02	n/a
(CR)		& Michael Capellupo			
(All Territories except Germany and Canada)	Director:	Stuart Cooper			
	Cast:	Bobbie Phillips			
		Robert Wagner			
+ I'll Sleep When	Writer:	Trevor Preston	06/04	06/04	n/a
I'm Dead (CR) (1)	Director:	Mike Hodges			
(All International Territories)	Cast:	Clive Owen			
		Malcolm McDowell			
		Jonathan Rhys Meyers			
+ Johnny Mnemonic	Writer:	William Gibson	12/94	05/95	n/a
(CR)	Director:	Robert Longo			
(All Territories)	Cast:	Keanu Reeves			
		Dolph Lundgren			

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Title	Talent		Delivery Date	1st U.S. Release	Date Distribution Rights Terminate
Knife Edge	Director:	Anthony Hickox	06/08	03/10	3/23/2031
	Cast:	Joan Plowright			
(All Territories)		Natalie Press			
Men Don't Lie	Director:	Jane Spencer	not yet scheduled	not yet scheduled	
(All Territories)	Cast:	Michael Madsen			
		Elle Travis			
The Mesmerist	Writers:	Ron Marasco	06/02	09/02	n/a
(All International Territories)		& Michael Goorjian			
	Director:	Gil Cates, Jr.			
	Cast:	Neil Patrick Harris			
		Jessica Capshaw			
Mirror Wars	Writers:	Alex Kustanovich	11/06	07/07	2/3/2011
(All International Territories)		& Oleg Kapanets			
	Director:	Vasily Chiginsky			
	Cast:	Armand Assante			
		Malcolm McDowell			
		Rutger Hauer			
+ Never Talk To Strangers (CR) (1)	Writers:	Lewis A. Green	09/95	10/95	n/a
		& Jordan Rush			
(All Territories)	Director:	Peter Hall			
	Cast:	Antonio Banderas			
		Rebecca DeMornay			
Night of the Demons (CR)	Director:	Adam Gierasch	06/09	10/10	n/a
	Cast:	Shannon Elizabeth			
(All Territories)		Edward Furlong			
		Diora Baird			
Nine Miles Down (CR)	Director:	Anthony Waller	06/09	3/13	n/a
	Cast:	Adrian Paul			
(All Territories)		Kate Nauta			

Noise aka	Writer/Director:	Henry Bean	03/07	05/08	n/a
The Rectifier	Cast:	Tim Robbins			
(CR)		William Hurt			
(All Territories)		Bridget Moynahan			
		William Baldwin			
+ No Good Deed (CR)	Writer:	Christopher Canaan	05/02	09/03	n/a
(All Territories)		& Steve Banancik			
	Director:	Bob Rafelson			
	Cast:	Samuel L. Jackson			
		Milla Jovovich			

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Title	Talent		Delivery Date	1st U.S. Release	Date Distribution Rights Terminate
Pool Hall Prophets aka Shooting Gallery	Writer/Director:	Keoni Waxman	09/05	12/05	n/a
(CR)	Cast:	Freddie Prinze, Jr.			
(All Territories)		Ving Rhames			
+ Popstar	Writer:	Timothy Barton	03/05	11/05	10/19/2014
(All International Territories)	Director:	Richard Gabai			
	Cast:	Aaron Carter			
		Alana Austin			
Radio Free Albemuth	Writer/Director:	John Alan Simon	6/10	NA	6/25
(International Territories)	Cast:	Alanis Morissette			
+ Red Riding Hood	Writer:	Timothy Dolan	03/06	06/06	5/2/2015
(All International Territories excl Indonesia, Israel, Japan, Latin American Satellite TV, Mexico, Middle East, Pan Asian Satellite TV, Portugal, Russia, Slovenia/Croatia, Thailand, Turkey)	Director:	Randall Kleiser			
	Cast:	Lainie Kazan			
Schism	Writer/ Director	Adam Gierasch		n/a	n/a
(RR)		Callum Blue			
(All territories)		Vinnie Jones			
+ Shattered Image	Writer:	Duane Poole	06/98	12/98	n/a
(CR) (1)	Director:	Raul Ruiz			
(All Territories)	Cast:	William Baldwin			
		Anne Parillaud			
+ A Shot At Glory	Writer:	Denis O'Neill	01/02	05/02	9/30/2016
(All International Territories)	Director:	Michael Corrente			
	Cast:	Robert Duvall			
		Michael Keaton			
+ Stander (CR)	Writer:	Bima Stagg	10/03	08/04	n/a
(All Territories)	Director:	Bronwen Hughes			
	Cast:	Thomas Jane			
		Deborah Unger			

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

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

Our Recorded Music Business

We entered the business of production, acquisition, marketing and sale of pre-recorded music in February 2012 by acquisition of music assets of Mr. Michery and 100% of the stock of BJM. SAM's pre-recorded music products will include releases of the new musical performances of recording artists, as well as compilations featuring various artists or repackaged releases of previously recorded music from our master music catalog and derived from licenses of music masters from third-parties. Seven Arts Music Inc. ("SAM") became a wholly owned subsidiary 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 has been released on September 11, 2012. The first album from Bone Thugs-N-Harmony ("BTH") was delivered to us 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.

We currently own a music catalog with 52 DMX masters and 18 BTH masters We intend to add to the music catalog through strategic and complementary acquisitions, licensing agreements, and by executing recording agreements with artists, production companies and other record labels with new recordings. No such arrangements have been completed.

In the future, as a general business practice, we intend to enter into rights acquisition, licensing, distribution and recording agreements ("Recording Agreements") with artists, third-party record labels and production companies ("Artists") to provide master recordings that have not been previously released for sale to consumers ("New Masters ") as albums ("Albums "). Through each Recording Agreement , if concluded , we will acquire the worldwide copyright and exclusive right to distribute and license music products derived from the New Masters that will be recorded and produced by the Artists, during the term of the Recording Agreement or any extension thereof. We will also acquire the exclusive right to record and market all New Masters of the recording artist(s) featured on any and all New Masters recorded by the Artists during the term of the Recording Agreements. We will also have the right to extend the term of the Recording Agreement through the exercise of multiple options pursuant to the terms of the Recording Agreements. We currently have recording agreements with the established urban artist DMX (two albums) and Bone

Thugs-N-Harmony (five albums). We have no other firm commitments for Recording Agreements.

Most Recording Agreements (if entered into) will have an initial term and will usually have up separate, consecutive, irrevocable options, to renew the term for additional periods, at our sole discretion. As a condition of the initial term, and prior to exercising each option, we will be required to pay recoupable advances to the label.Depending upon the initial success of any single, we will advance to the label the costs to film and produce a music video featuring the single song selected by us. Pursuant to the terms of the Recording Agreement, we have the right to supervise and approve all elements of the music video. Once an acceptable music video is completed, we will use our efforts and pay third-party promoters to secure airplay of the music video on regional and national music video shows, as part of our marketing of the particular Album.

The marketing expenses we spend on any Album are variable, because the actual amount of expenditures for each Album will depend upon our management’s business judgment and discretion, about the commercial success (or lack thereof) of any Album, or the effectiveness of any Album’s marketing. At any point, we can elect to continue to or discontinue spending money to market any individual Album. If the Album realizes commercial success in the United States and Canada, the Album will be released in foreign territories.

Depending upon the terms of each Recording Agreement (if entered into), we will pay each label royalties from the net profits we actually receive from the sale of music products delivered during the term of the Recording Agreement. According to the terms of each Recording Agreement, we will only be required to pay royalties to a label after we recoup all advances (we make to or on behalf of the label) from label’s percentage of net sales of all music products derived from the New Master(s) delivered by the subject label.

Distribution Agreement

On February 23, 2012, we entered into an Exclusive Manufacturing and Distribution Agreement (“Domestic Distribution Agreement”) with Fontana Records, a division of In Grooves, Inc. (“Fontana”). Pursuant to this Agreement, Fontana will sell our music products, including compact discs, cassettes, and digital versatile discs (DVD) to consumers mainly through retailers and wholesalers in the United States and Canada. During the term of the Domestic Distribution Agreement, Fontana will be our exclusive manufacturer and distributor, through every distribution channel of recorded music in the United States and Canada. Fontana will also exclusively handle all of our on-line sales during the term of the Domestic Distribution Agreement.

In addition to distributing and selling our products, Fontana will supervise and advance the costs of all of our manufacturing, and will warehouse all of our inventory. The Domestic Distribution Agreement became effective February 23, 2012 and will continue until February 23, 2015. Fontana has the right to extend the term of the Domestic Distribution Agreement for an additional two years, until February 23, 2017.

For each separate title of music products released, our management, along with Fontana shall determine the applicable wholesale price per unit.

Under the Distribution Agreement, we are responsible for all recording costs and rights acquisition costs in securing all intellectual property rights and licenses necessary to allow us to sell records. We will be responsible for paying all marketing and promotion costs for each Album title that it releases commercially, and will be responsible to pay artist royalties and royalties related to all licenses related to the exploitation of the Album and its content.

Foreign License Agreement

We have entered into an international all-rights distribution agreement with Fontana in all territories except Germany, Austria and Switzerland for distribution of DMX's album "Undisputed." We have entered into an agreement with another distributor for distribution of "Undisputed" in the territories of Germany, Austria and Switzerland.

Sales of Compact Discs

Our rights to new master recordings will be embodied in Recording Agreement with recording artists and production companies. In each Recording Agreement, we acquire the exclusive worldwide copyright and right to manufacture, distribute and license products derived from the new master's recordings created by those recording artists.

As consideration for the rights granted to us, upon execution of most Recording Agreements, we will pay advances to the recording artists and production companies that produce the music master recordings that will be marketed and distributed by us. Each advance and a substantial proportion of our marketing expenditures will be recouped from the portion of net sales attributed to the recording artists and production companies. We will not be obligated to pay any royalties from those sales until the recording artists or the film production's account is fully recouped.

Concurrent with a recording artist delivering a finished master, we will submit the property to Fontana for manufacturing and distribution, and we initiate our marketing efforts, directed initially at the North American (United States and Canadian) commercial release of the subject consumer entertainment product. Foreign sales of the products will lag behind domestic sales, by up to a year.

Manufacturing, Distribution, Marketing and Sales

For each separate title of music products released our management, along with Fontana, will determine the applicable wholesale price per unit for each product. For retail products selling between $12.99 and $22.98, the wholesale prices per unit range between $7.79 and $13.79.

For digital consumer sales in the United States and Canada, Fontana shall be entitled to a licensing fee equal to fifteen percent (15%) of Seven Arts' Net Licensing Billings. According to the Domestic Distribution Agreement, Net Licensing Billings mean royalties or flat payments received by Fontana, on Seven Arts' behalf, attributed to sales, other than sales through normal retail channels.

For each product that we elect to release commercially, we will be responsible for marketing and advertising the product. Prior to the artist's or production company's final deliver of its master, Seven Arts' management will prepare a marketing plan each product.

Our management will determine the actual amount of money spent marketing any new product. Our typical marketing budget per product will be approximately $300,000 (additional marketing costs referred to as co-op, will be advanced by Fontana), the co-op marketing budget will be advanced by Fontana (in the form of co-op advertising, free goods, artwork and point of purchase displays for retail promotion), and Fontana will deduct those costs from Seven Arts' net sales.

Our actual total marketing expenditures for any product is within management's business judgment and discretion. Depending on management's judgment about the commercial success (or lack thereof) of any of its product or the effectiveness of its marketing effort, will determine whether Seven Arts will continue or discontinue marketing the product.

If the Album realizes commercial success in the United States and Canada, approximately one (1) year after its initial release in the United States and Canada, the Album will be released in major foreign territories, such as the United Kingdom, Japan, Australia, Germany, and France.

Competition

In both recorded music and music publishing we compete based on price (to retailers in recorded music and to various end users in music publishing), on marketing and promotion (including both how we allocate our marketing and promotion resources as well as how much we spend on a dollar basis) and on artist signings. We believe we currently compete favorably in these areas.

Our recorded music business is also dependent on technological development, including access to, selection and viability of new technologies, and is subject to potential pressure from competitors as a result of their technological developments. Due to the growth in piracy, we are forced to compete with illegal channels such as unauthorized, online, peer-to-peer file-sharing and CD-R activity. See "Recorded Music Industry – Piracy." Additionally, we compete, to a lesser extent, with alternative forms of entertainment and leisure activities, such as cable and satellite television, pre-recorded films on videocassettes and DVD, the Internet, computers and videogames for disposable consumer income.

The recorded music industry is highly competitive based on consumer preferences, and is rapidly changing. The recorded music business relies on the exploitation of artistic talent. As such, competitive strength is predicated upon the ability to continually develop and market new artists whose work gains commercial acceptance. According to Music and Copyright, in 2008, the four largest major record companies were Universal, Sony Music Entertainment ("Sony"), EMI Music ("EMI") and WMG, which collectively accounted for approximately 74% of worldwide recorded music sales. There are many mid-sized and smaller players in the industry that accounted for the remaining 26%, including independent music companies. Universal was the market leader with a 29% worldwide market share in 2008, followed by Sony with a 21% share. WMG and EMI held a 15% and 10% share of worldwide recorded music sales, respectively. While market shares change moderately year-to-year, market shares have not historically changed significantly from year-to-year.

The music publishing business is also highly competitive. The top four music publishers collectively account for approximately 68% of the market. Based on Music & Copyright's most recent estimates in May 2009, Universal Music Publishing Group, having acquired BMG Music Publishing Group in 2007, was the market leader in music publishing in 2008, holding a 23% global share. EMI Music Publishing was the second largest music publisher with an 18% share, followed by WMG (Warner/Chappell) at 15% and Sony/ATV Music Publishing LLC ("Sony/ATV") at 12%. Independent music publishers represent the balance of the market, as well as many individual songwriters who publish their own works.

Copyrights

Our business, like that of other companies involved in music publishing and recorded music, rests on our ability to maintain rights in musical works and recordings through copyright protection. In the U.S., copyright protection for works created as "works made for hire" (e.g., works of employees or specially commissioned works) after January 1, 1978 lasts for 95 years from first publication or 120 years from creation, whichever expires first. The period of copyright protection for musical compositions and sound recordings that are not "works made for hire" lasts for the life of the author plus 70 years for works created on or after January 1, 1978. U.S. works created prior to January 1, 1978 generally enjoy a total copyright life of 95 years, subject to compliance with certain statutory provisions including notice and renewal. In the U.S., sound recordings created prior to February 15, 1972 are not subject to federal copyright protection but are protected by common law rights or state statutes, where applicable. The term of copyright in the European Union ("E.U.") for musical compositions in all member states lasts for the life of the author plus 70 years. In the E.U., the term of copyright for sound recordings currently lasts for 50 years from the date of release. We are largely dependent on legislation in each territory to protect our rights against unauthorized reproduction, distribution, public performance or rental. In all territories where we operate, our products receive some degree of copyright protection, although the period of protection varies widely. In a number of developing countries, the protection of copyright remains inadequate. The U.S. enacted the Digital Millennium Copyright Act of 1998, creating a powerful framework for the protection of copyrights covering musical compositions and recordings in the digital world. The potential growth of new delivery technologies, such as digital broadcasting, the Internet and entertainment-on-demand has focused attention on the need for new legislation that will adequately protect the rights of producers. We actively lobby in favor of industry efforts to increase copyright protection and support the efforts of organizations such as the World Intellectual Property Organization ("WIPO").

In December 1996, two global copyright treaties, the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, were signed, securing the basic legal framework for the international music industry to trade and invest in online music businesses. The WIPO treaties were ratified by the requisite number of countries, including the U.S. The E.U. has implemented these treaties through the European Copyright Directive, which was adopted by the E.U. in 2001. Legislation implementing the European Copyright Directive in each of the member states is underway. The European Copyright Directive harmonizes copyright laws across Europe and extends substantial protection for copyrighted works online. The E.U. has also put forward legislation aimed at assuring cross border coordination of the enforcement of laws related to counterfeit goods, including musical recordings.

International Distribution

According to IFPI, the top five territories (the U.S., Japan, the U.K., Germany and France) accounted for 74% of the related sales in the recorded music market in calendar year 2008. The U.S., which is the most significant exporter of music, is also the largest territory for recorded music sales, constituting 31% of total calendar year 2008 recorded music sales on a retail basis. In addition, the U.S. and Japan are largely local music markets, with 93% and 80% of their calendar year 2008 physical music sales consisting of domestic repertoire, respectively. In contrast, the U.K., Germany and France have a higher percentage of international sales, with domestic repertoire constituting only 36%, 52% and 57% of these markets, respectively. There has been a major shift in distribution of recorded music from specialty shops towards mass-market and online retailers.

Physical Sales vs. On-Line Sales

According to RIAA, record stores' share of U.S. music sales has declined from 45% in calendar year 1999 to 30% in calendar year 2008. Over the course of the last decade, U.S. mass-market and other stores' share grew from 38% in calendar 1999 to 54% in calendar year 2004, and with the subsequent growth of sales via online channels since that time, their share contracted to 28% in calendar year 2008. In recent years, online sales of physical product as well as digital downloads have grown to represent an increasing share of U.S. sales and combined they accounted for 28% of music sales in calendar year 2008. In terms of genre, rock remains the most popular style of music, representing 32% of 2008 U.S. unit sales, although genres such as rap/hip-hop, R&B, country and Latin music are also popular.

According to RIAA, from calendar years 1990 to 1999, the U.S. recorded music industry grew at a compound annual growth rate of 7.6%, twice the rate of total entertainment spending. This growth, largely paralleled around the world, was driven by demand for music, the replacement of vinyl LPs and cassettes with CDs, price increases and strong economic growth. The industry began experiencing negative growth rates in calendar year 1999, on a global basis, primarily driven by an increase in digital piracy. Other drivers of this decline were and are the overall recessionary economic environment, bankruptcies of record retailers and wholesalers, growing competition for consumer discretionary spending and retail shelf space and the maturation of the CD format, which has slowed the historical growth pattern of recorded music sales. Since that time, annual dollar sales of physical music product in the U.S. are estimated to have declined at a compound annual growth rate of 10%, although there was a 2.5% year-over-year increase recorded in 2004. In calendar year 2008, the physical business experienced a 28% year-over-year decline on a value basis. Notwithstanding these factors, we believe that music industry results could improve based on the continued mobilization of the industry as a whole against piracy and the development of legitimate digital distribution channels.

Piracy

One of the industry's biggest challenges is combating piracy. Music piracy exists in two primary forms: digital (which includes illegal downloading and CD-R piracy) and industrial:

Digital piracy has grown dramatically, enabled by the increasing penetration of broadband Internet access and the ubiquity of powerful microprocessors, fast optical drives (particularly with writable media, such as CD-R) and large inexpensive disk storage in personal computers. The combination of these technologies has allowed consumers to easily, flawlessly and almost instantaneously make high- quality copies of music using a home computer by "ripping" or converting musical content from CDs into digital files, stored on local disks. These digital files can then be distributed for free over the Internet through anonymous peer-to-peer file sharing networks such as BitTorrent, Frostwire, and Limewire ("illegal downloading"). Alternatively, these files can be burned onto multiple CDs for physical distribution ("CD-R piracy"). IFPI estimates that 40 billion songs were illegally downloaded in 2008.

Industrial piracy (also called counterfeiting or physical piracy) involves mass production of illegal CDs and cassettes in factories. This form of piracy is largely concentrated in developing regions, and has existed for more than two decades. The sale of legitimate recorded music in these developing territories is limited by the dominance of pirated products, which are sold at substantially lower prices than legitimate products. The International Intellectual Property Alliance (IIPA) estimates that trade losses due to physical piracy of records and music in 47 key countries/territories around the world with copyright protection and/or enforcement deficiencies totalled $2 billion in 2008. The IIPA also believes that piracy of records and music is most prevalent in territories such as, Indonesia, Lebanon, Mexico, and the People's Republic of China, Peru, the Philippines and Vietnam, where privacy levels are in excess of 70%.

In 2003, the industry launched an intensive campaign to limit piracy that focused on four key initiatives:

• Technological: The technological measures against piracy are geared towards degrading the illegal file- sharing process and tracking providers and consumers of pirated music. These measures include spoofing, watermarking, copy protection, the use of automated webcrawlers and access restrictions.

• Educational: Led by RIAA and IFPI, the industry has launched an aggressive campaign of consumer education designed to spread awareness of the illegality of various forms of piracy through aggressive print and television advertisements. Data collected by RIAA in the first quarter of 2009 reflect that over 40% of the U.S. music-consuming population age 13 and older are aware of the recording industry's efforts to educate consumers about obtaining music legally, and of those, about three-fourths (72%) believe that these efforts have been effective in helping them understand what is permissible in terms of obtaining music. The data also show that only a small minority of the U.S. music-consuming population age 13 and older currently believes that there is legal justification for engaging in file- sharing activities—one-third or less say that it is legal to make their music collections available for others to download or copy and/or to download or copy music from someone else's collection.

• Legal: In conjunction with its educational efforts, the industry has taken aggressive legal action against file-sharers and is continuing to fight industrial pirates. These actions include civil lawsuits in the U.S. and E.U. against individual pirates, arrests of pirates in Japan and raids against file-sharing services in Australia. U.S. lawsuits have largely targeted individuals who illegally share large quantities of music content. A number of court decisions, including the decisions in the cases involving Grokster and KaZaA, have held that one who distributes a device, such as P2P software, with the object of promoting its use to infringe copyright can be liable for the resulting acts of infringement by third parties using the device regardless of the lawful uses of the device.

