Seven Arts Entertainment Inc.
Form 10-K/A
October 21, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

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

For the fiscal year ended **June 30, 2013**

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

For the transition period from ______________ to ______________

Commission File Number: **001-34250**

SEVEN ARTS ENTERTAINMENT INC.

(Formerly Seven Arts Pictures, PLC)

(Exact name of Registrant as specified in its charter)

Nevada	**45-3138068**
(State of Incorporation)	(I.R.S. Employer Identification No.)

8439 Sunset Blvd., Suite 402
90069
Los Angeles, California
(Address of principal executive offices) (Zip Code)

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

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

None

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

Common Stock; $0.01 Par Value

(Title of Class)

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

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

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

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

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

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

Large accredited filer	o	Accredited filer	o
Non-accredited filer	o	Smaller reporting company	þ

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

The aggregate market value of common stock, par value $0.01 per share, held by non-affiliates of the registrant, based on the average bid and asked prices of the common stock on December 31, 2012 (the last business day of the registrant’s most recently completed second fiscal quarter) was approximately $43,067,018. For purposes of this computation, all officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant.

Number of common shares outstanding as of October 15, 2013 was 219,276,228.

DOCUMENTS INCORPORATED BY REFERENCE

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

None

PART II-OTHER INFORMATION

EXPLANATORY NOTE

Seven Arts Entertainment, Inc. is filing this Amendment No. 1 on Form 10-K/A to its Annual Report on Form 10-K for the year ended June 30, 2013 for the sole purpose of furnishing the Interactive Data Files as Exhibit 101 in accordance with Rule 405 of Regulation S-T, as well as correcting a few clerical errors in the Consolidated Balance Sheets, Statements of Cash Flows, and the Cash Flow section in Item 7, Management's Discussion and Analysis of Financial Conditions and Results of Operations . Exhibit 101 provides the financial statements and related notes from the Original Report formatted in Extensible Business Reporting Language (XBRL). This Amendment speaks as of the filing date of the Original Report and does not reflect events that may have occurred subsequent to the filing of the Original Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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.

<u>Music Company</u>

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.

<u>Post-Production Facility</u>

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.

<u>Company Outlook</u>

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

for the Year Ended June 30, 2013 Compared To Year Ended June 30, 2012

As noted in the accompanying financial statements in Note 15, the Company has restated the years ended June 30, 2012 and 2011, to correct certain errors. The errors included reclassifications of certain amounts that had previously been categorized as "one time change in estimate" to properly be included in cost of revenues, timing differences between years, and corrections in the application of GAAP on certain complex transactions. Please see the detailed discussion and schedule in Note 16. All restated amounts are reflected in the discussion of Results of Operations below.

Revenue

Our total revenues decreased from $4,058,006(Restated) for the fiscal year ended June 30, 2012 to $1,522,808 in the fiscal year ended June 30, 2013. Film revenues were basically the same in each year and the Music revenue of $574,434, as well as the $106,417 in Post Production revenue, is new to the Company in 2013. However, the 2012 revenue figure included net fee income of $3,235,000(Restated) earned from SAPLA related to the post-production facility located at 807 Esplanade in New Orleans, Louisiana. The Fee Income from related party in 2012 represented services provided in connection with direction of the rehabilitation of the post production facility as well as consulting in process of obtaining certain Federal and State tax credits. See Note 4 in the accompanying financial statements for a more detailed discussion of the revenue earned.

Revenues derived from the licensing and distribution of motion pictures increased marginally from $823,006 in the previous fiscal year to $841,956 in this fiscal year. The majority of 2013 revenue consisted of the US and Brazilian release of "Nine Miles Down" and "Drunkboat" and a spread of film royalties relating to our film library and $183,000 from settlement of litigation with MGM over "Deal" and Sony with "Johnny Mnemonic".

The majority of 2012 sales included international sales royalties from movies such as “The Pool Boys,”, “Deal,” “Autopsy,”, “Nine Miles Down” and “Night of the Demons.”

In the 2013 year the music division recorded gross revenues of $1,027,645, reduced by a provision for returns of $470,811, from the release of the first DMX album.

