Seven Arts Pictures PLC
Form F-1/A
April 24, 2009

As filed with the Securities and Exchange Commission on April 24, 2009

File No. 333-158669

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

Amendment No. 1
to

FORM F-1/A

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SEVEN ARTS PICTURES PLC

(Exact Name of Registrant as Specified in Its Charter)

England (State or other jurisdiction of incorporation or organization)	7812 Primary Standard Industrial Classification Code Number	[Not Applicable] (I.R.S. Employer Identification No.)

38 Hertford Street
London, UK W1J7SG
44 (203) 006-8222

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered	Proposed Maximum Offering Price per Share[(1)]	Proposed Maximum Aggregate Offering Price[(1)]	Amount of Registration Fee
Ordinary Shares	2,875,000 [(2)]	U.S.$6.50	U.S.$18,687,500	U.S.$1,044
Underwriters Warrants	125,000			
Ordinary Shares Underlying the Underwriters Warrants	125,000	U.S.$8.13	U.S. $1,016,250	U.S.$57
Total	3,000,000		U.S.$19,703,750	U.S.$1,101

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457 under the Securities Act.

(2) Includes 2,500,000 ordinary shares offered hereby and 375,000 ordinary shares related to the over-allotment option granted to the underwriters representative. Pursuant to Rule 416, there are also being registered such indeterminable number of additional ordinary shares as may be issued under the warrants to the underwriters representative to prevent dilution resulting from stock splits, stock dividends or similar transactions.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or other jurisdiction where the offer or sale is not permitted.

Subject to completion, dated ___________.

SEVEN ARTS PICTURES PLC

This is a firm commitment public offering of 2,500,000 ordinary shares. One of our shareholders has granted Rodman & Renshaw, LLC, the underwriters representative, an option to purchase up to 375,000 additional ordinary shares to cover over-allotments. We have also granted the underwriters representative warrants to purchase up to 125,000 of our ordinary shares.

Our ordinary shares are quoted on the NASDAQ Capital Market under the symbol SAPX. On April 17, 2009, the last reported market price of our ordinary shares was $6.50 per share.

	Public Offering Price	Underwriting Discount and Commissions(1)	Proceeds to Us, Before Expenses(2)
Per Share	$	$	$
Total	$	$	$

(1) Does not include a non-accountable expense allowance equal to 1% of the gross proceeds of this offering payable to Rodman & Renshaw, LLC, the underwriters representative.

(2) We estimate that the total expenses of this offering, excluding the underwriters discount and non-accountable expense allowance, will be approximately $________.

The shares issuable upon exercise of the underwriter over-allotment option and the warrants are identical to those offered to the public by this prospectus, and have been registered under the registration statement of which this prospectus forms a part.

Investing in our securities involves certain risks. See Risk Factors beginning on page 7 of this prospectus for a discussion of information that should be considered in connection with an investment in our securities.

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.

The underwriters expect to deliver our shares to purchasers in the offering on or about ______, 2009.

Rodman & Renshaw, LLC

The date of this prospectus is [ ], 2009

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You should rely only on the information contained or incorporated by reference to this prospectus in deciding whether to purchase our shares. We have not authorized anyone to provide you with information different from that contained or incorporated by reference to this prospectus. Under no circumstances should the delivery to you of this prospectus or any sale made pursuant to this prospectus create any implication that the information contained in this prospectus is correct as of any time after the date of this prospectus. To the extent that any facts or events arising after the date of this prospectus, individually or in the aggregate, represent a fundamental change in the information presented in this prospectus, this prospectus will be updated to the extent required by law.

We obtained statistical data, market data and other industry data and forecasts used throughout this prospectus from market research, publicly available information and industry publications. Industry publications generally state that they obtain their information from sources that they believe to be reliable, but they do not guarantee the accuracy and completeness of the information. Nevertheless, we are responsible for the accuracy and completeness of the historical information presented in this prospectus, as of the date of the prospectus.

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PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus but may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire prospectus. In this prospectus, the words Seven Arts , Company , we , our , ours and us refer to Seven Arts Pictures PLC and its subsidiaries, unless otherwise stated or the context requires. All references in this prospectus to the number of ordinary shares to be issued by us in the offering exclude any ordinary shares acquired by underwriters pursuant to their over-allotment option or underwriters warrants included elsewhere in this prospectus.