• Development of online and mobile alternatives: We believe that the development and success of legitimate digital music channels will be an important driver of recorded music sales and monetization going forward, as they represent both an incremental revenue stream and a potential inhibitor of piracy. The music industry has been encouraged by the proliferation and early success of legitimate digital music distribution options. We believe that these legitimate online distribution channels offer several advantages to illegal peer-to-peer networks, including greater ease of use, higher quality and more consistent music product, faster downloading and streaming, better search and discovery capabilities and seamless integration with portable digital music players. Legitimate online download stores and subscription music services began to be established between early 2002 and April 2003 beginning with the launch of Rhapsody in late 2001 and continuing through the launch of Apple's iTunes music store in April 2003. Since then, many others (both large and small) have launched download, subscription, and ad-supported music services, offering a variety of models, including per-track pricing, per-album pricing and monthly subscriptions. According to IFPI in their "Digital Music Report 2008" publication, there are more than 500 legal online music sites providing alternatives to illegal file-sharing in markets around the world. The mobile music business has also grown rapidly, with mobile music revenues rising to nearly $1.6 billion in trade value in 2008, according to IFPI data. While revenues from ringtones initially drove the mobile music business, new mobile phones equipped with new capabilities are increasingly offering the capability for full-track downloads and streaming audio and video. These categories are accounting for a greater share of mobile music revenues while further expanding legitimate options.

These efforts are incremental to the long-standing push by organizations such as RIAA and IFPI to curb industrial piracy around the world. In addition to these actions, the music industry is increasingly coordinating with other similarly impacted industries (such as software and filmed entertainment) to combat piracy. We believe these actions have had a positive effect. A survey conducted by The NPD Group, a market research firm, in December 2007 showed that 27% of U.S. Internet users aged 13 or older who downloaded music from a file-sharing service at any point in the past two years stopped or decreased their usage of such file- sharing services in the year covered by the survey. Internationally, several recent governmental initiatives should also be helpful to the music industry. France recently enacted "graduated response" legislation pursuant to which repeat copyright infringers could have their Internet connections revoked and be subject to criminal penalties. South Korea and Taiwan have also passed graduated response laws. In addition, the U.K. has confirmed its intention to introduce the Digital Economy Bill pursuant to which the proposed legislation would require ISPs to send notifications to infringing subscribers. They may also utilize technical measures to deal with repeat infringers (including suspension of subscriber accounts), and maintain identifying information on serious repeat infringers and hand it over to the rights holders, if required for commencing court proceedings. In April 2009, Sweden implemented the Intellectual Property Rights Enforcement Directive, which was intended to ensure, among other things, the ability to effectively enforce copyright and other civil remedies. There is evidence to suggest that this is having a positive effect in reducing unlawful file sharing on the Internet in Sweden.

We believe these actions, as well as other actions also currently being taken in many countries around the world, represent a positive trend internationally and a recognition by governments around the world that urgent action is required to reduce online piracy and in particular unlawful file sharing because of the harm caused to the creative industries. While these government actions have not come without some controversy abroad, we continue to lobby for legislative change through music industry bodies and trade associations in jurisdictions where enforcement of copyright in the context of online piracy remains problematic due to existing local laws or prior court decisions. In the U.S., the legislature recently passed the PRO-IP Act of 2008, a law that protects copyrights both domestically and internationally. Echoing similar efforts across Europe and Australia, the PRO-IP Act toughens U.S. criminal laws against piracy and counterfeiting, and adds accountability in the law's implementation. In addition, the Higher Education Act, which sets out provisions designed to ameliorate the peer-to-peer problem on college campuses was also recently enacted. The Act requires colleges to consistently disseminate information to better educate students about the policies, disciplinary actions, risks and penalties of peer-to-peer activities. Furthermore, for educational institutions to have continuing eligibility to federally funded assistance programs, they have to develop plans to effectively combat unauthorized content distribution on campus. We believe all of these actions further the efforts of the music industry to reduce the level of illegal file-sharing on the Internet.

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"). The Company has filed 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. 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 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. This action was dismissed by the District Court based on a claimed application of the statute of limitation and we have appealed to the Ninth Circuit .

Jonesfilm

Seven Arts Pictures plc ("PLC"), the Company's listing predecessor, its then-subsidiary Seven Arts Filmed Entertainment Limited ("SAFE") and Seven Arts Pictures Inc. ("SAP"), were the subject of an arbitration award of attorney fees totalling 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"). Management believes the Company has no further liability in this matter. 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. We believe this Court has no personal jurisdiction over SAFE and are appealing a decision by the District Court finding such personal jurisdiction to the Fifth Circuit Court of Appeals.

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, 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 refile its claim against the Company and the other defendants. The Company will seek dismissal of these claims on the same grounds. The Company continues to believe that Arrowhead's claims against the Company are without substantial merit.

Arrowhead Capital Partners – AGC 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". 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 he 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 .

Investigation into Claim for Tax Credits (SAPLA)

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 and has had no further contact from the US Attorney's office .

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.

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, asserting the same claims as in the winding up petition and seeking to enjoin the proposed administration proceedings in England. A request for a preliminary injunction was denied by the Superior Court. Parallel in California has been stayed by reason of the "Recognition Order" described in "Liquidation of Seven Arts Pictures plc." Parallel was permitted to pursue its remedies in the Los Angeles Superior Court proceedings based on actions of the liquidator. 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.

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 interviews with three officers of PLC to discuss whether those officers were involved in the arrangements for subscription of shares in the relevant companies, the first of which with Ms. Elaine New, CFO, occurred in April 2012 and a second in May 2012. 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.

MANAGEMENT

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

Name	Position	Age	Date First Elected or Appointed	Date of Expiration of Current Term (1)
Hubert Gibbs	Chairman, Director	52	April 9, 2010	June 30, 2015
Peter Hoffman	CEO, Director	62	September 2, 2004	June 30, 2015
Katrin Hoffman	COO, Director	34	February 26, 2008	June 30,2015
Anthony Hickox	Director	44	October 15, 2007	June 30, 2013
Elaine New	Director	52	January 11, 2007	June 30, 2014
Daniel Reardon	Director	51	November 1, 2010	June 30,2014
David Furth	Director	44	October 15, 2012	Next AGM

(1) Directors serve for three years.

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

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

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

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

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

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

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

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

Elaine New was our Chief Financial Officer and a director from January 2007 until June 30, 2009 and remains an executive director. She is Cambridge University educated and is a Price Waterhouse (London) qualified Chartered Accountant. Elaine has been in the media industry for the last ten years as Finance Director of Metrodome Group Plc., a UK film distributor. Ms. New was previously engaged as Financial Controller of Harrods International, helping to establish an airport retailing arm, and as Commercial Director of Outfit, a new division of Sears Womenswear Ltd that she helped to create in the latter part of the 1990s.   Ms. New was on the Executive Committee of The Quoted Companies Alliance for almost three years helping represent small to mid-cap companies listed both on AIM and the main list of The London Stock Exchange.

Daniel Reardon has been a director since October, 2010. His activities have included arranging public and private financings, initial public offerings, mergers and acquisitions and other business consulting including positions with The Albert Corporation, where he presided over the acquisition, financing, development and sales of hundreds of condominium units in the Boston area. He is a founding shareholder of four public companies in a variety of industries ranging from mining to biotechnology. Pan Africa Mining Corp. and Sacre-Coeur Minerals, Ltd. Both are Canadian companies traded on the TSX Venture Exchange (Toronto). Mr. Reardon has a background in real estate tax incentive financing programs. He developed and structured tax incentive programs for owners of historic properties for the Architectural Trust in Washington, DC. Mr. Reardon administers several hundred million of incentives annually through the Federal Preservation Tax Incentive Program. He also served as CFO for Concrete Film Ventures, which financed several independent, feature film projects, raised venture capital through limited partnerships, and secured substantial lines of credit from media banks using off balance sheet receivable Presale and Gap financing on the following feature films: LEGACY starring David Hasselhoff, MY BROTHER THE PIG starring Scarlet Johansson and Eva Mendes, THE PAVILION starring Richard Chamberlain, and CHANGING HEARTS starring Faye Dunaway. Currently Dan is Executive Producing LUNATIC AT LARGE an original story by Stanley Kubrick based on a treatment by Jim Thompson Starring Scarlett Johansson and Sam Rockwell.

David Furth is the managing director of Gi2 LLC, where he has managed hedge fund and private equity investments focusing on rapidly growing international companies in retail software, technology, and health care since July 2008. Prior to his tenure at Gi2, commencing January 2005 Mr Furth was Senior Vice President and Portfolio Manager at Provident Investment Counsel, where he managed a $450 million growth stock portfolio. Mr. Furth attended Stanford University for his undergraduate degree and then the Kellogg School of Management at Northwestern University for his MBA.

Compensation

Since February 15, 2009, our compensation policies with respect to our directors and executive officers are established, administered, and the subject of periodic review by our Independent Directors in accordance with the NASDAQ Marketplace Rules. Total compensation accrued and/or paid (directly and/or indirectly) to the Directors and senior management during the fiscal year ended June 30, 2012 was $1,079,386. We have a Compensation Committee, consisting of Mr. Gibbs and Mr. Reardon, both are Independent Directors, that reviews and approves all employee compensation and bonuses.

Year Ended June 30, 2012

				Long-Term Compensation Awards			
	Annual Compensation						
Name	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Under Option/ SAR's Granted (#)	Shares/ Units Subject to Resale Restrictions ($)	Payouts LTIP Payouts ($)	All Other Compensation ($)
Peter Hoffman	500,000	-	-	-	-	-	-
Elaine New	240,000						
Katrin Hoffman	79,000	-	-	-	-	-	-

Other Directors as a Group	32,700	-	-	-	-	-	-

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Year Ended June 30, 2011

	Annual Compensation			Long-Term Compensation Awards			
Name	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Under Option/ SAR's Granted (#)	Shares/ Units Subject to Resale Restrictions ($)	Payouts LTIP Pay outs ($)	All Other Compensation ($)
Peter Hoffman	500,000	-	-	-	-	-	-
Elaine New	225,000						
Katrin Hoffman	85,000	-	-	-	-	-	-
Other Directors as a Group	18,000	-	-	-	-	-	-

Stock Options

Stock Option Grants from Inception to June 30, 2012

Name	Number of Options Granted	% Of Total Options Granted on Grant Date	Exercise Price per Share	Grant Date	Expiration Date	Mkt. Value of Securities Underlying Options on Date of Grant
Peter Hoffman	714	100%	$ 30.8	10/14/2011	10/13/2016	$ 30.8
Elaine New	714	100%	$ 30.8	10/14/2011	10/13/2016	$ 30.8
Katrin Hoffman	714	100%	$ 30.8	10/14/2011	10/13/2016	$ 30.8
Robert Kaiser	714	100%	$ 30.8	10/14/2011	10/13/2016	$ 30.8
Dan Reardon	714	100%	$ 30.8	10/14/2011	10/13/2016	$ 30.8
Hubert Gibb	714	100%	$ 30.8	10/14/2011	10/13/2016	$ 30.8
Anthony Hickox	714	100%	$ 30.8	10/14/2011	10/13/2016	$ 30.8
Robert Kaiser	714	100%	$ 30.8	10/14/2011	10/13/2016	$ 30.8
Peter Hoffman	714	100%	$ 27.3	12/06/2011	12/05/2016	$ 27.3
Elaine New	714	100%	$ 27.3	12/06/2011	12/05/2016	$ 27.3
Katrin Hoffman	714	100%	$ 27.3	12/06/2011	12/05/2016	$ 27.3
Robert Kaiser	714	100%	$ 27.3	12/06/2011	12/05/2016	$ 27.3
Dan Reardon	714	100%	$ 27.3	12/06/2011	12/05/2016	$ 27.3
Hubert Gibb	714	100%	$ 27.3	12/06/2011	12/05/2016	$ 27.3
Anthony Hickox	714	100%	$ 27.3	12/06/2011	12/05/2016	$ 27.3
Robert Kaiser	714	100%	$ 62.3	09/01/2011	08/31/2016	$ 62.3
Total Granted	11,424					

1) 50% of the options vested on December 31, 2011
2) 50% of the options vested on December 31, 2012

Mr Hoffman is the beneficial owners of 7,357,143 shares of common stock.
Mr Furth is the beneficial owner of 300,000 shares of common stock.

Change of Control Compensation

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

Other Compensation

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

Bonus/Profit Sharing/Non-Cash Compensation

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

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

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

3. There will be two types of annual bonuses:

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

4. Managers in bonus pool:

(a) Peter Hoffman (Chairman/CEO)
(b) Katrin Hoffman (COO)
(c) Elaine New

5. Management bonuses as follows:

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

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

7. Criteria include individual contributions to our overall profits.

Pension/Retirement Benefits

No funds were set aside or accrued by us during fiscal years 2009, 2010 , 2011 or 2012 to provide pension, retirement or similar benefits for directors or senior management.

Executive Employment Agreements

We have an employment agreement with Peter Hoffman pursuant to which he will act as our CEO until December 31, 2013. In connection with the 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 a written employment agreement with Katrin Hoffman as of October 1, 2012 pursuant to which she will act as our COO ad infinitum at a salary of $160,000 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 an oral employment agreement with Elaine New pursuant to which she will act as an executive director ad infinitum at a salary of $225,000 (£150,000) per year plus bonuses and expenses. Ms. New'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.

Mr. Hoffman's employment agreement grants us a right to injunctive relief if Mr. Hoffman breaches the agreement. With the exception of Ms. Hoffman's and Ms. New's agreements, the employment agreements do not contain "non-compete" clauses.

Director Compensation

Anthony Hickox will receive approximately $1,500 per meeting attended.

Board of Directors Committees

We have an Audit Committee, which recommends to the Board of Directors the engagement of our independent auditors and reviews with the independent auditors the scope and results of our audits, our internal accounting controls, and the professional services furnished by our independent auditors. The current members of the Audit Committee are Mr. Furth (Chair), Mr. Gibbs and Mr. Reardon. The Audit Committee did not meet separately in the fiscal year ended June 30, 2012, but have met during the current fiscal year and will meet with the Group's Auditors to review the year-end financial statements and the audit process.

Our Compensation Committee (Mr. Gibbs and Mr. Reardon) and Nominations Committee (Mr. Gibbs, Mr. Hickox and Mr. Reardon) are made up of three of our independent directors.

All Committees of the Board are organized pursuant to our Board of Directors Memorandum and resolutions of the Board of Directors. The terms of reference of each committee are based on the subject matter jurisdiction of each Committee. The Compensation Committee reviews and approves all employee compensation and bonuses. The Nomination Committee proposes candidates for election to our Board of Directors.

All meetings of each Committee are on an ad hoc basis, decisions are made by majority vote and all decisions are reported to the full Board of Directors for approval.

Employees

As of the date of this registration statement, Seven Arts had 15 employees and independent contractors, providing full-time services. Our affiliates employ many part time employees for production of our motion pictures, but we do not engage temporary employees on any regular or material basis. We are not signatory to any labor union collective bargaining agreements, but our affiliates in the United States are signatory to the current Writer's Guild of America, Directors Guild of America and IATSE Low Budget Agreements and have in the past been signatory to the Screen Actors Guild Agreement. Our employees have ranged from a low of six to a high of twenty one over the last three fiscal years.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except as indicated by the footnotes below, our management believes, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of our common stock that they beneficially own, subject to applicable community property laws.

BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth information regarding the ownership of our common stock as of December 5, 2012 by (i) each person known by the Company to own beneficially more than five per cent (5%) of our common stock; (ii) each director and nominee for director of the Company; (iii) each executive officer named in the Summary Compensation Table (see "Executive Compensation"); and (iv) all directors and executive officers of the Company as a group.

Name of Beneficial Owner (2)	Address of Beneficial Owner	Amount of Beneficial Ownership (2)	Percent of Class (1)
SERIES A PREFERRED (10)			
Palm Finance issued and certificated	233 Wilshire Blvd, Suite 200, Santa Monica, CA 90401	125,125	100%
SERIES B PREFERRED (11)			
Lincoln Centre Equities (11) (12)	157 Davenport Ave., New Rochelle, NY 10805	59,500	41%
Lincoln Centre Growth Partners (11) (13)	2841 Hartland Road, Suite 301 Falls Church, VA 22043	10,000	7%
Jason Shapiro (11)	61 West 62nd Street, Apt. 23F New York, NY 10023	10,000	7%
COMMON STOCK			
Peter Hoffman(3)	8439 Sunset Boulevard, West Hollywood, CA 90069	7,360,000	59%
Katrin Hoffman (4)	136-144 New Kings Road, London SW6 4LZ	714	*
Elaine New (5)	136-144 New Kings Road, London SW6 4LZ	714	*
Hubert Gibbs (6)	136-144 New Kings Road, London SW6 4LZ	714	*
Dan Reardon (7)	8439 Sunset Boulevard, West Hollywood, CA 90069	714	*
Tony Hickox (8)	8439 Sunset Boulevard, West Hollywood, CA 90069	714	*
			*
			5%
Total officers and directors as a group (7 persons) (14)	8439 Sunset Boulevard, West Hollywood, CA 90069	8,019,118	61.02%

* = less than 1%

(1) As at December 5 there were shares of common stock were issued and outstanding.

(2) Beneficial ownership is determined in accordance with the Rule 13d-3(a) of the Exchange Act and generally includes voting or investment power with respect to securities and includes shares underlying convertible debentures, warrants and options that have been issued, granted and have vested and not been exercised and shares underlying options that will vest within the next 60 days only in respect to any person listed in the table. Except as subject to community property laws, where applicable, the person named above has sole voting and investment power with respect to all common stock shown as beneficially owned by him/her.

(3) Represents 714 shares underlying options that are exercisable within 60 days of this proxy statement and 2,143 shares of common stock issued to New Moon, a company controlled by Peter Hoffman and pledged to Armadillo Ltd. Also includes 357,143 shares that are pledged to JMJ Financial and 7,000,000 pledged to Tonaquint Inc. in connection with Mr. Hoffman's full recourse personal guarantees of the Company's obligations to JMJ Financial and Tonaquint Inc., respectively.

(4) Represents 714 shares of common stock underlying options that are exercisable within 60 days of this proxy statement.

(5) Represents 714 shares of common stock underlying options that are exercisable within 60 days of this proxy statement.

(6) Represents 714 shares of common stock underlying options that are exercisable within 60 days of this proxy statement.

(7) Represents 714 shares of common stock underlying options that are exercisable within 60 days of this proxy statement.

(8) Represents 714 shares of common stock underlying options that are exercisable within 60 days of this proxy statement.

(9) The per-share conversion price for the Series A Preferred Stock is $10.50.

(10) The per-share conversion price for the Series B Preferred Stock was confirmed at $1.10. 120,000 of the 180,000 shares are subject to certain earn-out provisions. The holders retain all of the voting rights in respect of such shares.

(11) The Company believes that Jake Shapiro is the person with voting and disposition powers in respect of such shares.

(12) The Company believes that Richard D. Smith is the person with voting and disposition powers in respect of such shares.

(134) Includes all information in footnotes 3 through 8, inclusive.

CERTAIN RELATED TRANSACTIONS

We have entered into several agreements and arrangements with SAP, an entity that owns approximately 163,800 shares of our common stock, including 140,000 shares of common stock pledged to Apollo Media GmbH & Co Filmproduktion KG and the balance pledged to other lenders, whose majority beneficial shareholder of SAP Inc. was our Chief Executive Officer, Peter Hoffman. These transactions include:

Upon acquisition of control of our Group by SAP in September 2004, we entered into an agreement with SAP under which SAP provided the services of Peter Hoffman for the amount of his contracted salary and the Los Angeles office and staff of SAP Inc. to us at cost. Pursuant to two inter-company agreements, SAP also from time-to-time has and will own limited liability companies in the United States which distribute our motion pictures for a fee, with all profits enuring to our benefit. These companies may also provide other services to us at no fee other than Mr. Hoffman's salary and the direct third-party costs of SAP's Los Angeles office, all of which are reflected in our financial statements. 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 our business. SAP has assigned to us any proceeds arising from services performed by SAP. On our behalf. We have granted SAP. The power and authority to enter into agreements on our behalf. SAP is not to take any actions on our behalf without our approval. These agreements have terminated as of December 31, 2011.

Because we do not have a working capital line of credit for movie production, (although we do have a line of credit available to our affiliate, SAPLA, to finish the restoration of the post-production facility at 807 Esplanade, New Orleans), SAP , Inc. 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. The balances of these combined accounts due to the Company as of December 31, 2012 and June 30, 2012 were $(66,389) and $1,055,633, respectively.

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As of December 31, 2012 :	SAE	SAFE	CONSOLIDATED BALANCE
Due From:-			
SAP Inc.	$ 1,808,681	$ -	$ 1,808,681
SAP LOU	164,386	-	164,386
SAP PLC	123,680	-	123,680
Total	$ 2,096,747	$	$ 2,096,747
Due to:-			
SAP Inc.	$ -	$ (20,850)	$ (20,850)
Peter Hoffman	(1,754,475)	(180,104)	(1,934,579)
SAFE (UK)	-	(13,557)	(13,557)
SAP PLC	-	(61,372)	(61,372)
	$ (1,754,475)	$ (275,883)	$ (2,030,358)

SAP, Inc. has pledged an interest in its shares of the Company's stock to secure certain indebtedness for which SAP, Inc. and the Company are jointly liable such as the Apollo and Armadillo debts. The stock of SAP, Inc. (previously owned by Peter Hoffman) was transferred to the listing predecessor of SAE on September 1, 2011.