Costs of Revenue

Costs of revenue decreased from $14,389,888 (Restated) in the fiscal year ended June 30 2012 to $12,421,711 in the fiscal year ended June 30, 2013. Costs of Revenues in both years consist predominately of amortization and impairment of film and music costs .

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 future revenue from the films. The amortization of unamortized Film costs in 2013 related to revenue recognized on the films, "Nine Miles Down"and "Deal". For 2012 the amortization related to revenue recognized on the films "Pool Boys","Nine Miles Down" and "Night of the Demons".

In accordance with our policies, management reviewed the future ultimates on the films in release or production, and adjusted them for actual sales and feedback and orders from the various film markets the Company attends. These adjusted ultimate estimations are then used in determining if any impairments are necessary to recognize. This evaluation resulted in Impairment costs recognized of $2,054,171 in fiscal year 2013 made and $6,459,298 (restated) in fiscal year 2012.

A write down of $2,837,545 was taken against development costs in fiscal year 2013 upon review of the capitalized development costs, in accordance with ASC 926 and our accounting policy, to ensure all "abandoned" costs which management has determined no longer apply to viable development projects.

Consequently, the Group recorded a gross loss of $10,898,903 in the year-ended June 30, 2013 compared to a gross loss of $10,331,882 (Restated) in the year-ended June 30, 2012

General &Administrative expenses

General and administrative expenses increased to $7,289,919, in the fiscal year ended June 30 2013 from $2,558,620 in the previous year.

$3,582,919 of the G&A expenses in 2013 is bad debt expense, which includes a $1,180,000 reserve recognized for the Fee Income receivables due from related party, due to some delays in SAPLA receiving their State tax credit (please see more detailed discussion in Note 4 in accompanying financial statements), and $1,868,547 determined to no longer be collectible due from SAP, Inc., a related party, due to its' current parent company, PLC, being in liquidation.

In 2013, the full operation of the music division has added $356,061 to the general and administration expenses and the new post production operation has increased these costs by $197,430, plus building improvement amortization of $164,526.

- Legal and professional costs were increased substantially in the current year to $1,504,763 from $879,503 in the prior year. This consists of increased attorney fees related to our ongoing and new litigation discussed in detail previously in the Litigation section. Additional legal fees were also incurred in connection with increased volume of conversions and share activity requiring legal opinions.
- There has been an accrual of $350,000 for a judgment for the Company to pay legal fees on JonesFilm (see Litigation section above)
- Rent and office costs increased by almost $190,000 in the year due to the music division and the post production facility. Management have taken action and closed down the UK office and merged the music division into the original US office to bring overhead back in line
- Wages and salaries have reduced by approximately $182,000 during the year as the London office was closed and the US office was downsized plus the music team were reduced substantially and the few that are left are now consultants not employees which accounts for the increase in consultancy charges year on year (Approximately $102,000).
- Approximately $528,000 less overhead was capitalized to movies in the 2013 fiscal year than the comparable period in 2012

Net interest expense increased from $2,752,681 to $4,227,472, resulting from increased loan balances and some penalties in negotiating extended terms. The 2013 interest expense also includes amounts related to SAFELA for the mortgage and construction loan not included in 2012..

Other income in 2012 includes forgiveness of debt income previously charged in 2011 in error. See Note 16 on restatement of accounts.

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 $ 22,062,539 in the fiscal year ended June 30, 2013 compared to a net loss of $11,153,463 for the fiscal year ended June 30, 2012.

RESULTS OF OPERATIONS

for the Year Ended June 30, 2012 (Restated) Compared To Year Ended June 30, 2011

Our total revenues increased from $3,328,388 for the fiscal year ended June 30, 2011 to $4,058,006 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, offset by reduced film revenue. The Fee income – related party revenue of $3,235,000 represents services provided in connection with direction of the rehabilitation of the post production facility as well as consulting in process of obtaining certain Federal and State tax credits. See Note 4 in the accompanying financial statements for a more detailed discussion of the revenue earned.