Our Company

We are an independent motion picture production company engaged in developing, financing, producing and licensing theatrical motion pictures with budgets in the range of $5 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. We endeavor to release many of our motion pictures into wide-theatrical exhibition initially, however, a portion of our pictures will either receive only a limited theatrical release, 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) costs and, in turn, improved gross profit margins.

Our recent domestic theatrical releases include Deal (April 2008), Noise (April 2008) and Autopsy (January 2009), all three of which received limited US theatrical releases. We have completed the production of, and expect to release for domestic theatrical exhibition three additional motion pictures by fiscal year 2009, notably The Pool Boys, Nine Miles Down and Night of the Demons. We currently have five motion pictures in development that we anticipate will be released within the next two to three years Catwalk, Neuromancer, Mortal Armor: The Legend of Galahad, Romeo Spy, and The Winter Queen. Catwalk is expected to commence production later this Spring, and we have secured a SAG waiver to assure us that production can continue without interruption even if a SAG strike were to occur. We may supplement these motion pictures releases with certain lower cost pictures not yet fully developed, as well as with selected third party acquisitions.

Since 1996, we and our predecessors have produced 13 motion pictures and have acquired rights to an additional 18 motion pictures. As a result, we currently have a library of 31 completed motion pictures. A substantial portion of our library revenues are derived from only a few of our library titles. Through a combination of new productions and selected acquisitions, we plan to increase our film library to 75 or 100 pictures over the next five years, depending on the costs of such productions and acquisitions and our ability to assemble the elements to produce such films and finance such activities.

Our recent business model has focused on distribution in the post-theatrical markets for lower-cost, genre motion pictures. These pictures have enjoyed only a very limited theatrical release. However, as a result of both licensing of distribution rights prior to completion as well as the use of tax-preferred financing, they have generated substantial gross profit margins from post-theatrical markets (i.e. video and television distribution). While we will continue to make such pictures in the future, our goal is to obtain a wider theatrical release for the majority of the pictures we intend to release over the next two to three years.

We recorded gross revenues of $17,748,000 and net income of $4,014,000 in the fiscal period ended June 30, 2008, (15 months audited) and gross revenues of $11,758,000 and net income of $1,934,000 in our fiscal year ended March 31, 2007 (audited). For the most recent six month period ended December 31, 2008, we earned net income of $1,501,000 on revenues of $5,846,000 (unaudited).

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Our Business Strategy

Our current business strategy is:

To finance, produce and distribute two to four motion pictures in-house per year with budgets of between $5 million and $15 million each. As previously stated, certain of these pictures will receive only a limited theatrical release while others will be released more widely.
To supplement our core strategy by producing an occasional higher cost motion picture (production budgets of $30 $50 million). We will seek to co-produce such projects with a major studio to guarantee a studio-wide release and obtain a commitment to cover a portion or all of prints and advertising (P&A) costs.
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.
To maximize our current use of tax preferred financing structures around the world to fund our motion picture productions.
To continue to reduce our financial risk on motion pictures we produce in-house by pre-selling certain rights to distributors prior to and during production, although we recognize that, particularly in the last year, the pre-sale market has become more difficult to access as a film financing tool.
To increase our share of distribution revenues by entering into partnerships with theatrical and video distributors, to gain more control over the distribution of our motion pictures and to obtain a greater share of the revenues from distribution of our motion pictures.
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.

We believe that this is a particularly opportune time to be producing and distributing moderately priced motion pictures as, according to their public announcements, the major studios plan on reducing the number of pictures that they finance and distribute, preferring instead to concentrate resources on a limited number of high-priced, franchise productions. In addition, we believe that certain of the most successful independent motion picture companies have either been acquired or are focusing on higher budget films. We believe that these factors will attract exceptional levels of both talent and projects for lower budget motion pictures and independent film companies such as Seven Arts.

Our Competitive Strength

We believe our competitive strengths are:

The experience of our management and our relationships with independent motion picture distributors. Our management has participated in the production and/or distribution of more than one hundred motion pictures since 1986.
Our relationships with key talent and with independent motion picture distributors around the world.
Our attractive profit margins which result from adherence to cost efficient budgets, a low overhead structure, the use of pre-sales to license our motion pictures for a fee to third-party distributors prior to completion of production, and of tax preferred financing.
Our expertise in structuring non-overlapping tax preferred financings in jurisdictions where such are made available.