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Together with SAP, our predecessor entered into a settlement agreement, dated September 30, 2006, with ApolloMedia GmbH & Co. Filmproduktion KG (“ApolloMedia”) related to a dispute regarding amounts ultimately payable to ApolloMedia from distribution of the motion picture Stander and one of our subsidiaries’ assumption of indebtedness of approximately $2,000,000 related to Stander upon acquisition of control of our Group by SAP. The Settlement Agreement fully releases us and our subsidiaries from any liability to ApolloMedia in exchange for a payment of $1,800,000 to be made by SAP (of which $175,000 has been paid). In connection with the SAP’s payment obligation of the settlement amount to ApolloMedia, we issued 140,000 ordinary shares to SAP which SAP immediately pledged to ApolloMedia to secure SAP’s obligations under the settlement agreement. SAP has agreed that it will (1) return to us all ordinary shares in excess of 400,000 not necessary to satisfy SAP’s obligations to ApolloMedia and (2) deliver to us from SAP’s ordinary shares, any ordinary shares in excess of 80,000 in fact sold by SAP to satisfy the indebtedness to ApolloMedia under the settlement agreement. The shares pledged to ApolloMedia will be sold by it as necessary for ApolloMedia to derive net proceeds of $1,625,000, and any pledged shares remaining after such sale will be returned to us.

We have entered into several agreements and arrangements with Seven Arts Pictures Louisiana LLC (“SAPLA), controlled by Mr. Hoffman’s wife. These transactions include:

A guarantee that we provided to SAPLA to cover its indebtedness under a Credit Agreement that SAPLA entered into with Advantage Capital Community Development Fund, L.L.C. (“Ad Cap”), dated October 11, 2007, for the acquisition and improvement of a production and post- production facility located at 807 Esplanade Avenue in New Orleans, Louisiana. The aggregate borrowing amount under this facility was $3,700,000, all of which was drawn down as of April 30, 2010. In November 2010 Palm acquired this mortgage secured on the facility for $1,000,000 and agreed to extend a construction facility of $1,850,000 to complete the facility. We guaranteed the indebtedness to Palm and have since June 30, 2012 now included it in our total indebtedness. We do not anticipate the use of any material amount of our working capital to complete and operate this facility, and we expect to realize substantial film production, film infrastructure, historic rehabilitation and other state and federal tax credits and other tax incentives from the acquisition, renovation, and operation of this property as a post- production facility. In particular SAPLA has submitted audited expense reports which would generate approximately $3,500,000 in Louisiana Film Infrastructure tax credits $2,500,000 in Louisiana State Rehabilitation tax credits and $2,500,000 in Federal Historic Preservation tax credits, all of which are payable to us.

SAP and Louisiana Companies:

The Company's Chief Executive Officer, Peter Hoffman, controls several companies, including (prior to September 10, 2011) Seven Arts Pictures, Inc. ("SAP ") that are not part of the Company but from which it obtains or transfers distribution rights or other assets related to the business and which control production of the motion pictures. The agreements with Mr. Hoffman, and the companies controlled by him, provide that all revenues related to the Company's business payable to Mr. Hoffman or any of these related party companies is due to the Company, except Mr. Hoffman's salary, bonus and stock ownership. None of these affiliates are variable interest or special purpose entities.

Pursuant to a related party agreement, SAP holds ownership of limited liability corporations in the United States, with all distribution rights and profits thereof being due to SAFE. In addition, they have also provided other services for Seven Arts Pictures Plc ("PLC") and SAFE and SAE at no fee other than Mr. Hoffman's salary and the direct third party costs of the Los Angeles office, all of which are reflected in the financial statements of SAFE. These other services include any reasonable requests of the management of the Company including 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. Effective January 1, 2012, no further such transactions are intended.

Peter Hoffman:

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 Inc. 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 enuring 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. As of December 31, 2013 $ 1,934,579 was owed to Mr. Hoffman for unpaid salary and unreimbursed expenses, as well as repayment of cash he advanced the Company or its predecessors. During the quarter ended September 30, 2012, shares were issued in satisfaction of a portion of this liability at a market price of $0.17/share . These shares are being held as collateral for two loans (JMJ Financial and Tonaquint Inc.) and will be returned to the Company if not called as collateral. The amount owed to Mr Hoffman as at December 31, 2012 was $1,934,579.

807 Esplanade Guarantee:

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 listing predecessor. Approximately $3,700,000 plus interest has been drawn under the terms of this Credit Agreement, as of September 30, 2012. As of June 30, 2012, the Company assumed the liability for $1,000,000 of this amount plus a contingent sum of $750,000 due to Advantage Capital (contingent on receipt of 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 been assumed by the Company for 807 Esplanade.

807 Esplanade Advances:

On February 28, 2012, the Company took out a convertible loan of $200,000 from Rowett Capital Ltd. to cover outstanding interest payments due on the construction loan on 807 Esplanade previously guaranteed by the Company. Three additional convertible loans, totalling $600,000, were taken out by the Company and then loaned to SAPLA to pay down the construction loan on the property, as to delay the construction and opening of the facility further, for which the Company will have a 30-year lease to operate a post-production facility.

Loan Arrangements:

In connection with the loan of $500,000 with JMJ Financial entered into on June 27, 2012, and a new loan entered into in the first quarter of fiscal 2013 with Tonaquint Inc. of $435,000, the Company sold shares of its common stock to Mr. Hoffman, at the market prices of $2.52 (JMJ) and $0.17 (Tonaquint) (based on the post reverse split price), who, in turn, pledged such 357,143 shares to JMJ and 7,000,000 shares to Tonaquint Inc., respectively.

FEE INCOME RECEIVABLE FROM RELATED PARTY

Under the terms of the related party agreement between SAPLA and the Company, all income generated by SAPLA is due to the Company as fee income. SAPLA is due to receive approximately $9,447,544 from disposition of Louisiana and Federal historic rehabilitation and film infrastructure tax credits for the restoration and the establishment of a post-production facility at 807 Esplanade.

SAPLA will pay the proceeds from disposition of such tax credits to the Company as fee income. The Company has provided a reserve of $1,906,646 against this receipt to allow for cost of disposing the credits and a further reserve against potential disallowance of any expenditures by Louisiana or Federal taxing authorities, which is not anticipated by management.

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 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 807 Esplanade. 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 807 Esplanade 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 807 Esplanade.

Louisiana has certified approximately $6,500,000 of film infrastructure expenditure, 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. The reserve established by the Company against the revenue to be received from SAPLA from disposition of the tax credits reflects potential discounts on the assignment of credits for cash and any potential reduction in the amount of expenses that may be subject to credits by objection of any Federal or Louisiana agency, even though the Company has at present no reason to believe there will be any such reductions.

MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

From February of 2009 through September 14, 2012, our common stock was listed on The NASDAQ Capital Market; thereafter, it has been quoted on the OTC Bulletin Board and the OTC Market Group Inc.'s OTCQB tier, in each case under the symbol "SAPX".

The following tables set out the high, low and closing sales prices on the OTC Bulletin Board/OTC Market Group Inc.'s OTCQB tier and on The NASDAQ Capital Market for the periods indicated in the table.

The NASDAQ Capital Market and OTC Bulletin Board prior to September 14, 2012 and OTC Markets Group Inc. from September 14, 2012 until present.

	Bid		
	High	Low	Price at Period End
Year ended June 30, 2013			
First Quarter OTC	1.61	1.20	0.24
Second Quarter OTC	0.07	0.04	0.04
Year ended June 30, 2012:	$ 2.59	$ 0.03	0.04
First Quarter NASDAQ	2.59	0.25	0.35
Second Quarter NASDAQ	0.68	0.32	0.34
Third Quarter NASDAQ	0.32	0.15	0.17
Fourth Quarter NASDAQ	0.13	0.03	0.04
Year ended June 30, 2011:	5.35	1.13	1.19
First Quarter NASDAQ	4.60	4.45	4.60
Second Quarter NASDAQ	5.35	4.36	5.05
Third Quarter NASDAQ	4.00	1.65	1.95
Fourth Quarter NASDAQ	2.82	1.13	1.19

As of December 31, 2012 there were approximately 500 holders of record of our common stock.

DESCRIPTION OF SECURITIES

General

The authorized capital of Seven Arts consists of 250,000,000 shares, consisting of 249,000,000 shares of common stock, 125,125 shares of Series A Cumulative Convertible Preferred Stock, 200,000 shares of Series B Cumulative Convertible Preferred Stock, and the balance as undesignated shares.

As of the date of this prospectus, there were 179,283,383 shares of common stock, 125,125 shares of Series A convertible preferred stock, and 43,850 shares of Series B convertible preferred stock issued and outstanding.

Description of Common Stock

The following is a description of our common stock, including their material terms and provisions and as such terms and provisions are applied to our Articles of Incorporation, as amended.

All of our shares of common stock are of the same class and, once issued, rank equally as to dividends, voting powers, and participation in assets. Holders of shares of common stock are entitled to one vote for each share held of record on all matters to be acted upon by the stockholders. Holders of shares of common stock are entitled to receive such dividends as may be declared from time to time by the Board of Directors, in its discretion, out of funds legally available therefor.

Upon our liquidation, dissolution or winding up, holders of shares of common stock are entitled to receive pro rata our assets, if any, remaining after payments of all debts and liabilities and the satisfaction of preferred stockholders, if any. No shares have been issued subject to call or assessment. There are no pre-emptive or conversion rights and no provisions for redemption or purchase for cancellation, surrender, or sinking or purchase funds.

There are no limitations upon the rights to own securities.

There are no provisions that would have the effect of delaying, deferring, or preventing a change in control of our company.

Description of Warrants.

Cash Warrant to be issued to shareholder of record on August 31, 2012 (1 warrant for each 10 shares of pre-split Common Stock) shall be immediately exercised by holder when distributed to that holder either on written agreement or on the effectiveness of this Registration Statement. Upon exercise the holder may acquire one share of Common Stock at $.03. The Warrants will expire on August 31, [2015].

Description of Series A Cumulative Convertible, $10.00 Stated Value, Preferred Stock ("Series A")

The following is a description of our Series A stock, including their material terms and provisions and as such terms and provisions are applied to our Articles, as amended.

The number of shares constituting the Series A stock is 125,125 shares.

The holders of Series A stock have the following voting rights:

a) The holders and the holders of common stock shall vote together and not as separate classes

b) There shall be no series voting

c) The consent of holders of at least a majority of Series A stock voting separately as a separate class is necessary to:

a. Amend, alter or repeal any provisions of the Articles, including the Certificate of Rights and Preferences, or Bylaws of the Company so as to change any of the voting powers, designations, preferences, limitations, restrictions and relative rights of the Holders

b. Authorize or issue or sell or obligate itself to authorize, issue or sell, any shares or senior securities or parity securities

c. Permit any subsidiary of the Company to issue or sell, or obligate itself to issue or sell, except to the Company or any wholly owned subsidiary, any security of such subsidiaries

d. Increase or decrease (other than on conversion pursuant to the Certificate) the total number of authorized shares of Common Stock or amend any provisions of any Common Stock so as to make such common stock redeemable by the Company

e. Enter into any transaction ,including any employment, ,compensatory, production, distribution, licensing, financing, acquisition, disposition or other transaction, between the Company or any of its subsidiaries, on the one hand and any director ,officer or affiliate of the Company or any of its subsidiaries or their respective affiliates or family members on the other hand or

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f. Enter into or amend any agreement or understanding with respect to any of the foregoing

d) Except for the above, the holders of the Series A stock shall be entitled to vote on all matters submitted for a vote to the holders of common stock as if they held a number of shares of common stock equal to the Conversion Stock Amount of common stock. Holders of Series A stock shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Corporation.

Shares of Series A stock are convertible at the option of the holder thereof at any time, from time to time, in whole or in part. These shares shall have the following conversion rights:

Tranche 1	$ 455,000	$ 0.15
Tranche 2	$ 455,000	$ 0.15
Tranche 3	$ 341,250	$ 0.15
	$ 1,251,250	

Description of Series B Cumulative Convertible, $100.00 Stated Value, Preferred Stock ("Series B")

The following is a description of our Series B stock, including their material terms and provisions and as such terms and provisions are applied to our Articles, as amended.

The number of shares constituting the Series B stock is 200,000.

Shares of Series B stock are convertible into shares of common stock at $1.10 per share at the option of the holder thereof at any time, from time to time, in whole or in part on or after September 30, 2012.

The holders shall have the following voting rights with respect to the Series B stock:

(A) Voting By All Classes. Except as otherwise expressly provided herein or as required by law, the holders of Series B stock and the holders of common stock shall vote together and not as separate classes.

(B) No Series Voting. Other than as provided herein or required by law, there shall be no series voting.

(C) Series B Class Voting Rights. Each share of Series B stock shall entitle the holder thereof to the voting rights specified in (D), (E) and (F), below, and no other voting rights except as required by law.

(D) Voting For Directors. The Board of Directors shall consist of nine members. So long as there remains outstanding and are not converted or redeemed at least one hundred thousand (100,000) shares of Series B stock, the holders of Series B stock, voting separately as a single class with one vote per share, in person or by proxy, shall be entitled to elect two members of the Company's Board of Directors at each meeting or pursuant to each consent of the Company's stockholders for the election of directors, one of whom shall be "independent" as defined by the regulations of the Company's principal listing exchange. Any additional members of the Company's Board of Directors shall be elected by the holders of common stock and Series B stock (on an as-if-converted basis), voting together as a single class. If a vacancy on the Board of Directors is to be filled by the Board of Directors, only directors elected by the same class, classes or series of stockholders as those who would be entitled to vote to fill such vacancy shall vote to fill such vacancy. Directors may only be removed by the vote or consent of the class, classes or series of stock entitled to fill the vacancy created by such removal.

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(E) Voting For Changes In Series B Preferred Stock. The consent of holders of at least a majority of the Series B stock, voting separately as a single class with 100 votes per share, in person or by proxy, either in writing without a meeting or at an annual or a special meeting of holders called for the purpose, shall be necessary to:

(i) amend, alter or repeal, by way of merger or otherwise, any of the provisions of the Articles, including the Certificate of Rights and Preferences, or Bylaws of the Company so as to change any of the rights, preferences or privileges of the holders. Without limiting the generality of the preceding sentence, such change includes any action that would:

A. make dividends non-cumulative, or defer the date from which dividends will accrue, or cancel accrued and unpaid dividends, or change the relative seniority rights of holders of Series B stock as to the payment of dividends in relation to the holders of any other capital stock of the Company

B. reduce the amount payable to holders of the Series B stock upon the voluntary or involuntary liquidation, dissolution, or winding up of the Company, or change the relative seniority of the liquidation preferences of holders of the Series B stock or the rights upon liquidation of the holders of any other capital stock of the Company; or

C. make the Series B stock redeemable at the option of the Company.

(ii) issue or sell or obligate itself to issue or sell any shares of Series B stock; or

(iii) enter into or amend any agreement or understanding with respect to any of the foregoing.

(F) Right To Vote With Common Stock. Except as to matters with respect to which holders of the Series B stock are entitled to vote separately as a class pursuant to this Section 5, the holders of the Series B stock shall be entitled to vote on all matters submitted for a vote to the holders of common stock as if they held a number of shares of common stock equal to the Conversion Stock Amount in common shares. Holders of Series B stock shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Company. Fractional votes shall not be permitted and any fractional voting rights resulting from the above formula (after aggregating all shares into which shares of Series B stock held by each holder could be converted) shall be disregarded..

Annual Meeting

An Annual General Meeting shall be held once every calendar year at such time (not being more than 15 months after holding the last preceding Annual Meeting) and place as may be determined by the Directors. The Directors may, as they see fit, convene an extraordinary general meeting.

Transfer Agent

Interwest Transfer Company, Inc., 1981 Murray Holladay Road, Suite 100 Salt Lake City, UT 84117 is the registrar and transfer agent for the shares of common stock.

PLAN OF DISTRIBUTION

The Company will issue the Warrants on effectiveness of the Registration Statements to holders of record on August 31, 2012. Those holders may at their option exercise the Warrants at any time until August 31, 2015 and on exercise shares of Common Stock will be delivered to such holders who may re-sell such shares at its election themselves or through broker of their choice.

LEGAL MATTERS

The validity of the shares sold by us under this prospectus will be passed upon for us by Baker & Hostetler LLP in Los Angeles, California.

DISCLOSURE OF COMMISSION POSITION OF INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

The Company's Articles of Incorporation provides for the mandatory indemnification of directors, senior officers, former directors, as well as their respective heirs and personal or other legal representatives, or any other person, to the greatest extent permitted by the Nevada Revised Statute.

These indemnification provisions may be sufficiently broad to permit indemnification of the registrant's executive officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. No pending material litigation or proceeding involving our directors, executive officers, employees or other agents as to which indemnification is being sought exists, and we are not aware of any pending or threatened material litigation that may result in claims for indemnification by any of our directors or executive officers.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed a registration statement on Form S-1 to register with the SEC the sale of our shares. This prospectus is a part of that registration statement and constitutes a prospectus of Seven Arts. As allowed by SEC rules, this prospectus does not contain all of the information that you can find in the registration statement or the exhibits to the registration statement. You should refer to the registration statement and its exhibits for additional information that is not contained in this prospectus. We have included additional information on our company in our various periodic filings with the Securities and Exchange Commission currently available at http://www.sec.gov/edgar.html.

We have not authorized anyone to provide you with information that differs from that contained in this prospectus. You should not assume that the information contained in this prospectus is accurate as on any date other than the date of the prospectus.

This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, in any jurisdiction to or from any person to whom it is not lawful to make any such offer or solicitation in such jurisdiction.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, to be paid by the Registrant in connection with the sale of the shares of common stock being registered hereby.

		Total
SEC registration fee	$	
Printing and engraving expenses	$	*
Legal fees and expenses	$	*
Accounting fees and expenses	$	*
Blue sky fees and expenses	$	*
Transfer agent and registrar fees and expenses	$	*
Miscellaneous	$	*
Total	$	*

*Estimated.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 78.502 of the Nevada Revised Statutes (“NRS”) provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of the corporation, by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another entity, against expenses, including attorneys’ fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding if he acted in good faith and in a manner which he reasonably believe to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. With respect to actions or suits by or in the right of the corporation, Section 78.7502 of the NRS provides that a corporation may indemnify those serving in the capacities mentioned above against expenses, including amounts paid in settlement and attorneys’ fees actually and reasonably incurred in connection with the defense or settlement of the action or suit, provided that such person acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation. To the extent that a director, officer, employee, or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding, or in defense of any claim, issue or matter therein, the corporation shall indemnify him against expenses, including attorneys’ fees, actually and reasonably incurred by him in connection with the defense.

Section 78.751 of the NRS provides that the articles of incorporation, the bylaws or an agreement made by the corporation may provide that the expenses of officers and directors incurred in defending an action, suit or proceeding must be paid by the corporation in advance of the final disposition of the action, suit or proceeding, upon receipt of an undertaking by or on behalf of the director or officer to repay the amount if it is ultimately determined that he is not entitled to be indemnified by the corporation. Section 78.751 further provides that indemnification and advancement of expense provisions contained in the NRS shall not be deemed exclusive of any rights to which a director, officer, employee or agent may be entitled, whether contained in the articles of incorporation or any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, provided, however, that no indemnification may be made to or on behalf of any director or officer if a final adjudication establishes that his acts or omissions involved intentional misconduct, fraud or a knowing violation of the law and was material to the cause of action.

The Registrant's articles of incorporation limit the liability of its directors and officers to the fullest extent permitted by Nevada law. This is intended to allow the Registrant's directors and officers the benefit of Nevada law which provides that directors and officers of Nevada corporations may be relieved of liabilities for damages for breach of their fiduciary duties as directors and officers, except under certain circumstances, including (i) acts or omissions which involve intentional misconduct, fraud or a knowing violation of law or (ii) the wilful or grossly negligent payment of unlawful distributions. The Registrant's bylaws provide for indemnification to the fullest extent permitted by Nevada law and permit the Registrant to advance expenses to its directors and officers to the fullest extent permitted by Nevada law upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it should be ultimately determined that they are not entitled to indemnification by the Registrant.

The Registrant maintains officer and director liability insurance for its officers and directors with respect to liabilities arising out of certain matters.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

In our fiscal year ended June 30, 2010, PLC issued an aggregate of 1,571 ordinary shares, comprised of:

a) 1,143 shares were issued to the EBT on conversion of 500,000 convertible preferred shares. The EBT conversion resulted in an addition of $149,620 to the share capital account and $1,390,180 to the additional paid-in capital account and a reduction of $1,539,800 in the carrying value of the preferred shares in the capital account.

b) 2,000 share options were converted to 143 ordinary shares by a former employee, valued at $19,500

c) 286 shares were issued to a third-party lender to cover loan, interest and fees, valued at $261,000.

In our fiscal year ended June 30, 2011, PLC issued an aggregate of 16,395 ordinary shares, comprised of:

a) 4,886 shares were issued to consultants in exchange for services rendered, valued at $1,018,708.

b) 2,186 shares were issued to a third-party investment fund pursuant to an amended loan agreement, valued at $755,072 and 1,428 shares were issued to a different third-party investment fund, valued at $346,000 in partial repayment of our debt.

c) 767 shares were issued to a third-party lender in conversion of notes payable in the aggregate amount of $200,000.