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 $14,389,888(Restated) including certain distribution costs, producers' costs and other third party payments, and amortization of film costs of $3,996,576 and Film cost impairment of $6,459,248 and Music cost impairment of $3,035,000. 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 future revenue from the films. The Impairment is a result of our evaluation of the ultimate future revenue on the films in release or production, and adjusted them for actual sales and feedback and orders from the various film markets the Company attends. These adjusted ultimate estimations are then used in determining if an impairments are necessary to recognize.

Consequently, the Group recorded a gross loss of $10,331,882 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.

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

Net interest expense increased from $758,197 to $2,752,681, 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 years ended June 30, 2012 and 2011, because we had no taxable income.

As result of the aforementioned results, we recorded a net loss of $11,153,463 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.

Foreign Currency Transactions and Comprehensive Income

The Company's functional currency, as well as the Company's subsidiaries, is the US Dollar. The functional currency of PLC, was the Pound Sterling ("GBP"), 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 (deficit). 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.

Segment Reporting

The Company now operates in three business segments as a motion picture producer and distributor and as a music label managing the assets acquired from Mr Michery. The Company believes that its businesses should be reported as two business segments.

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

The table below presents the financial information for the two reportable segments for the year ended June 30, 2012.

The tables below present the financial information for the reportable segments for the years ended June 30, 2013 and 2012:

	Film	Music	Year ended June 30, 2013 Production facility	Total
Revenue	$841,956	$574,434	$106,417	$1,522,807
Cost of Revenue	(7,004,141)	(5,395,410)	(22,160)	(12,421,711)
Gross profit/(loss)	(6,162,185)	(4,820,975)	(84,257)	(10,898,903)
Operating expenses	(6,447,117)	(480,620)	(361,955)	(7,860,492)
Loss from operations	$(12,609,302)	(5,301,595)	(277,698)	(18,188,596)

	Year ended June 30, 2012 (Restated) Film	**Music**	**Total**
Revenue	$4,052,029	$5,977	$4,058,006
Cost of revenue	14,350,858	39,031	14,389,889
Gross profit/(loss)	$(10,364,937)	$(33,054)	$(10,331,883)
Operating expenses	2,467,111)	91,505	2,558,620
Loss from operations	$(12,765,944))	$(124,559)	$(12,890,503)

Assets

	June 30, 2013	**June 30, 2012 (Restated)**
Film assets	$8,368,686	$14,612,609
Music assets	296,795	4,289,158
Post-production assets	4,102,525	4,551,270

LIQUIDITY AND CAPITAL RESOURCES

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

Short Term Liquidity

The Company has an accumulated deficit of $38,154,995 and negative working capital of $19,844,307 as of June 30, 2013. Management believes that, based on historical revenues generated from the licensing of the distribution rights on our motion pictures and the new revenues generated from the release of two albums in the music division in our 2014 fiscal year, as well as expanding business at the post-production facility, we will have sufficient working capital to operate for the next twelve months. Included in the revenue expected in our film division will be the release of a new film, Schism, in March 2014, which will see revenues generated during the next year. In addition, the Company has scaled back on administrative expenses through the closing of our UK office. The Company also will continue to raise capital, or pay off existing debt, through the issuance of convertible debentures.

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

Long Term Liquidity

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

Cash Flows

Operating Activities: Net cash used in operating activities in the year ended June 30, 2032 was $(547,939).   This is mainly attributable to a mixture of cash received on revenue and receivables compared to $1,051,378 of cash used in additions to film costs, payment on accounts payable and other operating expenses of the Company. While the accounts payable increased by a net $1,546,377, the overall increase also reflects payments on balances owing, as well as exchanges of existing accounts payable balances to notes payable.

Investing Activities: Net cash used in investing activities in the year ended June 30, 2013 was $(466,066) which is attributable to additions to building improvements for the post-production facility.

Financing Activities: Net cash provided by financing activities during the year ended June 30, 2013 was $898,232, mainly due to the proceeds from additional debt of $1,872,772 and the issuance of common stock for cash of $300,000, less amounts paid on outstanding debt.