Corporate Information

Seven Arts is a corporation organized under the laws of England and Wales. Our principal executive offices are located at 38 Hertford Street, London, UK W1J 7SG. Our telephone number is 44 (203) 006 8222. The US offices of our affiliate are located at 6121 Sunset Blvd., Los Angeles, CA 90028. Our US telephone number is (323) 634 0990.

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Corporate Organization

The organization of the Company and its affiliates is set forth below:

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THE OFFERING

Securities Offered
2,500,000 ordinary shares (or 2,875,000 if the underwriters representative exercises its over-allotment option in full)
Ordinary Shares
Number of ordinary shares outstanding before this offering
6,893,300 ordinary shares
Number of ordinary shares outstanding after this offering(1)
7,693,300 ordinary shares (or 7,818,300 ordinary shares if the underwriters representative exercises its warrants in full)
Use of Proceeds
We intend to use the net proceeds of this offering to repay indebtedness of approximately $11,150,000. The remaining net proceeds will be used for working capital and general corporate purposes.
NASDAQ Capital Market
SAPX
Lock-Up Agreements
All of our officers and directors have agreed that, for a period of six months following completion of this offering, they will be subject to a lock-up agreement prohibiting any sales or hedging transactions of our securities owned by them. See Lock-Up on page 60.
Risk Factors
The securities offered by this prospectus are speculative and involve a high degree of risk, and investors purchasing securities should not purchase the securities unless they can afford the loss of their entire investment. See Risk Factors beginning on page 7.

(1) Excludes a total of 1,700,000 ordinary shares comprised of (i) 1,000,000 ordinary shares to be returned to us in connection with an advance to the Seven Arts Employee Benefit Trust and (ii) 700,000 shares to be returned to us in connection with the repayment of a loan. See Use of Proceeds.

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SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following sets forth a summary of consolidated profit and loss statement for the fiscal period ended June 30, 2008 (15 months) and each of the fiscal years ended March 31, 2007, and March 31, 2006 and March 31, 2005, all of which have been derived from our audited consolidated financial statements and related notes included elsewhere in this prospectus. The summary of profit and loss statements for the six-month periods ended December 31, 2008 and September 30, 2007 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. 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 indicative of our future performance.

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

Summary Profit and Loss Statements[1]	Six Months Ended Dec 31, 2008 (Unaudited)	Six Months Ended Sept 30, 2007 (Unaudited)	Fifteen Month Period Ended June 30, 2008	Fiscal Year Ended March 31, 2007	Fiscal Year Ended March 31, 2006 (Restated)	Fiscal Year Ended March 31, 2005 (Restated)
Under UK GAAP						
Revenues	$6,610	$1,889	$17,767	$11,208 [2]	$13,168	$4,297
Income/(Loss) from Operations	$2,568	$1,101	$2,035	$3,616 [2][3]	$942	($9,501)
Net Income/(Loss)	$1,691	$366	$4,009	$1,842 [3]	$181 [3]	($14,145)
Weighted Average Primary Shares Outstanding[4]	5,204.2	4,480.7	4,715.1	2,694.9	2,636.8	1,793.0
Weighted Average Fully Diluted Shares Outstanding[4]	9,097.6	8,320.7	8,632.9	7,454.1	7,436.8	4,239.0
Net Income/(Loss) Per Share[c][4]	32	8	85	68	7	(789)
Net Income/(Loss) Per Fully Diluted Share[c][4]	19	4	46	25	2	(789)
Under US GAAP						
Revenues	$6,610	$1,889	$17,767	$9,585	$13,168	$4,297
Income/(Loss) from Operations	$2,569	$1,100	$2,036	$2,228	$1,255 [3]	($9,501)
Net Income/(Loss)	$1,691	$366	$4,009	$2,077	$495 [3]	($12,274)
Earnings Per Share[c][4]	32	8	85	77	19	(685)
Fully Diluted Earnings Per Share[c][4]	19	4	46	28	7	(685)
Summary Balance Sheet						
Under UK GAAP						
Short-Term Debt	$187,863[7]	$7,069	$253,095[7]	$7,826	$3,628	$7,822
Long-Term Debt	$1,000	$23,732	$6,752	$12,373	$12,624	$4,250
Total Assets	$390,605[7]	$49,423	$424,971[7]	$37,612	$28,441	$18,034
Shareholders Funds[5]	$8,342	$10,353	$13,795	$8,936	$4,927	$5,081