In our fiscal year ended June 30, 2012, we issued an aggregate of 1,702,141 common shares, comprised of the following. All shares were issued pursuant to Section 3(a)(9) of the Securities Act of 1933, except where noted with an *, for which shares were issued pursuant to the Registration of Form S-8 or are unregistered shares issued under Regulation D of Section 506 of the Securities Exchange Act of 1934 :

First quarter issuances:

a)

92,805 shares were issued in satisfaction of $3,188,028 of outstanding loans payable and accrued interest, consisting of $225,000 of convertible notes payable and $2,963,028 of film and production loans. The conversions were done at contractual share prices ranging from $14.00 to $140.00 per share.

b) 143 shares were issued for investor relations services valued at approximately $10,000 .*

Second quarter issuances:

c) 66,272 shares were issued in satisfaction of $612,336 of convertible debt at an average conversion price of $9.10 per share.

d) 40,734 shares were issued on the conversion of two convertible notes totalling $427,706 at an average conversion price of $10.50/ share.

e) 49,863 shares were issued in satisfaction of $906,000 of corporate loans at an average conversion price of $18.20 per share.

f) 5,714 shares were issued for cash to two third-party investors for aggregate consideration of $400,000 at $70.00 per share

g) 1,071 shares were issued for investor relations services valued at approximately $27,000, or $25.20 per share. *

h) 214 shares were issued to a director as compensation valued at approximately $7,500, or at $35.00 per share. *

Third quarter issuances:

i) 96,425 shares were issued in satisfaction of $943,580 converted film debt at an average conversion price of approximately $9.80 per share.

j) 65,237 shares were issued in satisfaction of $929,596 of indebtedness at an average conversion price of $14.00 per share.

k) 49,889 shares were issued on conversion of certain promissory notes aggregating $516,568 at an average conversion price of $10.50 per share.

l) 43,928 shares were issued to a third party in satisfaction of $698,736 of film loans at an average conversion price of $16.10 per share.

m) 17,143 shares were issued for cash to a third-party investor for approximately $8,600, or at $0.50 per share.

Fourth quarter issuances:

n) 111,143 shares were issued to a third party in partial payment of $430,000 of debt at an average conversion price of $3.87 per share.

o) 174,240 shares were issued to a third party in satisfaction of $980,000 of debt at an average conversion price of $5.62 per share.

p) 160,556 shares were issued to a third party in satisfaction of $725,000 of debt at an average conversion price of $4.52 per share.

q) 40,118 shares were issued to a third party in satisfaction of a $100,000 film tax-credit loan at an average conversion price of $2.49 per share.

r) 16,071 shares were issued to a third party for approximately $100,000, or at $6.22 per share.

s) 156,158 shares were issued to a third party in satisfaction of $494,152 of loans at an average conversion price of $3.16 per share.

t) 357,143 shares were issued to Peter Hoffman in satisfaction of $877,824 of our indebtedness to him at $2.46 per share. *

u) 55,006 shares were issued in connection with $200,000 of construction fees related to 807 Esplanade, or at $3.64 per share.

In our current fiscal year, we have issued an aggregate of 29,266,636 common shares, comprised of:

First quarter issuances:

v) 1,316,099 shares were issued to third parties in satisfaction of an aggregate of $ 779,874 of film debt at an average conversion price of $0.59 share.

w) 482,697 shares were issued to third parties in satisfaction of an aggregate of $586,114 of various convertible loans at an average conversion price of $1.21 share.

x) 379,580 shares were issued to third parties in satisfaction of an aggregate of $591,231 of expense debt at an average conversion price of $1.56 per share.

y) 80,586 shares were issued to in connection with $150,000 of indebtedness related to 807 Esplanade, or at $1.86 per share.

z) 161,429 shares were issued to third parties in satisfaction of an aggregate of $339,000 of fee debt at an average price of $2.10 per share.

aa) 8,571 shares were issued to a third party for the purchase price of $300,000, or $35 per share.

Second quarter issuances:

ab) 9,188,857 shares were issued to third parties in satisfaction of an aggregate of $431,934 of film debt at a conversion price of $0.05 per share.

ac) 3,454,545 shares were issued upon conversion of 38,000 Series B preferred shares.

ad) 7,000,000 shares were issued to our CEO, in satisfaction of $1,190,000 of our indebtedness to him at $0.17 per share.

ae) 300,000 shares were issued to one of our directors at an aggregate price of $18,000, or at $0.06 per share. *

af) 1,772,812 shares were issued in connection with $42,723 of indebtedness related to 807 Esplanade, or at $0.02 per share

ag) 3,028,206 shares were issued to third parties in satisfaction of an aggregate of $133,537 of various convertible loans at an average conversion price of $0.04 share.

ah) 1,703,772 shares were issued to a third parties in satisfaction of an aggregate of $107,350 of expense debt at an average conversion price of $0.06 per share.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. Exhibits

Exhibit No.	Description **
2.1	Asset Acquisition Agreement dated as of July 1, 2010 between Seven Arts Entertainment Inc. and Seven Arts Pictures Plc*
2.1.1	Amendment to Asset Transfer Agreement dated January 27, 2011 (filed herewith)
2.1.2	Second amendment to Asset Transfer Agreement (filed herewith)
3.1.	Articles of Incorporation of Seven Arts Entertainment Inc.*
3.2.	By-Laws of Seven Arts Entertainment Inc.*
3.2.1.	Amended By-Laws of Seven Arts Entertainment Inc. (filed herewith)
3.3	Certificate of designation of Series A preferred stock (filed herewith)
3.4	Certificate of designation of Series B preferred stock(revised) (filed herewith)
3.4.1	Amendment to the Certificate of Designation of Series B preferred stock (filed herewith)
4.1	Specimen Common Stock Certificate*
5.1	Opinion of Baker& Hostetler LLP, as to the validity of the common stock**
10.1	Form of Lock-Up Agreement**
10.2	Employment Agreement, dated September 2, 2004/Peter Hoffman *
10.2.1	Restated Employment Agreement, dated October 1, 2004/Peter Hoffman *
10.2.2	Employment Agreement Amendment, dated December 1, 2008/Peter Hoffman *
10.2.3	Second Employment Agreement Amendment, dated July 1, 2010/Peter Hoffman *
10.2.4	Third Employment Agreement Amendment, dated January 1, 2011/Peter Hoffman *
10.3	RESERVED
10.4	RESERVED
10.5	RESERVED*
10.6	Loan and Security Agreement, dated as of February 15, 2006, among Arrowhead Target Fund Ltd. Seven Arts Future Flows I, LLC, Seven Arts Filmed Entertainment Limited, and Seven Arts Pictures Inc.*
10.7	Master Agreement, dated December 2006, among Cheyne Specialty Finance Fund L.P. and Arrowhead Consulting Group LLC and Seven Arts Pictures PLC, Seven Arts Filmed Entertainment, Ltd., Seven Arts Pictures, Inc., Seven Arts Future Flows I and affiliates*
10.8	RESERVED*
10.9	Credit Agreement, dated October 11, 2007, between Seven Arts Louisiana, LLC and Advantage Capital Community Development Fund, L.L.C.*

10.10	Assignment Agreement, dated April 22, 2008, among Cheyne Specialty Finance Fund L.P., Seven Arts Filmed Entertainment Limited, Peter Hoffman, Seven Arts Pictures Plc, Seven Arts Future Flows I LLC and other parties affiliated with Seven Arts Pictures Plc.*
10.11	Stock Sale Agreement, dated October 2008, between Seven Arts Pictures Plc, Smith & Williamson Trustees (Jersey) Limited and Armadillo Investments Ltd.*
10.12	Convertible Loan Agreement, dated October 15, 2008, between Seven Arts Pictures Plc and Trafalgar Capital Specialized Investment*
10.13	Bridging Loan Agreement, dated January 31, 2008, between Seven Arts Pictures Plc and Trafalgar Capital Specialized Investment*
10.14	Guarantee and Debenture, dated January 31, 2008, from Seven Arts Pictures Plc and Seven Arts Filmed Entertainment Limited to Trafalgar Capital Specialized Investment*
10.15	Intercompany Agreement, dated November 1, 2004, between Seven Arts Pictures Plc and Seven Arts Pictures, Inc.*
10.16	Letter Agreement, dated September 2, 2004, Regarding the Intercompany Agreement between Seven Arts Pictures Plc and Seven Arts Filmed Entertainment Limited*
10.17	Distribution Agreement, between Seven Arts Filmed Entertainment Limited and Seven Arts Louisiana LLC*
10.18	RESERVED
10.19	RESERVED
10.20	RESERVED
10.21	Loan Agreement, dated December 17, 2007, between Palm Finance Corporation and Gone to Hell Limited*
10.22	Loan Agreement, dated May 7, 2007 among Palm Finance Corporation and affiliates of Seven Arts Pictures Plc*
10.23	Intercompany Agreement between Seven Arts Pictures Inc. and Seven Arts Entertainment Inc.*
10.24	RESERVED
10.25	RESERVED
10.26	RESERVED
10.27	RESERVED
10.28	RESERVED
10.29	RESERVED
10.30	RESERVED
10.31	Stock Incentive Plan (filed as exhibit 10.1 to the registration statement on Form S-8 filed February 1, 2012 and incorporated herein by reference)
10.32	Security Purchase Agreement between SAE and |JMJ Financial dated June 27, 2012 (filed herewith)
10.32.1	Secured promissory note dated June 27, 2012 (filed herewith)
10.32.2	Security agreement dated June 27, 2012 between SAE and JMJ Financial (filed herewith)
10.32.3	Common Stock Purchase Warrant dated June 27, 2012 (filed herewith)
10.32.4	Personal Guaranty and Recourse Agreement dated June 27, 2012 (filed herewith)
10.32.5	Representations and Warranties agreement dated June 27, 2012 (filed herewith)

10.32.6	Additional Default Provisions
10.33	Record Manufacturing and Distribution Agreement
10.34	Forbearance and Workout Agrement Number 6
21.1	List of Subsidiaries (filed herewith)
23.1	Consent of The Hall Group CPA's (filed herewith)
23.2	Consent of Baker & Hostetler LLP (included in exhibit 5.1)**
24.1	Powers of Attorney (included on the signature page to this Registration Statement)

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

** To be filed at a future date.

b. Financial Statement Schedules

None.

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes:

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for purposes of determining liability under the Securities Act to any purchaser:

(i) If the registrant is relying on Rule 430B:

(A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or

(ii) If the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(5) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(6) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Angeles, State of California, on March 19, 2013.

SEVEN ARTS ENTERTAINMENT INC.

By: /s/ Peter Hoffman
Peter Hoffman
Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Peter Hoffman as his or her true and lawful attorneys-in-fact and agents with full power of substitution and re-substitution for him or her and in his or her name, place and stead in any and all capacities to execute in the name of each such person who is then an officer or director of the Registrant any and all amendments (including post-effective amendments) to this Registration Statement, and any registration statement relating to the offering hereunder pursuant to Rule 462 under the Securities Act of 1933 and to file the same with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them full power and authority to do and perform each and every act and thing required or necessary to be done in and about the premises as fully as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

Name	Title	Date
/s/ Hubert Gibbs Hubert Gibbs	Chairman	March 19, 2013
/s/ Peter Hoffman Peter Hoffman	Chief Executive Officer, Director and Authorized Representative in the United States (Principal Executive Officer)	March 19, 2013
/s/Elaine New Elaine New	President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 19, 2013
/s/ Katrin Hoffman Katrin Hoffman	Chief Operating Officer and Director	March 19, 2013
/s/ Daniel Reardon Daniel Reardon	Director	March 19, 2013
/s/ Anthony Hickox Anthony Hickox	Director	March 19, 2013

/s/ David Furth David Furth	Director	March 19, 2013

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CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 and 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Management of
Seven Arts Entertainment, Inc. (formerly Seven Arts Pictures, Plc.)

We have audited the accompanying consolidated balance sheets of Seven Arts Entertainment, Inc. (formerly Seven Arts Pictures, Plc.) as of June 30, 2012 and 2011, and the related consolidated statements of operations and comprehensive income, cash flows and stockholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were not engaged to examine management's assertion about the effectiveness of Seven Arts Entertainment, Inc.'s internal control over financial reporting as of June 30, 2012 and 2011 and, accordingly, we do not express an opinion thereon.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seven Arts Entertainment, Inc. (formerly Seven Arts Pictures, Plc.) as of June 30, 2012 and 2011, and the results of its operations, comprehensive income and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ The Hall Group, CPAs
The Hall Group, CPAs
Dallas, Texas

October 14, 2012

Seven Arts Entertainment, Inc.
(Formerly Seven Arts Pictures, Plc)
Consolidated Balance Sheets
As of June 30, 2012 and June 30, 2011

	June 30, 2012	June 30, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 120,658	$ 8,785
Accounts receivable, net of allowance for doubtful accounts of $171,062 and $195,623	192,035	431,891
Due from related parties	2,116,538	4,920,586
Fee income receivable from related parties	5,896,970	-
Other receivables and prepayments	849,845	1,620,895
Total Current Assets	9,176,046	6,982,157
Long term receivable from related parties	1,643,928	
Film costs, less amortization and impairment of $10,458,823 and $2,843,734	14,612,609	23,133,560
Music assets, less amortization of $0 and $0	2,923,474	-
Leasehold Improvements, less amortization of $0 and $0	4,551,270	-
Property and equipment, net of accumulated depreciation of $111,232 and $106,671	16,137	24,540
TOTAL ASSETS	$ 32,923,464	$ 30,140,257
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank overdraft	$ -	$ 987
Accounts payable	1,152,977	2,569,275
Accrued liabilities	2,758,844	2,382,916
Due to related parties	1,060,905	2,194,610
Shares to be issued	200,000	-
Participation and residuals	114,215	503,187
Other loans	7,163,731	1,755,250
Film & production loans	6,124,428	10,890,430
Deferred income	849,080	407,763
VAT payable	-	1,477,586
Provision for earn-out	50,000	-
Total Current Liabilities	19,474,180	22,182,004
TOTAL LIABILITIES	$ 19,474,180	$ 22,182,004
STOCKHOLDERS' EQUITY		
Convertible redeemable Series A preferred stock at $10 par value, 125,125 and 0 authorized and outstanding	$ 1,251,250	$ -
Convertible redeemable Series B preferred stock at $100 par value, 200,000 authorized, 180,000 and 0 outstanding	4,762,952	
Convertible redeemable Series B shares held in escrow	(3,163,636)	
	17,399	-

Common stock ; $0.01 par value, 35,667,840 authorized, 1,739,900 and 0 issued and outstanding		
Common stock; £0.25 par value; 20,527,360 shares authorized;		
0 and 37,759 issued and outstanding	-	1,121,208
Deferred stock; £0.45 par value; 0 and 13,184,000 shares authorized;		
0 and 13,184,000 shares issued and outstanding	-	11,636,594
Deferred stock; £1.00 par value; 0 and 2,268,120		
shares issued and outstanding	-	3,876,745
Additional paid in capital	18,866,060	9,880,781
Convertible debentures	-	3,432,450
Retained earnings (accumulated deficit)	(8,271,186)	(19,952,188)
Comprehensive Income	(13,555)	(2,037,337)
Shareholders' equity	13,449,284	7,958,253
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 32,923,464	$ 30,140,257

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

Seven Arts Entertainment, Inc.
(Formerly Seven Arts Pictures, Plc.)
Consolidated Statements of Operations and Comprehensive Income
For the Years Ended June 30, 2012 and 2011

	Year Ended June 30, 2012	2011
Revenue:		
Film revenue	$ 823,006	$ 2,758,359
Fee related revenue - related party	9,447,544	570,029
Discount on fee income from related party	(1,906,646)	-
Total revenue	8,363,904	3,328,388
Cost of revenue		
Amortization and impairment of film costs	3,996,576	2,843,734
Other cost of revenue	899,065	604,262
Cost of revenue	4,895,641	3,447,996
Gross profit	3,468,263	(119,608)
Operating expenses:		
General and administrative expense	2,251,139	1,852,303
One time revaluation due to asset transfer	6,459,247	-
Bad debt expense	307,481	234,429
Total operating expenses	9,017,867	2,086,732
Income (loss) from operations	(5,549,604)	(2,206,340)
Non-operating income(expense)		
Other income	31,100	4,458,621
Interest expense	(2,752,682)	(829,878)
Interest income	-	71,681
Total non-operating income (expense)	(2,721,582)	3,700,424
Income (loss) before taxes	(8,271,186)	1,494,084
Change in debt derivative	-	(32,530)
	(8,271,186)	1,461,554
Provision for income tax (benefit)	-	-
Net income (loss)	$ (8,271,186)	$ 1,461,554
Comprehensive income (loss):		
Net income (loss)	(8,271,186)	1,461,554
Foreign exchange translation gain (loss)	(13,555)	(249,926)
Comprehensive income (loss)	$ (8,284,741)	$ 1,211,628
Earnings Per Share		
Weighted average number of common shares used in the profit (loss) per share calculation:		
Basic	453,057	26,982
Diluted	453,057	26,982
Basic profit/ (loss) per share	$ (18.29)	54.17
Diluted profit/ (loss) per share	$ (18.29)	54.17

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

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Seven Arts Entertainment Inc.
(Formerly Seven Arts Pictures, Plc.)
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Income) Loss	$ (8, 284,741)	$ 1, 211,628
Adjustments to reconcile net loss to net cash provided		
by (used in) operating activities:		
Depreciation	8,403	14,026
Amortization and Impairment of Film Costs	3,996,574	2,843,734
One Time Revaluation Due to Asset Transfer	6,459,248	-
Forgiveness of Debt and Interest	-	(4,458,624)
Common Stock Issued for Services	640,527	-
Stock Option Expense	173,797	-
Decrease in Trade Receivables	239,856	1,046,509
Decrease in Due from Related Parties	609,436	969,570
Increase in Fee Income Receivable from Related Party	(7,540,898)	-
(Increase) Decrease in Other Receivables and Prepayments	771,050	(1,429,711)
(Increase) in Film Costs	(1,934,871)	(2,168,426)
(Increase) in Music Assets	(1,324,158)	-
Increase (Decrease) in Bank Overdrafts	(987)	987
Increase (Decrease) in Accounts Payable	(1,416,298)	233,219
Increase in Accrued Liabilities	186,957	36,922
Increase in Due to Related Parties	1,060,905	-
Increase (Decrease) in Deferred Income	441,317	(1,052,464)
(Decrease) in VAT Payable	(1,477,584)	-
Increase in Provision for Earn Out	50,000	-
Net Cash Used in Operating Activities	(7,341,467)	(2,752,630)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Leasehold Improvements	(4,551,270)	-
Purchase of Property and Equipment	-	(12,177)
Net Cash Used in Investing Activities	(4,551,270)	(12,177)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Borrowings	8,116,830	-
Assumption of Debt	3,001,270	-
Cash Payments on Debt	(1,313,337)	-
Proceeds form / (Repayment of) /participation equity / Investment and notes payable	-	(230,434)
Issuance of Preferred Stock for Cash	1,251,250	-
Issuance of Common Stock for Cash	500,000	-
Issuance of Common Stock for Debt Conversion		2,977,208
Net Increase in Equity From Asset Transfer	448,597	-
Net Cash Provided By Financing Activities	12,004,610	2,746,774

NET INCREASE (DECREASE) IN CASH		111,873		(18,033)
CASH AT BEGINNING OF PERIOD		8,785		26,818
CASH AT END OF PERIOD	$	120,658	$	8,785
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid during the year for interest	$	-	$	149,326
Cash paid during the year for income taxes	$	-	$	-
Related party advances settled by shares owned by EBT	$	-	$	164,500
Interest of loan payable capitalized on film assets	$	-	$	50,262
Accrued interest included in loan payable amount	$	2,939,546	$	2,244,903
Share based compensation expense	$	-	$	87,206
Shares issued for services	$	640,527	$	-
Shares issued in payment of debt and interest	$	9,162,285	$	-

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

Seven Arts Entertainment, Inc.
(Formerly Seven Arts Pictures, Plc.)
Consolidated Statement of Stockholders' Equity
For the Years Ended June 30, 2012 and 2011

	Convertible Preferred Stock Series A		Convertible Preferred Stock Series B		Common Stock		Deferred Stock 2		Defe
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shar
Balance at July 1, 2010					1,495,460	$641,126	1,495,460	$2,564,504	13,
Asher & Trafalgar shares issued December 2010					267,522	$126,850	267,522	$507,400	
EBT shares sold									
Trafalgar, Isaac & New Moon shares issued February 2011					355,138	$142,497	355,138	$569,988	
Correction to Asher/Trafalgar 2010								$(5,987)	
Palm Finance shares issued March 2011					150,000	$60,210	150,000	$240,840	
TCA & Eden shares issued May 2011					275,011	$110,385			
J Shapiro shares issued June 2011					100,000	$40,140			
Translation adjustment									
Net income									
Balance at June 30, 2011	0	$0	0	$0	2,643,131	$1,121,208	2,268,120	$3,876,745	13,
Impact of Asset Transfer Agreement					(2,643,131)	$(1,121,208)	(2,268,120)	$(3,876,745	(13
One for one share issue on transfer of assets from Seven Arts Pictures Plc					92,519	$925			

Transfer of Seven Arts Pictures Plc (PLC) assets and liabilities to Seven Arts Entertainment Inc.									
Shares issued to Seven Arts Pictures Plc to cover remaining liabilities					28,571	$286			
Common stock issued for cash					21,785	$218			
Common stock issued for consultancy fees					75,125	$751			
Common stock issued in exchange for debt					1,268,581	$12,686			
Common stock issued on convertible notes					253,319	$2,533			
Issued Series A preference stock at $10 par value	125,125	$1,251,250							
Issued Series B preference stock at $100 par value			180,000	$4,762,952					
Series B preference shares held in escrow									
Stock based compensation:									
Options issued for wages and benefits									
Foreign currency translation adjustments									
Net income									
Balance at June 30, 2012	125,125	$1,251,250	180,000	$4,762,952	1,739,900	$17,399	-	$-	-

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

Seven Arts Entertainment, Inc.
(Formerly Seven Arts Pictures, Plc.)
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

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. 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 ("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 August 12, 2012.

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, 28,571 shares (adjusted for the 1:70 reverse stock split 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 12 – 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 28,571 shares of common stock of SAE in order to satisfy these obligations.

In connection with the acquisition of the music assets of Michery, the Company issued 100 ,000 shares of our Series B convertible preferred stock, par value $100 convertible at approximately $1.10 per share) to Michery and his assigns .l

50,000 shares of the Company's Series B convertible preferred stock are held in escrow and will only be released to 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 .. Michery is the Chief Executive Officer of SAM.