Capital Resources

As of June 30, 2013, the Company did not have any outstanding capital commitments. As of the date of this filing the Company had no other commitments than disclosed in the Company's financial statements and notes to the financial statements.

Negative working capital at June 30, 2013 was $19,844,307, versus negative working capital at June 30, 2012 (Restated) of $13,561,333. The change is mainly a decrease in current assets from the year ended June 30, 2012 to June 30, 2013, while current liabilities stayed fairly consistent. The decrease in assets is constituted by:

a) An approximately $1,190,000 reserve recognized for the Fee Income receivables due from related party , due to some delays in SAPLA receiving their State tax credit (please see more detailed discussion in Note 4 in accompanying financial statements.
b) Impairments recognized on Film costs in the amount of $2,054,171 and Music Assets in the amount of $4,718,205.
c) The Film and Music asset balances were also reduced by the standard amortization for the year of $2,452,477.

Working capital is negative due to the fact that all the loans are classified as current, while some of them have longer-term workout agreements. Additionally, the mortgage and construction loans on 807 Esplanade are current liabilities with corresponding Building improvements being recorded as non-current assets.

The majority of the other loans are convertible to stock so will have little or no cash impact.

Shareholders' Deficit contributed to Seven Arts Entertainment, Inc. at June 30, 2013 was $6,715,314 which is a decrease of $16,573,154 from the restated June 30, 2012 Shareholders' equity. The change was primarily due to the loss in the current year, offset by increases in common stock and the related additional paid in capital.

The Company had approximately $15,632,000 in debt as of June 30, 2013, comprised of Convertible debentures of approximately $4,074,000, Mortgage and construction loans of approximately $3,744,000 and Film and Production loans of approximately $7,814,000. Please refer to Note 9 in the accompanying financial statements to see a detailed list of the indebtedness and expanded disclosures.

CRITICAL ACCOUNTING POLICIES

Our 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 our financial statements.

The financial statements and notes are representations of our 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. Our system of internal accounting control is designed to assure, among other items, that (i) recorded transactions are valid; (ii) valid transactions are recorded; and (iii) transactions are recorded in the proper period in a timely manner to produce financial statements that present fairly the financial condition, results of operations and cash flows of our Company for the respective periods being presented.

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.

Revenue Recognition

FILM

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.

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 any of sales or value added taxes charged to customers.

MUSIC

Revenue, which equates to an agreed share of gross receipts, is recognized as income as and 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.

<u>Fee-related revenues</u>

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 the related company SAPLA (owned by the wife of Peter Hoffman, the Company's CEO) by virtue of an agreement between SAPLA and the Company guaranteeing that all net revenue's earned by SAPLA are the property of the Company. The agreement was established as the Company guaranteed the loans SAPLA took on to restore and rebuild the property 807 Esplanade, New Orleans as a post-production facility.

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 $131,062and $171,062 at June 30, 2013 and June 30, 2012, respectively.

Due to/Due from Related Parties

In September 2004, the Company 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 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.

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, 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 or paid expenses on each other's behalf.

Peter Hoffman has contributed cash to the Company, as well as had salary accrued but unpaid on occasion over the last several years. These amounts are reflected as Due To Related Parties.

<u>Fee Income Receivable from Related Party</u>

Revenue in the form of fee income is due to the Company from a related party, SAPLA (owned by the wife of Peter Hoffman, the Company's former CEO) for developer, advisory and financial services provided by the Company as concerns infrastructure and historic rehabilitation tax credits earned by SAPLA. In accordance with an intercompany agreement between SAE and SAPLA, the cash proceeds from the disposition of the tax credits earned by SAPLA are due to SAE. The Company has recognized the fair value of the services as revenue with any excess received as a capital contribution by the related party.

<u>Film Costs</u>

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 it is therefore possible that reductions in the carrying value of investment in films may be required as a consequence of changes in management's future revenue estimates. Films 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 Costs/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.