Under US GAAP						
Short-Term Debt	$187,863 (7)	$7,069	$253,095 (7)	$7,826	$3,628	$7,822
Long-Term Debt(5)	$3,516	$27,307	$10,252	$15,805	$17,828	$9,919
Convertible Redeemable Preference Shares(6)	$945	$5,669	$5,669	$5,669	$5,669	$5,669
Total Assets	$390,605 (7)	$49,423	$424,972 (7)	$37,847	$28,755	$18,034
Shareholders Equity(5),(6)	$4,881	$1,109	$4,626	$70	($5,632)	($6,257)

(1) We changed our fiscal year end from March 31 to June 30 for the fiscal period ending June 30, 2008. The unaudited six-month results compare the first six months of the fiscal year ending June 30, 2009 with the first six months of the fiscal period ended June 30, 2008.

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(2) UK GAAP records the $1,623,000 attributable in fiscal year 2007 from the settlement of debt as revenue whereas under US GAAP it is a below the line item. Other differences between revenue recognition under UK GAAP and US GAAP arise from differing treatments of film amortization.

(3) Differences in net income reflect certain adjustments in the treatment of film amortization under UK GAAP and US GAAP for fiscal 2006 and 2007. These differences are not recurring. (See Financial Statements Appendix A Reconciliation to US GAAP).

(4) The attached financial statements, prepared under UK GAAP, show income per share figures calculated using the weighted average number of shares outstanding in each period. As a 5 for 1 reverse stock split occurred on the last day of the December 31, 2008 financial period, the income per share figures for the periods to March 31, 2005, 2006 and 2007 and the period to June 30, 2008 do not reflect the 5 for 1 reverse stock split in those statements. The income per share figures in the table above have been adjusted from the figures shown in the financial statements to show the effect of the 5 for 1 reverse stock split as if it had occurred on the first day of the earliest period shown, being the period ended March 31, 2005.

(5) Convertible subordinated debentures owed to Langley Park Investment Trust PLC are treated as Long-Term Debt under US GAAP and as Shareholders Funds under UK GAAP. As of December 31, 2008, the value of such debentures outstanding was approximately $2,516,000 (September 30, 2007: approximately $3,575,000, March 31, 2008: approximately $3,500,000, March 31, 2007: approximately $3,432,000, March 31, 2006: approximately $5,204,000, March 31, 2005: approximately $5,669,000).

(6) Shareholders equity under US GAAP does not include either the Langley Park Investment Trust PLC (note (5)), or the Armadillo Investments PLC redeemable preference shares (approximately $5,669,000 in all periods, except for the six months ended December, 31 2008, when such amount was approximately $945,000).

(7) In May 2008, we completed a transaction with Zeus Partners LLP that raised capital for investment into the production and distribution costs of our existing and future motion picture productions and acquisitions. The total investment raised was approximately $268,000,000. Substantially all of the net proceeds from that transaction received by us, which totaled approximately $17,000,000, were accounted for as a reduction in the carrying value of our film costs on the balance sheet.

Summary Financial Data (in $000 s, except per share data) 10

Accounting for the Zeus investments has resulted in the recognition of substantial assets and liabilities arising from the related financing arrangements. These assets and liabilities are essentially offsetting. The impact of the Zeus investments as of June 30, 2008 was to increase cash by approximately $113,000,000, to increase current receivables by approximately $226,000,000, to increase deferred income by approximately $113,000,000 and to increase short term debt by approximately $226,000,000. The impact of the Zeus investments as of December 31, 2008 was to increase cash by approximately $163,000,000, to increase current receivables by approximately $170,000,000 and to increase short term debt by approximately $226,000,000. The impact of the Zeus investments as of December 31, 2008 was to increase current receivables by approximately $170,000,000, to increase deferred income by approximately $170,000,000 and to increase short tem debt by approximately $163,000,000. The short term debt was entirely paid down with the cash on March 19, 2009. The remaining amounts relating to the Zeus investment will be entirely eliminated from our balance sheet on or before May 31, 2009.

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RISK FACTORS

You should carefully consider the risks described below together with all of the other information included in this report before making an investment decision with regard to our securities. The statements contained in or incorporated into this offering that are not historic facts are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements. If any of the following risks actually occurs, our business, financial condition or results of operations could be harmed. In that case, the trading price of our ordinary shares could decline, and you may lose all or part of your investment.