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 however 70,000 of these shares of our Series B convertible preferred stock are held in escrow and will only be released to 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 earnout over a two year period.

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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 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. The new CUSIP number is 81783N 201. 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.

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 expiration 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 Market’s 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 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.

Capital Structure:

SAE’s authorized capital is 250,000,000 shares of capital stock. SAE has authorized the following classes of stock:

> 35,667,840 shares of common stock authorized, $.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.

125,125 shares of Series A Preferred Stock with a $10.00 par value per share, issued to one shareholder in November 2011. These shares have a conversion price to common stock of $10.50 per share.

200,000 shares Series B Preferred Stock with a $100.00 par value per share, issued in February, 2012, 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 is $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.

Audited Financial Statements:

The accompanying audited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission. These financial statements are audited and, in the opinion of management, include all adjustments necessary to present fairly the balance sheet, statement of operations, statement of stockholders' equity and statement of cash flows for the periods presented in accordance with accounting principles generally accepted in the United States. The Company's predecessor, PLC, was considered a foreign filer as of its June 30, 2011 year-end, and therefore filed a Form 20-F in December 2011. The 2011 comparative information for the year ended June 30, 2011 have been derived from the June 30, 2011 20-F filing.

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." The Company does not have any variable interest or special purpose entities. Going forward, the Company will present Palm Finance's 40% share of SAFELA's profit or loss as a noncontrolling interest.

The Company prepares its financial statements on the accrual basis of accounting and in accordance with Generally Accepted Accounting Principles of the United States of America ("US GAAP"). All material intercompany balances and transactions are eliminated. Management believes that all adjustments necessary for a fair presentation of the results of the year ended June 30, 2012 and 2011 have been made.

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.

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.

Assets and liabilities generated in a currency other than the functional currency are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates in effect for the periods presented. The cumulative translation adjustment is included in the accumulated other comprehensive gain (loss) within shareholders' equity. 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.

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 $171,062 and $195,623 at June 30, 2012 and June 30, 2011, 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 Inc. 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. As of June 30, 2012, $1,028,388 was owed to Mr. Hoffman for unpaid salary and unreimbursed expenses, as well as repayment of cash he advanced the Company or its predecessors.

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.

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 in revenue to be received from digital platforms on the film, The Pool Boys, which has been earned but not received as of June 30, 2012.

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.

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 .

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 will be 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.

Deferred Income:

Any income received from customers before a film is delivered for release, (such as deposits on distribution contracts) is recorded as a liability called deferred income in case the film does not reach completion and the income has to be returned to customers.

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 earnout to be $0 .

In connection with the acquisition of the stock of BJM, the Company issued 10,000 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 and agreed to issue an additional 70,000 shares of our Series B convertible preferred stock to 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 earnout over a two year period. The 70,000 shares are currently held in escrow.

The Company has determined the fair value of the earnout with regard until the proving of the media credits is $50,000, 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. Shapiro 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, This was approved by the PLC shareholders at an Extraordinary General Meeting on that date, and was subsequently 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 shares of SAE were issued to PLC in order to satisfy any remaining obligations . 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. The Company's intention in executing this transaction was to redomicile our business with no change in the economic interests of the Company's shareholders. As the majority of the Company's shareholders were domestic we felt they would be better served by the Company as a domestic issuer.

The assets and certain of the liabilities of SAP 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 " consideration paid for the asset transfer was a one for one share exchange of PLC shares for shares of SAE Inc. and an issuance of a further 2,000,000 (pre-split) (28,571 post-split) shares in SAE Inc. The issuance of the 2,000,000 shares was booked at the closing market price on August 31 2011, which was $0.66/ share. The Board approved the issuance of the 2 million shares (pre-reverse split) to satisfy any remaining obligations in PLC, which approximated the amount of the liabilities left behind at the time of the issuance.

Although the transfer agreement amendment was executed on January 27, 2011, the PLC remained the parent company through August 31, 2011. until all procedures and approvals were in place with NASDAQ, DWAC and the transfer agent to finalize the one share of common stock of SAE for each ordinary share of PLC to be distributed to shareholders and trading of SAE to take over from PLC The fair value of the 2,000,000 shares was determined at the closing market price on August 31 2011, which was $0.66/share.

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. For the periods presented, there were no potentially dilutive securities outstanding, therefore basic earnings per share equals diluted earnings per share. Basic and diluted earnings per share ("EPS") are based on weighted-average common shares and exclude shares that would have an anti-dilutive effect. 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 June 30, 2012 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 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 two business segments as a motion picture producer and distributor and as a music label managing the assets of David Michery and Big Jake Music. The Company believes that its businesses should be reported as two business segments. (See Note 2 - Segment Information). From July 1, 2012 a third segment will be reported; that of post-production income generated by SAFELA at the new facility at 807 Esplanade, New Orleans.

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 are 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.

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 is a new line of business for the Company, and therefore, now has two reportable operating segments.

The table below presents the financial information for the two reportable segments for the year ended June 30, 2012. Comparable financial information for 2011 is not presented as the Company only had one segment during that time.

	Year ended June 30, 2012		
	Film	Music	Total
Revenue	$ 8,357,927	$ 5,977	$ 8,363,904
Cost of revenue	(4,856,610)	(39,031)	(4,895,641)
Gross profit/(loss)	$ 3,501,317	$ (33,054)	$ 3,468,263
Operating expenses	(8,926,363)	(91,505)	(9,017,867)
Income from operations	$ (5,425,046)	$ (124,559)	$ (5,549,604)

As of June 30, 2012, the Company had film assets of $14,612,609 and music assets of $2,923,474. As of June 30, 2011, all of the Company's assets were related to film.

From July 1, 2012 there will be three segments reported with the commencement of the post production facility operations at 807 Esplanade.

NOTE 3 – RELATED PARTY DUE TO/DUE FROM

SAP, Inc. 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. The balances of these combined accounts due to the Company as of June 30, 2012 and June 30, 2011 were $1,055,632 and $2,725,974, respectively.

As at June 30, 2012	SAE INC	SAFE	CONSOLIDATED BALANCE
SAP Inc	$ 1,801,098	$ (20,850)	$ 1,780,248
SAP LOU	336,290	-	336,290
Peter Hoffman	(1,028,389)	(18,961)	(1,047,350)
SAFE (UK)	-	(13,556)	(13,556)
	$ 1,108,999	$ (53,367)	$ 1,055,632

SAP, Inc. has pledged an interest in its shares of the Company's stock to secure certain indebtedness for which SAP, Inc. and the Company are jointly liable such as the Apollo and Armadillo debts. The stock of SAP, Inc. (previously owned by Peter Hoffman) was transferred to the listing predecessor of SAE on September 1, 2011.

SAP Inc. and Louisiana Companies:

The Company's Chief Executive Officer, Peter Hoffman, controls several companies, including (prior to September 10, 2011) Seven Arts Pictures, Inc. ("SAP, Inc.") that are not part of the Company but from which it obtains or transfers distribution rights or other assets related to the business and which control production of the motion pictures. The agreements with Mr. Hoffman, and the companies controlled by him, provide that all revenues related to the Company's business payable to Mr. Hoffman or any of these related party companies is due to the Company, except Mr. Hoffman's salary, bonus and stock ownership. None of these affiliates are variable interest or special purpose entities.

Pursuant to a related party agreement, SAP, Inc. holds ownership of limited liability corporations in the United States, with all distribution rights and profits thereof being due to SAFE, Ltd. In addition, they have also provided other services for Seven Arts Pictures Plc. and SAFE, Ltd. and SAE, Inc. at no fee other than Mr. Hoffman's salary and the direct third party costs of the Los Angeles office, all of which are reflected in the financial statements of SAFE, Ltd. These other services include any reasonable requests of the management of the Company including 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. Effective January 1, 2012 no further such transactions are intended.

The Company has made and received advances, and paid expenses on each other's behalf, from and to SAP Inc. and various Louisiana limited liability companies referred to above, where the advances from and to these related parties do not bear interest. The balances of these combined accounts were $1,055,633 and $2,725,974 as of June 30, 2012 and 2011, respectively.

807 Esplanade Guarantee:

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 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 plus a contingent sum of $750,000 due to Advantage Capital (contingent on receipt of 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 been assumed by the Company for 807 Esplanade.

807 Esplanade Advances:

On February 28, 2012, the Company took out a convertible loan of $200,000 from Rowett Capital Ltd. These have been loaned to 807 Esplanade to cover outstanding interest payments due on the construction loan on 807 Esplanade previously guaranteed by the Company (see below). Three additional convertible loans were taken out totalling $600,000 and then loaned onto SAPLA to pay down the construction loan on the property 807 Esplanade, as to not further delay the construction and opening of the facility, for which the Company will have a 30 year lease.

Loan Arrangements:

In connection with the loan of $500,000 with JMJ Financial entered into on June 27, 2012, and a new loan entered into subsequent to year-end with Tonaquint Inc. of $435,000, the Company sold to Mr. Hoffman, at market price, who in turn will pledge 8,000,000 shares to JMJ and have pledged 7,000,000 shares to Tonaquint of our common stock, respectively, in exchange for a portion of the Company's existing indebtedness to Mr. Hoffman. Mr. Hoffman has agreed to return these shares to the Company if not utilized by the pledges.

NOTE 4 – FEE INCOME RECEIVABLE FROM RELATED PARTY

Under the terms of the related party agreement between SAPLA and SAE Inc. proceeds received from the disposition of the tax credits provided are due to SAE to reduce the notes payable to Palm Finance and as fees for services provided by the Company . SAPLA is due to receive approximately $9,447,544 from disposition of Louisiana and Federal historic rehabilitation and film infrastructure tax credits for the restoration and the establishment of a post-production facility at 807 Esplanade.

SAPLA will pay the proceeds from disposition of such tax credits to SAE Inc. as fee income. The Company determined the receipt of such proceeds qualifies as "fees earned" for the services it provided to complete the project. The Company has provided a reserve of $1,906,646 against this receipt to allow for cost of disposing the credits and a further reserve against potential disallowance of any expenditures by Louisiana or Federal taxing authorities, which is not anticipated by Management.

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.

The reserve established by the Company against the revenue to be received from SAPLA from disposition of the tax credits reflects potential discounts on the assignment of credits for cash and any potential reduction in the amount of expenses that may be disallowed by objection of any Federal or Louisiana agency, even though the Company has at present no reason to believe there will be any such reductions.

NOTE 5 – FILM COSTS

Film costs as of June 30, 2012 and June 30, 2011 are as follows:

	June 30, 2012	June 30, 2011
Film Costs, beginning of period	$ 23,133,559	$ 23,808,869
Additions to film costs during the period	1,934,873	2,168,424
Total film costs	25,068,432	25,977,293
Less: Amortization and impairment for the period	(3,996,576)	(2,843,734)
Less: One time revaluation due to asset transfer	(6,459,247)	-
Total film costs, net of accumulated amortization	$ 14,612,609	$ 23,133,559

Amortization of film costs was $3,996,576 and $2,843,734 for the year ended June 30, 2012 and 2011. The Company reviews capitalized film costs 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. The Company had a one time revaluation due to asset transfer of $6,459,247 related to the one time revaluation .

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 June 30, 2012 and June 30, 2011 are as follows:

	June 30, 2012	June 30, 2011
Music assets, beginning of period	$ -	$ -
Additions to music assets during the period	2,923,474	-
Total music assets	2,923,474	-
Less: Accumulated amortization	-	-
Total music assets, net of accumulated amortization	$ 2,923,474	$ -

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”.

The music assets were recorded at the value of the preferred stock issued, and capitalized costs incurred in the production of the current DMX album and related videos.

There were two separate transactions in which SAE acquired the “music assets”. One was an Asset Purchase Agreement with David Michery, which was accounted for as an asset purchase. In this transaction SAE acquired the music assets comprised of masters and other sound recordings. The other was the BJM acquisition, in which SAE acquired the stock of BJM, which was accounted for as a business combination.

The BJM transaction qualified as an acquisition of a business, as defined in ASC 805-10-55-2, as the Company, the acquirer, gained control of BJM by issuing Series B Preferred Stock as consideration. BJM falls under the definition of a business, as set forth in ASC 805-10-55-4 through 7, as although BJM was not operational, they 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, and therefore, were also difficult to value. In accordance with ASC ASC 505-50-30-6 which gives guidance on how to measure the equity issued in a non-monetary exchange, as the value of the Company’s Series B Preferred Stock was determined as the most readily determinable, the consideration was calculated as the fair value of the Series B Preferred Stock. 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.

Due to the decline in the common stock price, the Company reviewed the redemption value of the Series B Preferred Stock to common and, as agreed by the Board of Directors, revalued the Series B Preferred Stock at the 10 day volume weighted closing bid price of the Company's common stock on September 30, 2012 ($0.29/share), as if all shares of Series B Preferred Stock issued and not in escrow were converted in common stock at the conversion price of $1.10 per share. No earnout provision has been made for any shares of Preferred Stock not now issued, as management does not believe the conditions for release of such shares will be met.

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. As of June 30, 2012, no impairment has been booked.

NOTE 7 – 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 will be amortized over the useful life of the lease.

NOTE 8 – 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.

During the year ended June 30, 2012 the Company had a net loss of $8,271,186, increasing the deferred tax asset approximately $2,812,203 at the statutory tax rate of 34%. Deferred tax assets at June 30, 2012 consisted of the following:

Deferred tax asset related to:

	June 30, 2012
Prior Year	$ 0
Tax Benefit (Expense) for Current Period	2,812,203
Deferred Tax Asset	$ 2,812,203
Less: Valuation Allowance	(2,812,203)
Net Deferred Tax Asset	$ -

The net deferred tax asset generated by the loss carry forward has been fully reserved and will expire in 2019 through 2032. The realization of deferred tax benefits is contingent upon future earnings and is fully reserved at June 30, 2012.

NOTE 9 – CONVERTIBLE NOTES PAYABLE

New Notes:

The following table presents convertible notes payable outstanding at June 30, 2012. Each of these notes is convertible into shares of the company's common stock at the indicated fixed conversion rate or various variable rates.

Convertibles			Original agreed Conversion rate	Start	Finish	Variable Terms
Hanover Holding	$	160,479	$ 0.10	19/10/2011	18/05/2012	Price will reset if not converted within 8 months
Hanover Holding	$	65,821	$ 0.10	16/11/2011	16/02/2012	Lower of fixed and variable conversion price
Beauvoir Capital Ltd	$	110,899	$ 0.20	22/11/2011	31/03/2012	
FireRock	$	28,784	$ 0.25	12/12/2011	12/06/2012	Lower of fixed and variable conversion price
Aegis – Tripod	$	35,504	$ 0.27	15/12/2011	30/06/2012	Price will reset if not converted within 8 months
Aegis – CMS	$	35,503	$ 0.27	15/12/2011	30/06/2012	Price will reset if not converted within 8 months
Aegis - Rachel	$	35,503	$ 0.27	15/12/2011	30/06/2012	Price will reset if not converted within 8 months
Runway	$	200,682	$ 0.20	11/01/2012	30/09/2012	Lower of fixed and variable conversion price
Tripod	$	52,729	$ 0.24	16/01/2012	30/06/2012	Lower of fixed and variable conversion price
Isaac Loan	$	263,315	$ 0.03	20/01/2012	30/06/2012	Lower of fixed and variable conversion price
Sendero	$	262,986	$ 0.20	24/01/2012	30/09/2012	Lower of fixed and variable conversion price
Tripod - $150k	$	125,918	$ 0.24	01/02/2012	01/02/2013	Lower of fixed and variable conversion price
Briskin $100k	$	104,866	$ 0.23	03/02/2012	03/02/2013	One time conversion price reset
Hanover	$	420,053	$ 0.10	23/02/2012	23/08/2012	Lower of fixed and variable conversion price
Briskin - $50k	$	52,500	$ 0.09	04/04/2012	10/10/2012	One time conversion price reset
Briskin - $40k	$	41,667	$ 0.09	13/04/2012	22/10/2012	One time conversion price reset
Briskin - $60k	$	62,500	$ 0.09	17/04/2012	22/10/2012	One time conversion price reset

Briskin - $45k	$	46,350	$	0.07	14/05/2012	22/10/2012	One time conversion price reset
Firerock - $62,500	$	62,654			21/06/2012	21/12/2012	Lower of fixed and variable conversion price
Agua Alta (Cold Fusion)	$	100,163		****	25/06/2012	25/06/2013	35% discount from previous day's closing price
Beaufort	$	50,066		****	26/06/2012	26/06/2013	35% discount from previous day's closing price
	$	2,318,942					
807 Esplanade Convertibles							
Beaufort - $100k (807 Esplanade)	$	102,794		****	06/04/2012	05/04/2013	35% discount from previous day's closing price
Beaufort - $250k (807 Esplanade)	$	256,411		****	13/04/2012	12/04/2013	35% discount from previous day's closing price
Old Capital - $250k (807 Esplanade)	$	252,466		****	31/05/2012	30/05/2013	35% discount from previous day's closing price
	$	611,671					

The Company has evaluated these convertible notes for embedded derivative features and has determined that no derivative liability exists.

Convertible debts are all convertible to common stock on maturity at the option of the lender. They all bear interest at varying rates and convert at different times and at fixed or variable conversion prices according to the contract.

NOTE 10 – LOANS PAYABLE

The Company has the following indebtedness as of June 30, 2012:

Lender
Film and Production Loans

Palm Finance *			$	4,324,431	18%	Forebearance agreement
Palm Finance				82,354	18%	Forebearance agreement
Palm Finance *				1,538,218	18%	Forebearance agreement
120db Film Finance LLC				4,425	Non stated	Due on demand
Cold Fusion Media Group LLC				175,000	10%	Due on demand
Total Film and Production Loans			$	6,124,428		
Other loans						
Other						
Trafalgar Capital (in liquidation)			$	531,986	9%	Due on demand
TCA loan	31/03/2011	30/09/2011		62,149	10%	Due on demand
GHP Note				137,573		
JMJ Financial (J Keener)	29/06/2012	27/10/2012		500,137	10%	
			$	1,231,845		
Hanover Holding	19/10/2011	18/05/2012	$	160,479	10%	Due on demand
Hanover Holding	16/11/2011	16/02/2012		65,821	12%	Paying in installments
Beauvoir Capital Ltd	22/11/2011	31/03/2012		110,899	18%	Due on demand
FireRocks-East Side Holdings	12/12/2011	12/06/2012		28,784	12%	Due on demand
Aegis – Tripod	15/12/2011	30/06/2012		35,504	12%	Due on demand
Aegis – CMS	15/12/2011	30/06/2012		35,503	12%	Due on demand
Aegis – Rachel	15/12/2011	30/06/2012		35,503	12%	Due on demand
Runway	11/01/2012	30/09/2012		200,682	12%	Due on demand
Tripod	16/01/2012	30/06/2012		52,729	12%	Due on demand
Isaac Loan	20/01/2012	30/06/2012		263,315	12%	Due on demand
Sendero	24/01/2012	30/09/2012		262,986	12%	
Tripod - $150k	01/02/2012	01/02/2013		125,918	12%	
Michael Briskin	03/02/2012	03/02/2013		104,866	12%	
Hanover	23/02/2012	23/08/2012		420,053	10%	Paying in installments
Briskin - $50k	04/04/2012	10/10/2012		52,500	10%	
Briskin - $40k	13/04/2012	22/10/2012		41,667	10%	
Briskin - $60k	17/04/2012	22/10/2012		62,500	10%	

Briskin - $45k	14/05/2012	22/10/2012		46,350	10%	
Firerock - $62,500	21/06/2012	21/12/2012		62,654	10%	
Agua Alta (Cold Fusion)	25/06/2012	25/06/2013		100,163	12%	
Beaufort	26/06/2012	26/06/2013		50,066	12%	
			$	2,318,942		
807 Esplanade						
Beaufort - $100k (807 Esplanade)	06/04/2012	05/04/2013	$	102,794	12%	
Beaufort - $250k (807 Esplanade)	13/04/2012	12/04/2013		256,411	12%	
Old Capital - $250k (807 Esplanade)	31/05/2012	30/05/2013		252,466	12%	
Palm Finance - mortgage and construction loan				3,001,271	15%	Forebearance agreement
SAFELA loans outstanding			$	3,612,942		
Total Other Loans			$	7,163,731		
TOTAL LOANS			$	13,288,159		

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The loan amounts at June 30, 2012 and 2011 include accrued interest of $2,939,546 and $2,233,944, respectively.

*The Company does not agree with $957,696 of interest charged by Palm on these two film loans and believes the dispute will be resolved once the loans are repaid.

** In connection with this loan of $500,000 with JMJ Financial, and a new loan entered into with Tonaquint Inc. of $435,000, the Company issued to Mr. Hoffman, the Company's CEO, who in turn will pledge 8,000,000 shares to JMJ and has pledged 7,000,000 shares of common stock to Tonaquint, in exchange for a portion of our existing indebtedness to Mr. Hoffman. Mr. Hoffman has agreed to return these shares to the Company if not levied on by the pledges.

The Company converted $2,963,028 of the film and production loans into 85,562 shares of common stock during the three months ended September 30, 2011, $906,000 of film and production loans for, 49,863 shares of common stock in the 2nd quarter ended December 31, 2011 and $943,580 of film and production loans for 96,424 shares of common stock in the 3 months to March 31, 2012 and $2,629,152 of film and other loans for 602,097 shares of common stock in the 3 months to June 30, 2012.