Building 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. The Company has since assumed the liability for $1,000,000 of these loans plus a contingent sum of $750,000 (contingent on receipt of the tax credit revenue of at least $5,000,000 in cash proceeds from the tax credits to be earned by SAPLA) due to an agreement with the now mortgagor Palm Finance. Additionally, a construction loan of $1,850,000 previously guaranteed by the Company has now been assumed by the Company for the property at 807 Esplanade. The Company did not receive any consideration or benefit when they assumed the mortgage and construction loans, and have looked to the authoritative guidance on guarantees as a analogy. As the guidance on financial guarantees does not address which account would be set up as an offsetting entry when the liability is recognized at the inception of the guarantee, the Company has determined to call this asset balance created upon assumption of the debt "Building Improvements related to indebtedness" The Building Improvements will be amortized in a manner similar to leasehold improvements, over the life of the lease (30 years).

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

Emerging Growth Company Critical Accounting Policy Disclosure:

The JOBS Act contains provisions that relax certain requirements for "emerging growth companies" for which we qualify. For as long as we are an emerging growth company, which may be for up to five years after the first sale of our common equity securities pursuant to an effective registration statement under the Securities Act., unlike other public companies, we will not be required to: (i) comply with any new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies under Section 102(b)(1) of the JOBS Act; (ii) provide an auditor's attestation report on management's assessment of the effectiveness of our system of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act; (iii) comply with any new requirements adopted by the PCAOB requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer; or (iv) comply with any new audit rules adopted by the PCAOB after April 5, 2012 unless the SEC determines otherwise.

Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards that have different effective dates for public and private companies until such time as those standards apply to private companies. We currently intend to take advantage of such extended transition period. Since we are not required to comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies, our financial statements may not be comparable to the financial statements of companies that comply with public company effective dates.

Off-Balance Sheet Arrangements

Not applicable.

ITEM 6. EXHIBITS

EXHIBIT NO.	DESCRIPTION
31	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002 .
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Seven Arts Pictures, Inc.
Date: October 21, 2013	By: /s/ *Kate Hoffman* Kate Hoffman Chief Executive Officer (Principal Executive Officer)
Date: October 21, 2013	By:/s/ *Candace Wernick* Candace Wernick Chief Financial Officer

(Principal Financial and
Accounting Officer)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

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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, 2013 and 2012, 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, 2013 and 2012 and, accordingly, we do not express an opinion thereon.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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, 2013 and 2012, 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 15, 2013

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Seven Arts Entertainment, Inc.

(Formerly Seven Arts Pictures, Plc)

Consolidated Balance Sheets

	June 30, 2013	**June 30, 2012 (Restated)**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,884	$ 120,658
Accounts receivable, net of allowance for doubtful accounts of $40,000 and $171,062	110,042	192,035
Due from related parties	205,787	2,116,538
Fee income receivable from related parties, net of allowance for doubtful accounts of $1,190,000	2,055,000	3,235,000
Other receivables and prepayments	455,019	849,845
Total Current Assets	2,830,732	6,514,076
Film costs, less accumulated amortization of $13,877,172 and $11,832,900	8,368,686	14,612,609
Music assets, less amortization of $408,205 and $0	296,795	4,289,158
Building Improvements, less amortization of $165,526 and $0	4,102,525	4,551,270
Property and equipment, net of accumulated depreciation of $119,940 and $111,232	7,458	16,137
TOTAL ASSETS	$ 15,606,196	$ 29,983,250
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	1,824,141	1,152,978
Accrued liabilities	2,486,514	2,758,844
Due to related parties	1,681,701	1,712,134
Shares to be issued	-	200,000
Participation and residuals	96,819	114,215
Convertible debt	4,073,901	4,162,460
Mortgage and construction loans	3,743,286	3,001,271
Film & production loans	7,814,412	6,124,428
Deferred income	954,265	849,080