Palm Agreement

The Company entered into two senior financing loan and security agreements with Palm to finance the production costs of The Pool Boys, Autopsy and Nine Miles Down dated May 7, 2007 and December 17, 2007. These loans are secured by the revenues to be collected from these motion pictures. The revenues so far collected have been insufficient to repay the majority of these loans, primarily as result of management's decision to delay the release of these films.

In July, 2011 we entered into an amended financing agreement with Palm in to refinance the existing indebtedness secured by our production and post-production facility in New Orleans, Louisiana under which Palm has acquired the existing credit facility of $3,700,000 plus accrued interest of our affiliate SAPLA for $1,000,000 of this amount plus a continent sum of $750,000 (contingent on receipt of the tax credit revenues) and advanced an additional $1,800,000 to complete renovation and construction of this facility. Palm's advance and interest at the rate of 15% per annum are due and payable within five years and are secured by the property at 807 Esplanade Avenue in New Orleans and Louisiana film infrastructure and historical rehabilitation credits, as well as Federal historical rehabilitation credits associated with the Property. Under this arrangement the group guaranteed the debt on the post production facility and Palm forgave a total of $4,458,624 of principal and interest on the two production loans as well as reduced the liability on the New Orleans production facility by $1,950,000 in exchange for the group guaranteeing the production facility debt. Palm's advance and interest at the rate of 15% per annum are due and payable within five years and are secured by the property at 807 Esplanade Avenue in New Orleans and Louisiana film infrastructure and historical rehabilitation credits, as well as Federal historical rehabilitation credits associated with the Property and cross guaranteed the Company, its affiliates and CEO, Peter Hoffman.

In June, 2012 as detail in Note 7 the Esplanade debt was assumed by SAFELA in exchange for a 30 year lease on the facility. SAFELA was in turn acquired by the Company. At June 30, 2012 debt and accrued interest under the amended agreement total $8,946.000.

Trafalgar

SAP Plc. Borrowed £1,000,000 ($1,651,000) convertible debenture from Trafalgar Capital Special Investment Fund ("Trafalgar") that came due on June 30, 2009.We were unable to repay the debenture and as a result, we defaulted on a payment of £1,000,000 plus interest to Trafalgar Capital Special Investment Fund in June 2009.

On September 2, 2009 the Group repaid Trafalgar $1,000,000 as a partial payment against this loan, with the remaining balance subject to repayment in cash or convertible to the shares of common stock of the Group at the conversion terms as agreed between Trafalgar and the Group. On June 22, 2010 an amended agreement was entered into with Trafalgar for an extension of the due date of the convertible debentures to December 31, 2010, and the Group agreed to issue 971 shares of common stock to settle a portion of the debt. Trafalgar agreed to reduce the loan amount from the proceeds it received from selling the shares of common stock. The transaction was consummated subsequent to the date of the financial statements and all 971 had been sold by December 31, 2010. Subsequent to June 30, 2010, a further amended agreement was entered into with Trafalgar for an extension of the due date of the convertible debentures to March 31, 2011, and the Group agreed to issue 1214 shares of common stock to settle a portion of the debt. Trafalgar agreed to reduce the loan amount from the proceeds it received from selling the 1,214 shares of common stock. The current balance outstanding on the loan after sale of these shares is approximately $530,000.

NOTE 11 – EQUITY TRANSACTIONS

First Quarter Ended September 30, 2011:

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.

The Company is authorized to issue 35,992,964 common shares at a par value of $0.01 per share. These shares have full voting rights. At September 30, 2011 and June 30, 2011, there were 159,278 and 37,759 common shares outstanding. The Company's predecessor, PLC, had a 1:5 reverse stock split on May 9, 2011. The shareholders agreed to increase the authorized shares to 250,000,000 from 50,000,000 at the Company's shareholder meeting in February 2012 . The shareholders also approved a 1:10 reverse split at this AGM. The Board of Directors approved a 1:70 reverse split on August 31, 2012 but to do so had to reduce the authorised equity back down to 35,992,964.

During the three months ending September 30, 2011, Company issued 92,805 shares in satisfaction of $3,188,028 of outstanding loans payable and accrued interest, consisting of $225,000 of convertible notes payable and $2,963,028 of film and production loans. The conversions were done at contractual share prices ranging from $.20 to $2.00 per share (pre-reverse split, equal to $14.00 to $140.00 post-split).

In July 2011, the Company also issued 143 shares for investor relations services valued at approximately $10,000.

The Company did not assume the deferred stock of the listing predecessor which was outstanding at June 30, 2011. Deferred stock is subordinated to all other classes of stock.

As of September 30, 2011, $1,986,722 of stock was fully paid but still to be issued, consisting of $1,251,250 of Series A preferred stock and $735,472 of debt that was being converted to equity. There were 159,278 shares were outstanding as of September 30, 2011.

Second Quarter Ended December 31, 2011:

Between October 1, 2011 and December 31, 2011 the Company issued 163,868 shares. The total number of shares outstanding on December 31, 2011 was 323,146.

66,272	common shares were issued in satisfaction of the $612,336 of convertible debt shares at an average conversion price of $9.10/share .
40,734	common shares were issued on the conversion of the Agua Alta, Sendero and Isaac convertible notes totalling $427,706 at an average conversion price of $10.50/ share.
49,863	common shares were issued in satisfaction of $906,000 of corporate loans at an average conversion price of $18.20/share.
5,714	common shares were issued as restricted stock for cash, $250,000 to Fletcher and $150,000 to Goldstrand at $70.00/share
1,071	common restricted shares were issued for investor relations services at $25.20/share
214	common restricted shares were issued to a director in lieu of compensation at $35.00/share
163,868	

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Third Quarter Ended March 31, 2012:

Between January 1, 2012 and March 31, 2012, the Company issued 276,411 shares at an average price of $13.30 per share. The total number of shares outstanding on March 31, 2012 was 599,557.

96,425	common shares were issued in satisfaction of the $943,580 of newly converted film debt at an average conversion price of approximately $9.80/share .
65,237	common shares were issued in satisfaction of $929,596 of overhead at an average conversion price of $14.00/share
49,889	common shares were issued on the conversion of old notes including the final conversion of the Runway convertible notes, total debt of $516,568 was converted at an average conversion price of $10.50/ share.
43,928	common shares were issued in satisfaction of $698,736 of film loans previously converted at an average conversion price of $16.10/share.
17,143	common shares were issued as restricted stock for cash, to Blue Rider at $0.50/share
3,789	common restricted shares were issued for consulting services provided under the S-8 authority at $19.60/share
276,411	

Fourth Quarter Ended June 30, 2012:

Between April 1, 2012 and June 30, 2012, the Company issued 1,140,343 shares at an average price of $4.81 per share. The total number of shares outstanding on June 30, 2012 was 1,739,900. (See Subsequent Events Note 16 for stock issuances subsequent to June 30, 2012).

111,143	common shares were issued in part payment of the Palm debt to the value of $430,000 at an average conversion price of $3.87/share .
174,240	common shares were issued in satisfaction of the Blue Rider debt of $980,000 at an average conversion price of $5.62/share
160,556	common shares were issued in satisfaction of the Cold Fusion debt of $725,000 was converted at an average conversion price of $4.52/ share.
40,118	common shares were issued against the Pool Boys tax credit loan of $100,000 at an average conversion price of $2.49/share.
16,071	common shares were issued for cash, for the music company at $6.22/share
69,908	common shares were issued for consulting services totalling $513,321 provided under the S-8 authority at ---$7.34/share
156,158	common shares were issued as general loans totalling $494,152 at $3.16/share
357,143	common shares were issued to Peter Hoffman in satisfaction of a debt of $877,824 at $2.46/share
55,006	common shares were issued to cover 807 Esplanade construction fees totalling $200,000 at $3.64/share
1,140,343	

The Board has approved the issuance of 25 million pre split shares to Mr. Hoffman at the market value when issued which will be adjusted from time to time to reflect changes in the market value of the shares issued. All shares will be returned to the Company on repayment of the indebtedness, if not sold by the creditor to satisfy the indebtedness. The Company's previous filing on Form 8-K identified an estimated value at the time of issue as the Board was considering the matter. Based on the decision of the Board, the shares issued to Mr. Hoffman will be and have been adjusted to the fair market value on the date of issuance.

Warrants and Options:

During the twelve months ended June 30, 2012, the Company issued 1429 options to the seven members of the board of directors. These options have a five year term and a strike price equal to the closing price of the Company's stock at the date of issue. Each director was issued 5714 options with a strike price of $30.80 on October 14, 2011 and 714 options with a strike price of $27.30 on December 6, 2011. Half of the options vested on December 31, 2011 and the remaining half will vest on December 31, 2012.

During the quarter ended June 30, 2012, the Company issued 28,571 options to David Michery in conjunction with his employment agreement with the Company. These options have a strike price of $12.60 and vest and shall be exercisable in equal monthly installments over the term of his employment agreement, which is February 22, 2012 through December 31, 2016.

During the quarter ended June 30, 2012, the Company has agreed to issue 714 options per year to Jake Shapiro in conjunction with his employment agreement with the Company. These options have a strike price equal to the closing price of the Company's stock at the date of issue, with the exception of the first year, which the strike price was set at $55.30 per share. The Company measures compensation expense related to stock options with the Black Scholes option pricing model, and recognizes expense over the vesting period.

On June 29, 2012, 119,048 warrants were issued to JMJ Financial. These options have a strike price of $2.10

In January 2012, the Company filed a registration statement on Form S-8 in connection with the registration under the Securities Act of 1933, as amended, of 71,429 shares of the Company's common stock under the Company's 2012 Stock Incentive Plan.

In July, 2012, the Company filed a registration statement on Form S-8 in connection with the registration under the Securities Act of 1933, as amended, of a further 214,286 shares of the Company's common stock under the Company's 2012 Stock Incentive Plan

Convertible Redeemable Preferred Stock

125,125 shares of Series A Cumulative Convertible $10.00 Preferred Stock with a dividend rate of 8% (payable quarterly) were issued in November 2011. The conversion price into common stock of the Company is $10.50/share.

180,000 Series B convertible preferred stock, $100.00 par value have been issued to two shareholders although 120,000 of such shares are held in escrow subject to earnout. The shares were issued to acquire music assets for the Company. These shares in escrow are shown on the balance sheet as a reduction in equity. The per-share conversion price for the Series B Preferred Stock is $1.10.

Due to the decline in the common stock price, the Company reviewed the redemption value of the Series B Preferred Stock to common and, as agreed by the Board of Directors, revalued the Series B Preferred Stock at the 10 day volume weighted closing bid price of the Company's common stock on September 30, 2012 ($0.29/share), as if all shares of Series B Preferred Stock issued and not in escrow were converted in common stock at the conversion price of $1.10 per share. No earnout provision has been made for any shares of Preferred Stock not now issued, as management does not believe the conditions for release of such shares will be met.

NOTE 12 – EARNINGS PER SHARE

Basic and diluted earnings per share ("EPS") are based on weighted-average common shares and generally exclude shares that would have an anti-dilutive effect. 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 June 30, 2012, due to the loss from continuing operations, as including them would have an anti-dilutive effect on EPS.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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.

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 tradeable.

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 plus a contingent sum of $750,000 due to Advantage Capital (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 been assumed by the Company. The Company has a 30 year lease on the property to operate a production and post-production facility.

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.

Fireworks Litigation

SAFE prevailed in a motion for summary adjudication in the Supreme Court of Ontario, Canada on February 10, 2011 in an action against CanWest Entertainment and two of its affiliates ("CanWest") confirming our ownership of five motion pictures, "Rules of Engagement", "An American Rhapsody"," Who Is Cletus Tout", "Onega", and "The Believer" (collectively, the "Copyrights"). SAFE filed an action in England on September 7, 2011 in the High Court of England and Wales 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. We may incur up to $200,000 or more in legal expenses to pursue this claim but expect to recover those fees from Content. We also filed an action on May 27, 2011 in the United States District Court for the Central District of California for copyright infringement against Paramount. This action was dismissed based on the applicable statute of limitations and is currently on appeal to the Ninth Circuit Court of Appeals.

Jonesfilm

The Company's subsidiary, SAFE, PLC, CineVisions, and CEO Peter Hoffman were the subject of two arbitration awards of attorney fees totaling approximately $900,000, with interest and charges, both of which were reduced to judgment in favor of Jonesfilm ("JF") in Superior Court of the State of California for the County of Los Angeles and in United States District Court for the Central District of California. The Company paid approximately $525,000, the amount of the first arbitration award plus interest and charges, in November 2011. Management believes the Company has no further liability in this matter. JF asserted on or about October 6, 2010 in an enforcement of judgment action in the United States District Court for the Eastern District of Louisiana against PLC, SAFE, SAP and Mr. Hoffman that the Company is liable as the "successor in interest" to the remaining arbitration award which was sentenced in the United States District Court for the Central District of California on June 19, 2007, which the Company denies.

Arrowhead Target Fund

Seven Arts Future Flows ("SFF") a limited liability company owned by SAP, now owned by PLC (in liquidation), obtained financing from Arrowhead) of approximately $8,300,000 (the "Arrowhead Loan"). SFF secured the Arrowhead Loan with liens on 12 motion pictures that generated final revenues to the Group of $820,026 in the Fiscal Year Ended June 30, 2009; $2,739,800 in the Fiscal Year Ended March 31, 2008 and $544,478 in the three month period ended June 30, 2008. The 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. SAFE 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 accrued interest. Arrowhead has the right to foreclose on the pledged film assets, but has not done so. SFF has received a default notice and as a result Arrowhead is now collecting directly all sums otherwise receivable by us with respect to these motion pictures, and has appointed a new servicing agent for these motion pictures. As a result, the Company can no longer control the licensing of these motion pictures. Failure to repay or refinance the Arrowhead Loan could result in a material disposition of assets through the loss of the Company's rights to the 12 motion pictures and related loss of revenues in amounts that are difficult to predict.

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As a result of the foregoing, we removed all assets accounts relating to the 12 motion pictures pledged to Arrowhead and the corresponding limited recourse indebtedness from our consolidated balance sheet at fiscal year ended June 30, 2009, due to the fact that the loan was a limited recourse loan and we have no further obligations to Arrowhead beyond the pledged film assets.

Arrowhead filed an action on September 22, 2010 in The Supreme Court of the State of New York which seeks recovery from PLC, Mr. Hoffman and his wife, SAFE, CineVisions, SFF and SAP of the monies that we retained under our interpretation of the relevant agreements with Arrowhead. In addition, Arrowhead has made substantial additional claims against us, Mr. Hoffman and SAP regarding claimed breaches of the terms of the operative agreements, including failure to account properly, failure to turn over materials, failure to remit monies collected, and similar matters. Arrowhead's claims against us for these alleged breaches are $8,300,000 although it has not stated any basis for this amount.

The Company moved to dismiss the Arrowhead action against all defendants other than SFF. On August 9, 2011, the New York Supreme Court granted the motion and dismissed all defendants except SFF and SAFE in its capacity as a collateral agent, which is not a material element of Arrowhead claim. We continue to believe that Arrowhead's claims against us are without substantial merit. Arrowhead has refiled its claim against the dismissed defendants in the Supreme Court of New York. On April 17, 2012 against the same defendants under an "alter ego" theory. SAFE and SFF have moved to dismiss these claims.

Arrowhead Capital Partners Ltd. – AGC Loan

PLC and several of our affiliates were named as defendants in an action by Arrowhead Capital Partners Ltd. filed in the Supreme Court of New York, County of New York, purportedly 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 to foreclose on the collateral granted as part of the Cheyne Loan described in note 13 to our financial statements under "Production Loans". The ACG Loan is fully subordinated to repayment of the Cheyne Loan, which has not been repaid. One of SAE's subsidiaries has acquired all Cheyne's rights under the subordination provision of the Cheyne Loan. As a result, our management does not believe that ACG has the right to maintain this action to collect any monies or to foreclose on any collateral pursuant to the Cheyne Loan. ACG obtained summary judgment against PLC and certain of our former affiliates which is now on appeal. We expect this action will be stayed by reason of the liquidation proceedings of PLC discussed under "Liquidation of Seven Arts Pictures Plc."

Investigation into Claim for Tax Credits (SAPLA)

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") an affiliate of the Company. 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 not have any material adverse effect on or operations or the total tax credits to be received by our affiliates, but could result in charges against current or former employees of this affiliate, including Mr. Hoffman, based on prior audits. The tax credits receivable by SAPLA (of which the State and Federal rehabilitation credits have been approved) are based on new tax credit audits carried out in Louisiana, not the audits mentioned here.

Parallel Actions

On June 28, 2011, PLC (predecessor) filed an action in the High Court of England and Wales against 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 not a part of the Company. On September 19, 2011, Parallel filed a new action against PLC and us in the Los Angeles County Superior Court of California, asserting the same claims as in the winding up petition and seeking to enjoin the proposed administration proceedings in England. Its request for a preliminary injunction was denied by the Superior Court. Parallel in California has been stayed by reason of the "Recognition Order" described in "Liquidation of Seven Arts Pictures plc." But Parallel may be permitted to pursue its remedies in the Los Angeles Superior Court proceedings depending on actions of the liquidator.

HMRC Investigation

On July 19, 2011 Officers of Her Majesty's Revenue & Customs ("HMRC") attended the offices of PLC 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.

PLC's participation in these transactions was limited to its 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. PLC received no tax benefits from the transactions, which were made on arms-length terms. PLC believes that it is not a subject of the HMRC investigation.

In connection with the transactions, PLC 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 PLC, 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. PLC remains confident that the transactions were permitted and acceptable under the terms of the applicable United Kingdom revenue laws.

HMRC has requested interviews with three officers of PLC to discuss whether those officers were involved in the arrangements for subscription of shares in the relevant companies, the first of which with Ms. Elaine New, CFO, occurred in April 2012 and a second in May 2012. 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.

NOTE 14 – FAIR VALUE MEASUREMENTS

Cash, accounts receivable, accounts payable and other accrued expenses and other current assets and liabilities are carried at amounts which reasonably approximate their fair values because of the relatively short maturity of those instruments.

ASC 820, "Fair Value Measurements and Disclosures", establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. As of June 30, 2012 and June 30, 2011, all of the Company's financial assets and liabilities were considered current and due to the short maturity the carrying amounts are considered to approximate fair value.

NOTE 15 – RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued guidance intended to achieve common fair value measurements and related disclosures between U.S. GAAP and international accounting standards. The amendments primarily clarify existing fair value guidance and are not intended to change the application of existing fair value measurement guidance. However, the amendments include certain instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This guidance was effective for the periods beginning after December 15, 2011, and early application is prohibited. The Company adopted these amendments on January 1, 2012; and the requirements did not have a material effect.

In June 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income — Presentation of Comprehensive Income." ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. It requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income — Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05," to defer the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. All other provisions of this update, which are to be applied retrospectively, were effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted these amendments on January 1, 2012; and the requirements did not have a material effect.

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet — Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments and will be applied retrospectively for all comparative periods presented. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company currently believes that this ASU will have no significant impact on its consolidated financial statements.

NOTE 16 – SUBSEQUENT EVENTS

The Company issued the following shares of common stock subsequent to June 30, 2012:

New Stock Issuances through September 30, 2012

Between July 1, 2012 and September 30, 2012, the Company issued 2,426,777 shares at an average price of $1.13 per share. The total number of shares outstanding on September 30, 2012 was 4,166,677.

258,055	common shares were issued in part payment of the Palm debt to the value of $133,500 at an average conversion price of $0.52/share .
1,069,905	common shares were issued in satisfaction of the Schism debt of $680,935 at an average conversion price of $0.64/share
482,697	common shares were issued in satisfaction of various convertible loans totaling $580,114 was converted at an average conversion price of $1.20/ share.(High of $2.42 and low of $0.57)
90,720	common shares were issued for expenses totalling $179,800 for the music company at $1.98/share
44,711	common shares were issued for consulting services totalling $54,200 provided under the S-8 authority at $1.21/share
230,103	common shares were issued for general expenses totalling $328,169 provided under the 3a9 authority at $1.42/share.(High of $2.45 and low of $0.70)
84,286	common shares were issued to lenders as fees for loan arrangements of $459,000 at $5.45/share
85,714	common shares were issued as collateral for a loan totalling $180,000 at $2.10/share $1.42/share
80,586	common shares were issued to cover 807 Esplanade construction fees totalling $150,000 at $1.86/share
2,426,777	

On October 5, 2012, in connection with a new loan of $375,000 entered into with Tonaquint Inc., the Company issued to Mr. Hoffman (the Company CEO), who in turn pledged to Tonaquint Inc., 7,000,000 shares of our common stock in exchange for a portion of the existing indebtedness to Mr. Hoffman.

Additionally, the Company had the following new convertible debt acquired, which will be converted to equity, subsequent to June 30, 2012:

CONVERTIBLE LOAN AFTER YEAR END

Client	Face value	Current Balance	Coupon	Issuance Date	Maturity Date	Conversion Terms
Beaufort Ventures	$ 150,000	$ 150,000	12 %	26/07/2012	25/01/2013	35% discount to market
Beaufort Ventures	350,000	350,000	12 %	31/07/2012	30/08/2012	35% discount to market
Beaufort Ventures	75,000	75,000	12 %	19/07/2012	19/07/2013	35% discount to market
Beaufort Ventures	50,000	50,000	12 %	19/07/2012	19/07/2013	35% discount to market
Beaufort Ventures	25,000	25,000	10 %	14/08/2012	08/02/2013	30% discount to market
Beaufort Ventures	350,000	350,000	10 %	07/09/2012		35% discount to market
Michael Briskin	200,000	200,000	10 %	02/07/2012		
Safron Capital Corp	25,000	25,000	18 %	16/07/2012	Fully converted	
Safron Capital Corp	50,000	50,000	18 %	19/09/2012	Fully converted	
Safron Capital Corp	36,762	36,762	18 %	25/09/2012	Fully converted	
Safron Capital Corp	60,000	36,762	18 %	11/10/2012	Fully converted	
Safron Capital Corp-Schism 4	40,000	40,000	18 %	28/08/2012	Fully converted	
Safron Capital Corp-Schism 5	30,000	30,000	18 %	04/09/2012	Fully converted	
Tangiers Investors	50,000	50,000	10 %	14/09/2012	Fully converted	
Tangiers Investors	50,000	50,000	10 %	10/03/2012	Fully converted	
Tangiers Investors	24,826	24,826	10 %	31/08/2012	Fully converted	
TOTALS	$ 1,566,588	$ 1,543,350				

Other Significant Loans

The Company entered into a Securities Purchase Agreement dated August 20, 2012 with Tonaquint, Inc. ("Tonaquint Securities Purchase Agreement") with the following material terms:

1. Loan to the Company of $375,000 with original issue discount of $60,000, due February 19, 2013, at the rate of 8% per annum, $250,000 of which is advanced initially with $125,000 to follow subject to certain conditions.