Total Current Liabilities	22,675,039	20,075,410
Provision for earn-out	-	50,000
TOTAL LIABILITIES	$ 22,675,039	$ 20,125,410
STOCKHOLDERS' EQUITY		
Convertible redeemable Series A preferred stock at $10 stated value, 125,125 and 125,125 authorized and outstanding	$ 1,251,250	$ 1,251,250
Convertible redeemable Series B preferred stock at $100 stated value, 200,000 authorized, 43,850 and 181,850 outstanding	5,525,458	9,163,636
Convertible redeemable Series B shares held in escrow	-	(3,163,636)
Common stock; $0.01 par value; 249,000,000 authorized, 46,323,297 and 34,798 issued and outstanding	2,578,521	17,399
Additional paid in capital	22,072,882	18,214,831
Shares held as collateral	(455,246)	-
Other Comprehensive income	(13,555)	(13,555)
Accumulated deficit	(38,154,995)	(15,612,085)
Warrants to be distributed	480,371	-
Total Seven Arts Entertainment Inc. equity(deficit)	(6,715,314)	9,857,840
Non-controlling interest	(353,530)	-
Total Shareholders' equity(deficit)	(7,068,843)	9,857,840
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 15,606,196	$ 29,983,250

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 Operations and Comprehensive Loss

	Year Ended June 30, 2013	2012 Restated
Revenue:		
Film revenue	$841,956	$823,006
Music revenue	574,435	-
Fee Income Revenue - related party	-	3,235,000
Post production revenue	106,417	-
Total revenue	1,522,808	4,058,006
Cost of revenue:		
Amortization of film costs and music assets	2,452,477	3,996,576
Impairment of film costs and music assets	6,772,376	9,494,247
Other cost of revenue	359,313	899,065
Development Costs abandoned	2,837,545	-
Cost of revenue	12,421,711	14,389,888
Gross loss	(10,898,903)	(10,331,882)
Operating expenses:		
General and administrative expenses	3,706,774	2,251,139
Bad debt expense	3,582,919	307,481
Total operating expenses	7,289,693	2,558,620
Loss from operations	(18,188,596)	(12,890,502)
Non-operating income(expense)		
Other income	-	4,489,721
Interest expense	(4,227,472)	(2,752,682)
Total non-operating income (expense)	(4,227,472)	1,737,039
Loss before taxes	(22,416,068)	(11,153,463)
Provision for income tax	-	-
Net loss	(22,416,068)	(11,153,463)
Less: Net loss attributable to non-controlling interests	(353,530)	-
Net loss attributable to Seven Arts Entertainment, Inc.	$(22,062,538)	$(11,153,463)
Comprehensive loss:		

Net loss	(22,416,068)	(11,153,463)
Other Comprehensive income/loss	-	(13,555)
Comprehensive loss	(22,416,068)	(11,167,018)
Less: Comprehensive loss attributable to non-controlling interests	(353,530)	-
Comprehensive loss attributable to Seven Arts Entertainment, Inc.	$(22,062,538)	$(11,167,018)
Weighted average shares of common stock outstanding:		
Basic	3,387,041	453,057
Diluted	3,387,041	453,057
Basic profit/ (loss) per share	$(6.51)	$(24.62)
Diluted profit/ (loss) per share	$(6.51)	$(24.62)

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

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Seven Arts Entertainment, Inc.

Statement of Stockholders' Equity

	Preferred Stock Class A		Preferred Stock Class B		Preferred Stock ClassB In Escrow	Common Stock		Defer Stock
	Shares	Amount	Shares	Amount		Shares	Amount	Share
Balance at 30 June 2011	-	$-	-	$-		2,643,131	$1,121,208	2,26
Impact of Asset Transfer Agreement						(2,643,131)	(1,121,208)	(2,26
One for one share issue on transfer of assets from Seven Arts Pictures Plc						1,850	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						571	286	
Common stock issued for cash						436	218	
Common stock issued for consultancy fees						1,503	751	
Common stock issued in						25,372	12,686	

exchange for debt									
Common stock issued on convertible notes							5,066	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			181,850	4,762,952					
Series B preference shares held in escrow					(120,000)	(3,163,636)			
Options issued for wages and benefits									
Foreign currency translation adjustments									
Net loss									
Balance at 30 June 2012	125,125	1,251,250	181,850	4,762,952	(120,000)	(3,163,636)	34,798	17,399	-
Restatement for PS Series B revaluation (Note 15)				4,400,684					
Restatement for impairment of music assets (Note 15)									
Restatement for reversal of Relatd Party fee income (Note 15)									
Restatement for adjusted Related Party fee income recognized (Note 15)									
Adjustment for 25 million									

shares pledged in relation to debt - Note 15									
As restated (Note 15)	125,125	1,251,250	181,850	9,163,636	(120,000)	(3,163,636)	34,798	17,399	-
Common shares issued in connection with debt agreement							1,714	857	
Common Stock Issued to CEO in connection with debt agreement							140,000	70,000	
Sales of Common Stock for Cash							171	86	
Stock warrant dividend declared									
Preferred stock converted to Common Stock			(38,000)	(1,001,819)			69,091	34,545	
Preferred stock cancelled in connection with settlements			(100,000)	(2,636,363)	100,000	2,636,363			
Escrowed Series B PS released					20,000	527,273			
Common Stock Issued upon conversion of convertible debt							40,462,793	2,122,541	
Common Stock Issued for Services							5,290,438	170,947	

Common Stock held as collatoral for legal settlement							324,292	162,146	
Net loss									
	125,125	$1,251,250	43,850	$5,525,454	-	(0)	46,323,297	$2,578,521	-

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

	June 30, 2013	June 30, 2012 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$ 22,416,067	$ (11,167,019)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	8,679	8,403
Amortization of Film Costs and Music Assets	2,452,477	3,996,574
Impairment of Film Costs	2,054,171	6,459,248
Impairment of Music costs	4,718,205	3,035,000
Amortization of Leasehold improvements	164,811	-
Common Stock Issued for Services	1,288,974	640,527
Stock Option Expense	-	173,797
Bad debt	3,538,580	-
Development costs abandoned	3,196,858	-
Forgiveness of Debt and Interest	-	4,489,721
Changes in assets and liabilities:		
(Increase) Decrease in Accounts Receivable	359	239,856
Decrease in Due from Related Parties	42,204	609,436
Increase in Fee Income Receivable from Related Party	-	(3,235,000)
(Increase)Decrease in Other Receivables and Prepayments	(13,573)	771,050
(Increase) in Film Costs	(1,051,378)	(1,934,871)
(Increase) in Music Assets	(606,770)	(1,324,158)
Increase (Decrease) in Accounts Payable	1,546,377	(1,417,293)
Increase(Decrease) in Accrued Liabilities	460.274	186,957
Increase in Due to Related Parties	(30,433)	1,060,905
Increase in Accrued Interest included in notes payable	4,043,129	2,939,546
Increase in Deferred Income	105,185	1,060,905
(Decrease) in VAT Payable	-	(1,477,584)
Increase (Decrease) in Provision for Earn Out	(50,000)	50,000
Net Cash Used in Operating Activities	(547,938)	56,699
CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES :		
Building Improvements	(466,068)	(4,551,270)

Net Cash Used in Investing Activities	(466,068)	(4,551,270)
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:		
Proceeds from Borrowings	1,838,162	3,991,047
Cash Payments on Debt	(1,239,930)	(1,313,337)
Issuance of Preferred Stock for Cash	-	1,251,250
Issuance of Common Stock for Cash	300,000	500,000
Warrant dividend declared	-	-
Net Increase in Equity From Asset Transfer	-	177,484
Shares as collateral for legal settlement		
Net Cash Provided by (Used for) Financing Activities	898,232	4,606,444
NET INCREASE (DECREASE) IN CASH	(115,774)	111,873
CASH AT BEGINNING OF PERIOD	120,658	8,785
CASH AT END OF PERIOD	$ 4,884	$ 120,658
SUPPLEMENTAL CASH FLOW INFORMATION:		
Assumption of Debt	-	3,001,270
Shares of common stock issued for services	1,288,945	640,527
Shares of common stock issued in exchange for accounts payable	875,214	-
Shares of common stock issued as collateral	455,246	-
Shares of common stock pledged in connection with debt	70,000	-
Shares of common stock issued in payment of debt and interest	3,373,134	9,163,636
Conversion of Preferred Shares Series B to common stock	1,001,819	-

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.)