2. Loan is convertible into the Company's common stock at $2.80 per share at the election of the holder.

3. The holder will not own or control 20% or more of the Company's common stock until and unless stockholder ratification of the Tonaquint Securities Purchase Agreement is given.

4. Mr Hoffman has pledged 7,000,000 of his shares to Tonoquint to take account of the fall in share price.

NASDAQ Delisting Notice

On September 14, 2012 Seven Arts Entertainment Inc. (NASDAQ: SAPX) began trading its common stock on the OTC Markets' OTCQB marketplace. The Company's common shares trade under the Company's current symbol "SAPX.". The Company is applying to trade on the highest OTC marketplace, OTCQX, but will initially trade 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 the ten trading days prior to September 20, 2012, the expiration date on the Company's six-month extension to meet this listing requirement.

Reverse Split

Seven Arts Entertainment Inc. carried out a 1-for-70 reverse split of its common stock that was effective immediately after the close of the markets on Friday, August 31, 2012. The new CUSIP number for the Company's common stock is 81783N 201.

Subject to appropriate and required regulatory filings and approvals, the Company 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

Opening of 807 Esplanade

On Aug 14, 2012 Seven Arts Filmed Entertainment Louisiana LLC ("SAFELA"), commenced operation of Seven Arts Post at the Company's production facility located at 807 Esplanade Ave., New Orleans, Louisiana.

SEVEN ARTS ENTERTAINMENT, INC.

FORM 10-Q
DECEMBER 31 , 2012
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PART I - FINANCIAL INFORMATION

Seven Arts Entertainment, Inc.
Consolidated Balance Sheets

	December 31, 2012 (Unaudited)	June 30, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 16,476	$120,658
Accounts receivable, net of allowance for doubtful accounts of $171,062 and $171,062	185,049	192,035
Due from related parties	2,096,747	2,116,538
Fee income receivable from related parties	5,896,970	5,896,970
Other receivables and prepayments	1, 634,568	849,845
Total Current Assets	9, 829,810	9,176,046
Long term receivable from related parties	1,643,928	1,643,928
Film costs, less accumulated amortization of $ 19,125,730 and $ 18,953,035	15,069,065	14,612,609
Music assets, less amortization of $408,205 and $0	3, 108,323	2,923,474
Leasehold Improvements, less amortization of $ 80,775 and $0	4, 845,915	4,551,270
Property and equipment, net of accumulated depreciation of $ 112,364 and $ 106,671	13,604	16,137
TOTAL ASSETS	$ 34, 510,645	$32,923,464

LIABILITIES AND STOCK HOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 1, 554,082	$1,152,977
Accrued liabilities	2, 818,722	2,758,844
Due to related parties	2,030,358	1,060,905
Shares to be issued	92,207	200,000
Participation and residuals	123,267	114,215
Convertible debt	4,740,087	4,162,460
Mortgage and construction loans	3,355,850	3,001,271
Film & production loans	6,760,147	6,124,428
Deferred income	923,180	849,080
Total Current Liabilities	22,397,900	19, 424 ,180
Provision for earn-out	50,000	50,000
TOTAL LIABILITIES	$ 22,447,900	$19,474,180
STOCKHOLDERS' EQUITY		
	$ 1,251,250	$1,251,250

Convertible redeemable Series A preferred stock at $10 par value, 125,125 and 0 authorized and outstanding		
Convertible redeemable Series B preferred stock at $100 par value, 200,000 authorized, 143,850 and 0 outstanding	3,761,133	4,762,952
Convertible redeemable Series B stock held in escrow	(3,163,636)	(3,163,636)
Common stock; $0.01 par value; 35, 667,840 authorized, 29,506,536 and 1,739,900 issued and outstanding	295,063	17,399
Additional paid in capital	21,541,194	18,866,060
Treasury stock	(180,000)	-
Accumulated deficit	(11,750,533)	(8, 284,741)
Warrants to be distributed	480,371	-
Total Seven Arts Entertainment Inc. equity	12,234,842	13, 449,284
Non-controlling interest	(172,097)	-
Total Stockholders' equity	12,062,745	13,449,284
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 34, 510,645	$32,923,464

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

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

	3 Months Ended December 31, 2012	3 Months Ended December 31, 2011	6 Months Ended December 31, 2012	6 Months Ended December 31, 2011
Revenue:				
Film revenue	$ 164,719	$ 207,790	$ 394,112	$ 800,331
Music revenue	6,450	-	927,645	-
Post production revenue	11,628	-	18,078	-
Total revenue	182,797	207,790	1,339,835	800,331
Cost of revenue:				
Amortization and impairment of film costs and music assets	94,886	336,527	580,901	800,331
Amortization of leasehold improvements	42,848	-	80,775	-
Provision for returns	-	-	231,405	-
Other cost of revenue	129,351	283,949	249,658	299,289
Cost of revenue	267,085	620,476	1,142,739	1,099,620
Gross profit (loss)	(84,288)	(412,686)	197,097	(299,289)
Operating expenses:				
General and administrative expenses	781,667	360,612	1,451,615	1,039,070
Bad debt expense	-	(2,818)	-	(2,818)
Total operating expenses	781,667	357,794	1,451,615	1,036,252
Loss from operations	(865,955)	(770,480)	(1,254,518)	(1,335,541)
Non-operating income(expense)				
Other income	(6,451)	-		-
Interest expenses	(927,488)	(328,942)	(1,902,997)	(742,742)
Interest income	-	-		
Total non-operating income (expense)	(933,939)	(328,942)	(1,902,997)	(742,742)
Loss before taxes	(1,799,894)	(1,099,422)	(3,157,515)	(2,078,283)
Provision for income tax	-	-	-	-
Net loss	(1,799,894)	(1,099,422)	(3,157,515)	(2,078,283)
Less: Net loss attributable to non-controlling interests	(89,293)	-	(172,097)	-
Net loss attributable to Seven Arts Entertainment, Inc.	$ (1,710,601)	$ (1,099,422)	$ (2,985,418)	$ (2,078,283)
Comprehensive loss:				
Net loss	(1,799,894)	(1,099,422)	(3,157,515)	(2,078,283)
Other Comprehensive income/loss	-	-	-	-
Comprehensive loss	(1,799,894)	(1,099,422)	(3,157,515)	(2,078,283)
Less: Comprehensive loss attributable to non-controlling interests	(89,293)	-	(172,097)	-

Comprehensive loss attributable to Seven Arts Entertainment, Inc.	$ (1,710,601)	$ (1,099,422)	$ (2,985,418)	$ (2,078,283)
Weighted average shares of common stock outstanding:				
Basic	19,377,544	225,040	10,935,419	225,040
Diluted	19,377,544	225,040	10,935,419	225,040
Basic profit/ (loss) per share	$ (0.09)	$ (4.89)	$ (0.27)	$ (9.24)
Diluted profit/ (loss) per share	$ (0.09)	$ (4.89)	$ (0.27)	$ (9.24)

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

Seven Arts Entertainment, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,157,515)	$ (983,291)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	5,693	1,688
Amortization and impairment of film costs & music assets	580,901	463,804
Amortization of leasehold improvements	80,775	-
Stock issued for services	100,500	10,000
Provision for returns	231,405	-
Increase in accounts receivable	(224,419)	(73,016)
Decrease in due from related parties	19,791	957,762
Increase in other receivables and prepayments	(784,723)	(333,540)
Capitalization of film costs	(629,150)	(320,880)
Capitalization of music assets	(593,054)	-
Decrease in bank overdraft	-	(987)
Increase (decrease) in accounts payable	401,111	(739,393)
Increase in accrued liabilities	68,930	(1,925,056)
Increase in deferred income	74,100	24,117
Increase in due to related parties	887,445	-
Accrued interest on loans	1,459,834	-
Net cash used in operating activities	(1, 478,376)	(2,918,792)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Addition of leasehold improvements	(375,420)	-
Net cash used in investing activities	(375,420)	-
CASH FLOWS FROM FINANCING ACTIVITES:		
Conversion of debt to common stock	-	(3,188,028)
Proceeds from borrowings	1,737,407	-
Shares of common stock issued in satisfaction of debt		-
Issuance of common stock for cash	300,000	-
Acquisition of treasury stock	(180,000)	-
Shares of common stock issued to PLC for assets	-	7,880,000
Common and preferred stock to be issued	(107,793)	1,986,722
Stock issued in share exchange	-	64,763
Liabilities retained in PLC in share exchange	-	(3,783,988)
Net cash provided by financing activities	1,749,614	2,959,469
NET INCREASE (DECREASE) IN CASH	(104,182)	40,677
CASH AT BEGINNING OF PERIOD	120,658	8,785
CASH AT END OF PERIOD	$ 16,476	$ 49,462

Supplemental cash flow information:		
Interest paid	$ -	$ -
Taxes paid	$ -	$ -
Non-cash investing and financing activities:		
Shares of common stock issued to PLC for assets	$ -	$ 7,880,000
Common and preferred stock to be issued	$ -	$ 1,986,722
Stock issued in share exchange	$ -	$ 64,763
Liabilities retained in PLC in share exchange	$ -	$ (3,783,991)
Conversion of debt to common stock	$ 4,297,520	$ (3,188,028)
Stock issued for services	$ 100,500	$ 10,000
Conversion of Preferred Shares Series B to common stock	$ 1,001,818	$ -

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

Seven Arts Entertainment, Inc.
Notes to Consolidated Financial Statements
December 31 , 2012
(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.

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 (“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.

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, 28,571 shares (2,000,000 shares as adjusted for the 1:70 reverse stock split 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.

In connection with the acquisition of the music assets of 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 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.

Subsequent to period end, Mr. Michery converted and sold 37,000 shares of Series B and used a portion of the proceeds to pay for certain expenses of the Company in connection with the issuance of the DMX album "Undisputed." The Company and Mr. Michery have agreed the remaining 50,000 shares of Series B in escrow will be disposed of by issuance of 20,000 shares to Mr. Michery in full satisfaction of any claims he may have against the Company for payment of these expenses and the balance of the shares of Series B will be cancelled.

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 settled its disputes with Mr. Shapiro subsequent to December 31, 2012, and all shares of Series B preferred stock held in escrow for him and persons associated with him have been cancelled, and the rights to the assets acquired will be returned to Mr. Shapiro .

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 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. The new CUSIP number is 81783N 201. 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.

On September 14, 2012 the Company's common stock began trading on the OTC Market's 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.

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:

SAE's authorized capital as of December 31, 2012 was 35,992,964 shares . The shareholders agreed to increase the authorized shares to 250,000,000 from 50,000,000 at the Company's shareholder meeting in February 2012 . The shareholders also approved a 1:10 reverse split at this meeting. The Board of Directors approved a 1:70 reverse split on August 31, 2012 but to do so had to reduce the authorized common stock back to 35,667,840 shares. All amounts of common stock presented in these financial statements have been restated for all historical periods to reflect these reverse stock splits.

At a meeting of stockholders held on January 28, 2013, the authorized shares of the Company's stock was increased to 250,000,000 with 249,000,000 allocated to common stock and 1,000,000 allocated to preferred stock (Note 13).

As of December 31, 2012 SAE has authorized the following classes of stock:

35,667,839 shares of common stock authorized, $.01 par value per share. As of December 31, 2012 and June 30, 2012, there were 29,506,536 and 4,166,677 shares of common stock outstanding, all of which are fully paid and non-assessable . Each outstanding share of common stock entitles the holder thereof to one vote per share on matters submitted to a vote of stockholders.
125,125 shares of Series A Preferred Stock with a $10.00 par value per share, issued to one shareholder in November 2011. These shares have a conversion price to common stock of $10.50 per share.
200,000 shares Series B Preferred Stock with a $100.00 par value per share, issued in February, 2012, 143,850 shares are issued, 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 is $1.10 per share.
214,007,035 shares of unallocated capital stock

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, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2013. Events occurring subsequent to December 31, 2012 have been evaluated for potential recognition or disclosure in the unaudited consolidated financial statements for the three and six months ended December 31, 2012 and through the date of this filing.

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. As of December 31 , 2012, SAFELA’s net loss was $430,244.

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.

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.

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 six months ended December 31, 2012.

The Company has provided a valuation allowance against all existing and newly created deferred tax assets as of December 31, 2012, 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 $171,062 at both December 31 , 2012 and June 30, 2012. 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 Inc. 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 six months ended December 31 , 2012, 7,357,143 (post split) shares were issued in satisfaction of $2,091,227 of this liability. These shares are being held as collateral against certain loansand will be returned to the Company if not called as collateral.

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.

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 December 31 , 2012. Also included in other receivables is approximately $ 356 ,000 receivable from the Company's distributor of the DMX album. The Company released the album and shipped approximately110,000 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.

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.

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.

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.

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 December 31, 2012 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 SAP 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 Inc. and an issuance of a further 2,000,000 (pre-split) 28,571 post-split) shares in SAE Inc.   The issuance of the 2,000,000 shares was booked at the closing market price on August 31 2011, which was $0.66/share.

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 December 31 , 2012 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 are 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.

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 six months ended December 31 , 2012 :

	Three Months Ended December 31 , 2012			
	Film (SAFE)	Music (SAM)	Post-Production(SAFELA)	Total
Revenue	$ 164,719	$ 6,450	$ 11,628	$ 182,797
Cost of revenue	(90,204)	(118,221)	(42,848)	(251,273)
Gross profit/(loss)	74,515	(111,771)	(31, 220)	(68,476)
Operating expenses	(406,328)	(212,766)	(53,853)	(672,947)
Loss from operations	$ (331,813)	$ (324,537)	$ (85,073)	(741,423)
SAE Inc.				(124,532)
Total Operating Loss				$ (865,955)

	Six Months Ended December 31, 2012			
	Film (SAFE)	Music (SAM)	Post-Production(SAFELA)	Total
Revenue	$ 394,112	$ 927,645	$ 18,078	$ 1,339,835
Cost of revenue	(198,753)	(847,398)	(80,775)	(1,126,926)
Gross profit/(loss)	195,359	80,247	(62,697)	212,909
Operating expenses	(782,581)	(245,745)	(88,386)	(1,116,712)
Loss from operations	$ (587,222)	$ (165,498)	$ (151,083)	(903,803)
SAE Inc.				(350,716)
Total Operating Loss				$ (1,254,519)

Assets

	December 31, 2012	June 30, 2012
Film assets	$ 15,069,063	$ 14,612,609
Music assets	3,108,323	2,923,474
Post-production assets	4,845,915	4,551,270

NOTE 3 – RELATED PARTY DUE TO/DUE FROM

SAP, Inc. 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. The balances of these combined accounts due to the Company as of December 31 , 2012 and June 30, 2012 were $(66,389) and $1,055, 633 , respectively.

As of December 31, 2012 :	SAE	SAFE	CONSOLIDATED BALANCE
Due From:-			
SAP Inc.	$ 1, 808,681	$	$ 1, 808,681
SAP LOU	164,386	-	164,386
SAP PLC	123,680	-	123,680
Total	2,096,747		2,096,747
Due to:-			
SAP Inc.	$	$ (20,850)	$ (20,850)
Peter Hoffman	(1, 754,475)	(180,104)	(1, 934,579)
SAFE (UK)	-	(13,557)	(13,557)
SAP PLC	-	(61,372)	(61,372)
	$ (1,754,475)	$ (275,883)	$ (2,030,358)

SAP, Inc. has pledged an interest in its shares of the Company’s stock to secure certain indebtedness for which SAP, Inc. and the Company are jointly liable such as the Apollo and Armadillo debts. The stock of SAP, Inc. (previously owned by Peter Hoffman) was transferred to the listing predecessor of SAE on September 1, 2011.

SAP Inc. and Louisiana Companies:

The Company’s Chief Executive Officer, Peter Hoffman, controls several companies, including (prior to September 10, 2011) Seven Arts Pictures, Inc. (“SAP, Inc.”) that are not part of the Company but from which it obtains or transfers distribution rights or other assets related to the business and which control production of the motion pictures. The agreements with Mr. Hoffman, and the companies controlled by him, provide that all revenues related to the Company’s business payable to Mr. Hoffman or any of these related party companies is due to the Company, except Mr. Hoffman’s salary, bonus and stock ownership. None of these affiliates are variable interest or special purpose entities.

Pursuant to a related party agreement, SAP, Inc. holds ownership of limited liability corporations in the United States, with all distribution rights and profits thereof being due to SAFE, Ltd. In addition, they have also provided other services for Seven Arts Pictures Plc. and SAFE, Ltd. and SAE, Inc. at no fee other than Mr. Hoffman’s salary and the direct third party costs of the Los Angeles office, all of which are reflected in the financial statements of SAFE, Ltd. These other services include any reasonable requests of the management of the Company including 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. Effective January 1, 2012 no further such transactions are intended.

Peter Hoffman:

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 Inc. 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 six months ended December 31, 2012, 357,143 (25,000,000 pre-split) and 7,000,000 shares were issued in exchange for $914,786, and $1,190,000, respectively, of the Due to related party balance. The 357,143 shares have been pledged to JMJ Financial in connection with a $500,000 convertible debenture, as collateral against repayment of the note. The 7,000,000 shares have been pledged to Tonaquint Inc, in connection with a total of $590,000 in convertible debentures, under the terms of an amendment dated October 5, 2012, as collateral against repayment of the note. (Note 8) In the event of a default on either of the notes the holder may transfer and sell the pledged shares and apply the proceeds against the outstanding amounts on the notes. Per agreements between the Company and Mr. Hoffman in respect to the pledged shares, if the pledged shares are sold and applied to the note balance, or if the shares are not utilized by the pledges and returned to the Company , Mr. Hoffman's Due to related party balance as of the date of the agreements, will be reinstated. Due to the future obligation to in substance repurchase the shares and reinstate the Due to related party balance, the shares have been treated as if issued for no consideration, and a liability for $2,104,786 was recognized included in the Due to related party balance for the obligation to repurchase the pledged shares.

807 Esplanade Guarantee:

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 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 December 31 , 2012. As of June 30, 2012, the Company assumed the liability for $1,000,000 of this amount plus a contingent sum of $750,000 due to Advantage Capital (contingent on receipt of 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 been assumed by the Company for 807 Esplanade.

807 Esplanade Advances:

On February 28, 2012, the Company took out a convertible loan of $200,000 from Rowett Capital Ltd. These have been loaned to 807 Esplanade to cover outstanding interest payments due on the construction loan on 807 Esplanade previously guaranteed by the Company. Three additional convertible loans were taken out totaling $600,000 and then loaned onto SAPLA to pay down the construction loan on the property 807 Esplanade, as to not further delay the construction and opening of the facility, for which the Company will have a 30 year lease to operate a post-production facility.

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NOTE 4 – FEE INCOME RECEIVABLE FROM RELATED PARTY

Under the terms of the related party agreement between SAPLA and SAE Inc. all income generated by SAPLA is due to SAE Inc. as fee income. SAPLA is due to receive approximately $9,447,544 from disposition of Louisiana and Federal historic rehabilitation and film infrastructure tax credits for the restoration and the establishment of a post-production facility at 807 Esplanade.

SAPLA will pay the proceeds from disposition of such tax credits to SAE Inc. as fee income. The Company has provided a reserve of $1,906,646 against this receipt to allow for cost of disposing the credits and a further reserve against potential disallowance of any expenditures by Louisiana or Federal taxing authorities, which is not anticipated by Management.

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 have allocated the Federal historic rehabilitation credits to investors in its lessee, 807 Esplanade Ave. MT LLC ("MT"), who have completed the necessary documentation for the transfer to take place. We expect the credits will be received upon the filing of the investor's amended tax return for 2011 and 2012. There is nothing further that needs to be done on this matter to assure the collection of these sums. Upon filing the tax returns and utilizing the credits, the investor will reduce our indebtedness to them as a result of such allocation.

SAPLA will assign the Louisiana historic rehabilitation for cash. All creative and historic approvals have been given with respect to these credits. The State has not yet issued its certification of the amounts after review of the required audit. Per discussions management has had with the Inspector General's office, the Company believes the issue to be resolved shortly.

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.

Louisiana has certified approximately $6,500,000 of film infrastructure expenditure, 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. The reserve established by the Company against the revenue to be received from SAPLA from disposition of the tax credits reflects potential discounts on the assignment of credits for cash and any potential reduction in the amount of expenses that may be subject to credits by objection of any Federal or Louisiana agency, even though the Company has at present no reason to believe there will be any such reductions.

As of December 31, 2012, the current director of LED has toured 807 Esplanade and seemed satisfied with his review. He requested the building get a permanent business license (which will be available on March 1, 2013) and to confirm that the equipment in the building is permanent. The Company is not aware of any other issues with respect to the State Film Infrastructure Credits, which have already been confirmed in a letter in September of 2012. The only issue appears to be whether or not the building has actually been “placed in service” to the satisfaction of LED.

NOTE 5 – FILM COSTS

Film costs as of December 31 , 2012 and June 30, 2012 are as follows:

	December 31, 2012	June 30, 2012
Film Costs, beginning of period	$ 14,612,609	$ 23,133,559
Additions to film costs during the period	629,154	1,934,873
Total film costs	15, 241,763	25,068,432
Less: Amortization and impairment for the period	(172,695)	(3,996,576)
Less: One time revaluation due to asset transfer	-	(6,459,247)
Total film costs, net of accumulated amortization	$ 15,069,068	$ 14,612,609

Amortization of film costs was $ 94,886 and $ 172,695 for the three and six months ended December 31 , 2012 . The Company reviews capitalized film costs 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. The Company had a one-time revaluation due to asset transfer of $6,459,247 at June 30, 2012.

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

Analysis of film costs

	NBV as	% amortized in	
Completed	at 12/31/12	Next 12 mths	Next 3 years
New releases			
The Pool Boys	$ 1,398,408	100%	100%
Nine Miles Down	1,385,830	100%	100%
Night of the Demons	443,115	78%	100%
	$ 3,227,353		
Library titles			
Total Library	$ 4,013,122	53%	80%
Total Completed Films	$ 7,240,475		
Development	$ 7,828,590		
December 31, 2012	$ 15,069,065		

All Exploitation Costs ie all direct costs (including marketing, advertising, publicity, promotion, and other distribution expenses) incurred in connection with the distribution of a film.) are expensed as incurred .

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NOTE 6 – MUSIC ASSETS

Music assets as of December 31 , 2012 and June 30, 2012 are as follows:

	December 31, 2012	June 30,2012
Music assets, beginning of period	$ 2,923,474	$ -
Additions to music assets during the period	593 ,054	2,923,474
Total music assets	3, 516 ,528	2,923,474
Less: Accumulated amortization	(408,205)	-
Total music assets, net of accumulated amortization	$ 3,108,323	$ 2,923,474

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 "("BTH").

The music assets were initially recorded at the value of the preferred stock issued, and capitalized costs incurred in the production of the current DMX album and related videos.

Due to the decline in the common stock price, the Company reviewed the redemption value of the Preferred Stock to common on the contractually agreed conversion date and, as agreed by the Board of Directors, revalued the Preferred Stock at the 10 day volume weighted closing bid price of the Company's common stock on September 29 , 2012 ($0.29/share), as if all shares of Series B Preferred Stock issued and not in escrow were converted in common stock at the conversion price of $1.10 per share. No earnout provision has been made for any shares of Preferred Stock not now issued, as management does not believe the conditions for release of such shares will be met.

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. For the three and six months ended December 31 , 2012, amortization and impairment of $ 0 and $ 408,205 has been recognized .

The $408,205 was the amortization charge based on sales of the DMX "Undisputed" album compared to current forecast sales for the assets acquired. No impairment has been booked as management believes it is too early in the asset cycle. The second single from the "Undisputed" album is due for release in the next few weeks which management are hopeful will lead to increased sales of the album.

NOTE 7 – 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 will be amortized over the useful life of the lease. For the three and six months ended December 31, 2012, amortization expense of $42,848 and $80,775 has been recognized.

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NOTE 8 – LOANS PAYABLE

The Company has the following indebtedness as of December 31 , 2012:

Lender		Balance including accrued interest	Interest Rate		Issuance Date	Maturity Date	
Film and Production Loans:							
Palm Finance Corporation	$	4,763,537	18	%			Forebearance agreement
Palm Finance Corporation		1,868,061	18	%			Forebearance agreement
120db Film Finance LLC		4,425	Not stated			8/25/2008	Due on demand
Safron Capital Corp		20,700	10	%	10/31/2012	3/31/2013	Due on demand
Palm Finance Corporation		103,425	10	%	7/30/2012		Due on demand or on settlement of the Content litigation
Total Film and Production Loans	$	6,760,148					
Trafalgar Capital	$	584,403	9	%	10/15/2008	8/31/2009	Due on demand
Lion House Eden Finance		50,000			1/22/2009		Due on demand
JMJ Financial		525,205	10	%	6/29/2012	10/27/2012	Due on demand
GHP		137,573	18	%	1/21/2011	4/30/2012	Due on demand
LotusCapital		100,993	5	%	8/8/2012	12/7/2012	Due on demand
Tonaquint, Inc.		576,144	8	%	8/22/2012		Amended on October 5, 2012 (see below)
	$	1,974,319					
Convertibles							
Tripod Group, LLC	$	37,510	12	%	12/15/2011	6/30/2012	Due on demand
CMS Capital		37,508	12	%	12/15/2011	6/30/2012	Due on demand
Rachel Cohen Skydell		37,508	12	%	12/15/2011	6/30/2012	Due on demand
Runway Investments, LTD		160,609	12	%	1/11/2012	9/30/2012	Due on demand
Tripod Group, LLC		55,737	12	%	1/16/2012	6/30/2012	Due on demand
Isaac Capital Group LLC		105,045	12	%	1/20/2012	6/30/2012	Due on demand
Sendero Capital Ltd		278,027	12	%	1/24/2012	9/30/2012	Due on demand
Tripod Group, LLC		162,946	12	%	2/1/2012	2/1/2013	
Hanover Holdings LLC		427,312	10	%	2/23/2012	8/23/2012	Due on demand
Beaufort Ventures, PLC		108,811	12	%	4/6/2012	4/5/2013	
Beaufort Ventures, PLC		80,887	12	%	4/13/2012	10/16/2012	
Old Capital Ltd		267,507	12	%	5/31/2012	5/30/2013	
Firerock Capital Inc		32,679	10	%	6/21/2012	12/21/2012	Due on demand
Agua Alta (Cold Fusion)		106,180	12	%	6/25/2012	6/25/2013	

Beaufort Ventures PLC		53,074	12	%	6/26/2012	6/26/2013	
Beaufort Ventures, PLC		76,695	10	%	7/19/2012	7/19/2013	
Beaufort Ventures, PLC		51,130	10	%	7/19/2012	7/19/2013	
Beaufort Ventures PLC		153,247	10	%	7/26/2012	1/25/2013	Due on demand
Beaufort Ventures PLC		224,611	10	%	7/31/2012	8/30/2012	Due on demand
Tangiers Investment Group, LLC		50,993	10	%	8/8/2012	8/8/2013	
Beaufort Ventures, PLC		25,476	10	%	8/14/2012	2/8/2013	
Tangiers Investment Group, LLC		7,372	10	%	9/26/2012	9/26/2013	
Tangiers Investment Group, LLC		53,475	10	%	10/23/2012	4/3/2013	
Dominion Capital LLC		109,284	10	%	10/24/2012	2/18/2013	
Dominion Capital LLC		59,045	10	%	10/24/2012	2/18/2013	
Safron Capital Corp.		3,098	10	%	5/7/2012	12/7/2012	
	$	2,765,768					
Total convertible debentures	$	4,740,087					
807 Esplanade							
Palm Finance Corporation-mortgage and construction loan	$	3,355,850	15	%			Forebearance agreement
Total mortgage and construction	$	3,355,850					

* 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 (not including mortgage) include accrued interest of $ 4,554,689 at December 31, 2012. Interest expense on all the loans for the three and six months ended December 31, 2012 was $557,732 and 1,365,064, respectively. Interest expense for the mortgage and building loans for the three and six months ended December 31, 2012 is $138,139 and $279,140 and, respectively.

During the period, the Company entered into several new loans, included in the above schedule. Substantially all of these loans were in exchange for existing loans of the Company, under assignment agreements between the original noteholder and the new noteholder. The exchanges were evaluated for any gains or losses to be recognized upon extinguishment of the original debt, and it was determined there were no gains or losses to be recognized.

The Company has evaluated their convertible notes for embedded derivative features and has determined that no derivative liability exists. 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.

Tonaquint

On August 22, 2012 the Company entered into a purchase agreement for several convertible debentures (or “notes”) with Tonaquint, Inc. (“Tonaquint”), in the principal amounts of $310,000, $255,000 and $125,000, The first convertible debenture under the agreement was issued on August 22, 2012 for $310,000, less a discount of $60,000 and $10,000 in expenses. On October 5, 2012, due to a delisting default, an amendment was entered into which called for one of the additional convertible debentures to be issued in the principle amount of $155,000 (less a $25,000 discount and $5,000 in fees) and the second in the principal amount of $125,000, to be issued in the future. This note has not been funded as of December 31, 2012. The debt discounts have been immediately expensed, based upon the short term nature of the notes, and the insignificance of the amount as compared to the total Convertible Debenture amount and to interest expense over the term of the note.

The convertible debentures are convertible at $0.20, which is above the market value of the Company’s common stock on issuance date, so there is no beneficial element recognized. As a condition of the amendment the outstanding balance of the first note was increased to $412,990 (to be reduced by $50,000 if the note is paid on its maturity date). The notes are payable on certain installment dates, to be satisfied by conversion of the installment amount, or cash, at the option of the Company (provided no equity failure conditions, as defined in the agreement, exist, in which cash the installment payment must be in cash.) As part of the amendment, Tonaquint entered into a Pledge Agreement with Peter Hoffman, for 7,000,000 of the Company’s common stock as collateral against repayment of the note. In the event of a default on the notes the holder may transfer and sell the pledged shares and apply the proceeds against the outstanding amounts on the notes. (Note 3)

The Company converted $ 1,183,683 of the film and production loans into 9,004,956 shares of common stock during the six months ended December 31 , 2012.

NOTE 9 – EQUITY TRANSACTIONS

Second Quarter Ended December 31, 2012 :

Between October 1, 2012 and December 31, 2012, the Company issued 25,339,859 common shares at an average price of $0.11 per share.

7,688,857	common shares were issued in satisfaction of film debt totalling $403,809, with an average conversion price of $0.05 share.(High of $0.14 and low of $0.02)
7,000,000	common shares were issued to Peter Hoffman, based on a market share price of $0.17 in exchange for debt of $1,190,000. As the shares will be in substance repurchased and the debt reinstated at a point in the future, the shares were accounted for as if issued for no consideration (Note 3).
3,454,545	common shares were issued at $0.29 on conversion of 38,000 Series B preferred shares
3,028,206	common shares were issued in satisfaction of various convertible loans totalling $ 133,537 at an average conversion price of $0.04 share.(High of $0.29 and low of $0.03)
1,772,812	common shares were issued at $0.02 in satisfaction of $42,723 of 807 Esplanade loans
1,703,772	common shares were issued at $0.02 in satisfaction of $31,232 of expenses
391,667	common shares were issued for consulting services totalling $82,500 provided under the S-8 authority at $0.21/share
300,000	common shares (restricted) were issued to David Furth, a director, at a share price of $0.06
25,339,859	

Warrants and Options

On December 17, 2012, the Company 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, exercisable at $.03 per post-reverse split share (a “Warrant Share”), which expire on June 30, 2014. The warrants fair value was determined using the Black Scholes Merton Model. The fair value of $480,371 has been recognized on the accompanying financial statement in Accumulated Deficit and Warrant Dividend to be distributed.

First Quarter Ended September 30, 2012:

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.

During the three months ending September 30, 2012, Company issued 2,418,206 shares at an average price of $1.13 per share in satisfaction of $2,446,219 of outstanding loans payable and accrued interest and 8,571 shares for $300,000 cash.

258,055	common shares were issued in part payment of the Palm debt to the value of $133,500 at an average conversion price of $0.52/share.
1,058,044	common shares were issued in satisfaction of the Schism debt of $646,374 at an average conversion price of $0.61/share
482,697	common shares were issued in satisfaction of various convertible loans totaling $586,114 was converted at an average conversion price of $1.21/ share.(High of $2.42 and low of $0.57)
90,720	common shares were issued for expenses totalling $179,800 for the music company at $1.98/share
44,711	common shares were issued for consulting services totalling $54,200 provided under the S-8 authority at $1.21/share
244,149	common shares were issued for general expenses totalling $357,232 provided under the 3a9 authority at $1.42/share.(High of $2.45 and low of $0.70)
75,715	common shares were issued to lenders as fees for loan arrangements of $159,000 at $2.10/share
85,714	common shares were issued as collateral for a loan totalling $180,000 at $2.10/share
8,571	common shares were issued for $300,000 cash (average of $35.00/share)
80,586	common shares were issued to cover 807 Esplanade construction fees totalling $150,000 at $1.86/share
(2,185)	adjustment for reverse split shares
2,426,777	Total shares issued in the quarter

NOTE 10 – COMMITMENTS AND CONTINGENCIES

With the exception of the Parallel litigation, 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.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 which was $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 tradeable.

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 plus a contingent sum of $750,000 due to Advantage Capital (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 been assumed by the Company. The Company has a 30 year lease on the property to operate a production and post-production facility.

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.

Fireworks Litigation

SAFE prevailed in a motion for summary adjudication in the Supreme Court of Ontario, Canada on February 10, 2011 in an action against CanWest Entertainment and two of its affiliates ("CanWest") confirming our ownership of five motion pictures, "Rules of Engagement", "An American Rhapsody"," Who Is Cletus Tout", "Onega", and "The Believer" (collectively, the "Copyrights"). SAFE filed an action in England on September 7, 2011 in the High Court of England and Wales 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. We may incur up to $200,000 or more in legal expenses to pursue this claim but expect to recover those fees from Content. We also filed an action on May 27, 2011 in the United States District Court for the Central District of California for copyright infringement against Paramount. This action was dismissed based on the applicable statute of limitations and is currently on appeal to the Ninth Circuit Court of Appeals.

Jonesfilm

The Company's subsidiary, SAFE, PLC, CineVisions, and CEO Peter Hoffman were the subject of two arbitration awards of attorney fees totaling approximately $900,000, with interest and charges, both of which were reduced to judgment in favor of Jonesfilm ("JF") in Superior Court of the State of California for the County of Los Angeles and in United States District Court for the Central District of California. The Company paid approximately $525,000, the amount of the first arbitration award plus interest and charges, in November 2011. Management believes the Company has no further liability in this matter. JF asserted on or about October 6, 2010 in an enforcement of judgment action in the United States District Court for the Eastern District of Louisiana against PLC, SAFE, SAP and Mr. Hoffman that the Company is liable as the "successor in interest" to the remaining arbitration award which was sentenced in the United States District Court for the Central District of California on June 19, 2007, which the Company denies.

Arrowhead Target Fund

Seven Arts Future Flows ("SFF") a limited liability company owned by SAP, now owned by PLC (in liquidation), obtained financing from Arrowhead) of approximately $8,300,000 (the "Arrowhead Loan"). SFF secured the Arrowhead Loan with liens on 12 motion pictures that generated final revenues to the Group of $820,026 in the Fiscal Year Ended June 30, 2009; $2,739,800 in the Fiscal Year Ended March 31, 2008 and $544,478 in the three month period ended June 30, 2008. The 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. SAFE was the collateral agent of the film assets.

The Arrowhead Loan became due in February 2009 and SFF has not paid the outstanding principal and accrued interest. Arrowhead has the right to foreclose on the pledged film assets, but has not done so. SFF has received a default notice and as a result Arrowhead is now collecting directly all sums otherwise receivable by us with respect to these motion pictures, and has appointed a new servicing agent for these motion pictures. As a result, the Company can no longer control the licensing of these motion pictures. Failure to repay or refinance the Arrowhead Loan could result in a material disposition of assets through the loss of the Company's rights to the 12 motion pictures and related loss of revenues in amounts that are difficult to predict.

As a result of the foregoing, we removed all assets accounts relating to the 12 motion pictures pledged to Arrowhead and the corresponding limited recourse indebtedness from our consolidated balance sheet at fiscal year ended June 30, 2009, due to the fact that the loan was a limited recourse loan and we have no further obligations to Arrowhead beyond the pledged film assets.

Arrowhead filed an action on September 22, 2010 in The Supreme Court of the State of New York which seeks recovery from PLC, Mr. Hoffman and his wife, SAFE, CineVisions, SFF and SAP of the monies that we retained under our interpretation of the relevant agreements with Arrowhead. In addition, Arrowhead has made substantial additional claims against us, Mr. Hoffman and SAP regarding claimed breaches of the terms of the operative agreements, including failure to account properly, failure to turn over materials, failure to remit monies collected, and similar matters. Arrowhead's claims against us for these alleged breaches are $8,300,000 although it has not stated any basis for this amount.

The Company moved to dismiss the Arrowhead action against all defendants other than SFF. On August 9, 2011, the New York Supreme Court granted the motion and dismissed all defendants except SFF and SAFE in its capacity as a collateral agent, which is not a material element of Arrowhead claim. We continue to believe that Arrowhead's claims against us are without substantial merit. Arrowhead has refiled its claim against the dismissed defendants in the Supreme Court of New York. On April 17, 2012 against the same defendants under an "alter ego" theory. SAFE and SFF have moved to dismiss these claims.

Arrowhead Capital Partners Ltd. – AGC Loan

PLC and several of our affiliates were named as defendants in an action by Arrowhead Capital Partners Ltd. filed in the Supreme Court of New York, County of New York, purportedly 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 to foreclose on the collateral granted as part of the Cheyne Loan described in note 13 to our financial statements under "Production Loans". The ACG Loan is fully subordinated to repayment of the Cheyne Loan, which has not been repaid. One of SAE's subsidiaries has acquired all Cheyne's rights under the subordination provision of the Cheyne Loan. As a result, our management does not believe that ACG has the right to maintain this action to collect any monies or to foreclose on any collateral pursuant to the Cheyne Loan. ACG obtained summary judgment against PLC and certain of our former affiliates which is now on appeal. We expect this action will be stayed by reason of the liquidation proceedings of PLC discussed under "Liquidation of Seven Arts Pictures Plc."

Investigation into Claim for Tax Credits (SAPLA)

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") an affiliate of the Company. 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 not have any material adverse effect on or operations or the total tax credits to be received by our affiliates, but could result in charges against current or former employees of this affiliate, including Mr. Hoffman, based on prior audits. The tax credits receivable by SAPLA (of which the State and Federal rehabilitation credits have been approved) are based on new tax credit audits carried out in Louisiana, not the audits mentioned here.

Parallel Actions

On June 28, 2011, PLC (predecessor) filed an action in the High Court of England and Wales against 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 not a part of the Company.   On September 19, 2011, Parallel filed a new action against PLC and the Company in the Los Angeles County Superior Court of California, asserting the same claims as in the winding up petition and seeking to enjoin the proposed administration proceedings in England. Its request for a preliminary injunction was denied by the Superior Court. Parallel in California has been stayed by reason of the "Recognition Order" described in "Liquidation of Seven Arts Pictures plc."   Parallel was permitted to pursue its remedies in the Los Angeles Superior Court proceedings based on actions of the liquidator.   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.

HMRC Investigation

On July 19, 2011 Officers of Her Majesty's Revenue & Customs ("HMRC") attended the offices of PLC 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.

PLC's participation in these transactions was limited to its 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. PLC received no tax benefits from the transactions, which were made on arms-length terms. PLC believes that it is not a subject of the HMRC investigation.

In connection with the transactions, PLC 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 PLC, 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. PLC remains confident that the transactions were permitted and acceptable under the terms of the applicable United Kingdom revenue laws.

HMRC has requested interviews with three officers of PLC to discuss whether those officers were involved in the arrangements for subscription of shares in the relevant companies, the first of which with Ms. Elaine New, CFO, occurred in April 2012 and a second in May 2012. 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.

NOTE 11 - NON-CONTROLLING INTEREST

The Company’s subsidiary SAFELA, which was acquired by the Company on June 30, 2012, 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, 2012 is as follows:

Initial balance recognized at July 1, 2012	$	-
Non-controlling interest's proportionate share of Net loss for the six months ended December 31, 2012		172,097
Non-controlling interest at December 31, 2012	$	172,097

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NOTE 12 – FAIR VALUE MEASUREMENTS

Cash, accounts receivable, accounts payable and other accrued expenses and other current assets and liabilities are carried at amounts which reasonably approximate their fair values because of the relatively short maturity of those instruments.

ASC 820, “Fair Value Measurements and Disclosures”, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. As of December 31 , 2012 and June 30, 2012 , all of the Company’s financial assets and liabilities were considered current and due to the short maturity the carrying amounts are considered to approximate fair value.

NOTE 13 – SUBSEQUENT EVENTS

a) Subsequent stock issuances:

The Company issued the following shares of common stock subsequent to December 31 , 2012:

Between January 1, 2013 and February 15, 2013 , the Company issued 38,125,389 common shares at an average price of $0. 02 per share. The total number of shares outstanding on February 15, 2013 was 67,631,925 .

6,786,848	common shares were issued in satisfaction of film debt totalling $ 102,625 converted at an average conversion price of $0.02 share.
9,182,177	common shares were issued in satisfaction of various convertible loans totalling $ 135,508 was converted at an average conversion price of $0.02 share. (High of $0.02 and low of $0.01)
4,040,000	common shares were issued for consulting services totalling $115,875 provided under the S-8 authority at $0.03/share
5,706,887	common shares were issued at $0.01 on conversion of $72,277 of loans against 807 Esplanade
7,932,572	Restricted common shares were issued to the liquidator of Nine Miles Down UK Ltd in settlement of an outstanding judgement in the liquidation at a share price of $0.03 in satisfaction of a debt of $237,977
4,476,905	common shares were issued in satisfaction of debts totalling $ 69,478 was converted at a conversion price of $0.02 /share.
38,125,389	

b) Increase in Authorized 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 our common stock issuable in our 2012 Stock Incentive Plan from 71,429 to 15,000,000.

c) Filing of an S-1

An S-1 to ratify the warrant dividend shares (Note 9) was filed on January 22, 2013.