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

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 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.

On June 11, 2010, SAE, was formed and became a wholly owned subsidiary of PLC. As of June 11, 2010, the Company entered into an Asset Transfer Agreement, as amended on January 27, 2011 and again on August 31, 2011, to transfer certain assets with a cost basis from PLC to SAE, in exchange for assumption by SAE of certain indebtedness and for one share of common stock of SAE for each ordinary share of PLC which have been distributed to shareholders. Additionally, 571 shares (2,000,000 shares as adjusted for the 1:70 and 1:50 reverse stock splits discussed herein) of SAE were issued to PLC in order to satisfy any remaining obligations. This transfer was approved by the PLC shareholders at an Extraordinary General Meeting on June 11, 2010. The purpose of this transfer was to eliminate our status as a foreign private issuer and to assume compliance with all obligations of a domestic issuer under all applicable state and Federal securities laws. Our intention in executing this transaction was to redomicile our business with no change in the economic interests of our shareholders. Subsequent to the transfer SAE became is a United States issuer and commenced regular quarterly reporting from the 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. 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 13 – 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 571 shares of common stock of SAE in order to satisfy these obligations.

On February 23, 2012, the Company formed Seven Arts Music, Inc. ("SAM") and acquired 52 completed sound recordings of the recording artist DMX from David Michery ("Mr. Michery") with the rights to additional albums and acquired 100% of the stock of Big Jake Music ("BJM"). As a result, the Company is also in the business of producing and distributing recorded music.

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 shares of the Company's Series B convertible preferred stock were held in escrow and to be released to Michery and his assigns only 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

During the quarter ended December 31, 2012, Mr. Michery converted and sold 38,000 of the 50,000 shares of Series B that he and his assigns held. The Company and Mr. Michery have agreed the remaining 50,000 shares of Series B in escrow will be disposed of by release of 20,000 shares of the Series B convertible preferred stock to Mr. Michery in full satisfaction of any claims he may have against the Company and the balance of the 30,000 shares of Series B will be cancelled. The release of the 20,000 shares has been recognized as services in the accompanying financial statements. As of June 30, 2013, Mr. Michery or his assigns hold 32,000 shares of Series B convertible preferred stock.

In connection with the acquisition of the stock of BJM, the Company issued 80 ,000 shares of the Company's Series B convertible preferred stock, par value $100 convertible at approximately $1.10 per share) to Jake Shapiro and his assigns with 70,000 of these shares held in escrow to be released to Shapiro and his assigns only if certain specific terms are met : 40,000 shares were subject to proving valuation and usage of certain advertising credits and 30,000 shares were subject to an earnout over a two year period.

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

Seven Arts Pictures Louisiana LLC, ("SAPLA"), a related party of the Company, entered into a Credit Agreement with Advantage Capital Community Development Fund LLC dated October 11, 2007, for the acquisition and improvement of the production and post-production facility located at 807 Esplanade Avenue in New Orleans, Louisiana ("807 Esplanade") for aggregate principal advances of up to $3,700,000.   This agreement was guaranteed by the Company's predecessor. Approximately $3,700,000 plus interest has been drawn under the terms of this Credit Agreement, as of June 30, 2012. The Company has now assumed the liability for $1,000,000 of this amount plus a contingent sum of $750,000 (contingent on receipt of at least $5,000,000 in cash proceeds from the tax credits to be earned by SAPLA) due to an agreement with the now mortgagor Palm Finance. A construction loan of $1,850,000 previously guaranteed by the Company has now also been assumed by the Company. ,The Company through SAFELA, has a 30 year lease on the property 807 Esplanade to operate a film production and post-production facility.

On January 1, 2012, Seven Arts Film Entertainment Limited ("SAFE") sold all of its film assets to SAE for assumption of indebtedness. SAFE ceased operations on May 31, 2013 on closing of its office in London, England. The Company plans to file for creditors voluntary liquidation of SAFE in England. The asset transfer agreement had no impact on the Company's consolidated financial statements.

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 June 30, 2013, there are 46,323,297 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