Risks Relating to Our Business

Our success depends on certain key employees.

Our success depends to a significant extent on the performance of a number of senior management and other key employees, including production and creative personnel. We particularly depend upon our Chief Executive Officer, Peter Hoffman, whose employment agreement grants him the right, as long as he is employed by us, to approve or control all artistic and business decisions regarding motion pictures that we acquire, produce or distribute. As a result, our success depends to a significant extent on Mr. Hoffman s creative and business decisions regarding the motion pictures we acquire, produce and distribute.

We do not have any key person life insurance for any of our officers or directors. We have entered into employment agreements with our top executive officers. These agreements entitle us to possible injunctive relief for breach of the agreements but do not include any non-compete covenants. These agreements cannot assure us of the continued services of such employees. In addition, competition for the limited number of business, production and creative personnel necessary to create and distribute our entertainment content is intense and may grow in the future. Our inability to retain or successfully replace where necessary members of our senior management and other key employees could have a material adverse effect on our business, results of operations and financial condition.

Our interests may conflict with those of our Chief Executive Officer.

We have entered into a series of agreements with Mr. Hoffman and his affiliated companies which may result in our interests differing from theirs (see Certain Related Transactions). One of these agreements concerns a financing arrangement that Seven Arts Pictures, Inc. (SAP), a company controlled by Mr. Hoffman, entered into with Cheyne Specialty Finance Fund L.P. (Cheyne) for the production of our movies which has been secured with (i) the motion picture assets on six of our motion pictures and (ii) 1,607,000 of our ordinary shares beneficially owned by Mr. Hoffman. We intend to use approximately $1,000,000 from the proceeds of this offering to satisfy the obligations under this financing arrangement, and as a result, we would retain our rights to the motion picture assets that were used to secure the financing and SAP would maintain its control position in our company. Satisfying the obligations under this financing arrangement may provide divergent benefits to us and to Mr. Hoffman. Other agreements that we have entered into with Mr. Hoffman and his affiliates that may result in conflicts of interest include his employment agreement which grants him rights to produce certain remakes and sequels to our motion pictures and an

Intercompany Agreement which provides that SAP will own limited liability companies in the United States, with all distribution rights and profits thereof for our account and provide other services for our account and by which has SAP assigned to us any results and proceeds arising from services performed by SAP on our behalf. See Certain Related Transactions.

Our failure to repay obligations under the Arrowhead Loan and Cheyne Loan could result in the loss of assets that we pledged and the loss of our Chief Executive Officer s beneficial interest in our ordinary shares.

Seven Arts Future Flow I (SFF), a limited liability company owned by SAP, one of our controlling shareholders and a company controlled by Mr. Hoffman, obtained financing from the Arrowhead Target Fund, Ltd. (Arrowhead) of approximately $8,300,000 (the Arrowhead Loan). We secured the Arrowhead Loan with liens on twelve motion pictures that generated revenues of over $3,700,000 in the fifteen month fiscal period ended June 30, 2008. The Arrowhead Loan is recorded in our audited financial statements as a $8,300,000 liability as of December 31, 2008. Our only liability is to repay the Arrowhead Loan from the

proceeds of the film assets pledged against the Arrowhead Loan. We are not required to repay the Arrowhead Loan from any of our other assets or revenues.

SFF is currently in payment default on the Arrowhead Loan. Since the Arrowhead Loan is now due, Arrowhead may foreclose on the pledged film assets. Arrowhead sent SFF a notice of default in February 2009 but has not yet sought to recover any of the pledged film assets which we continue to distribute. Failure to repay or refinance the Arrowhead Loan could result in a material disposition of assets through the loss of our rights to twelve motion pictures and related loss of revenues in amounts that are difficult to predict.

We also obtained financing of an aggregate of approximately $7,500,000 from Arrowhead Consulting Group LLC (ACG) for $1,000,000 and Cheyne for $6,500,000 (Cheyne Loan) at a rate of interest of 19% and 18% per annum, respectively. SAP, one of our controlling shareholders and a company controlled by Mr. Hoffman, our Chief Executive Officer, secured the ACG Loan and the Cheyne Loan with 1,607,000 of our ordinary shares beneficially owned by Mr. Hoffman (representing approximately 23% of our outstanding shares), and we secured ACG Loan and the Cheyne Loan with liens on six motion pictures that generated revenues of approximately $2,982,000 in the fifteen month fiscal period ended June 30, 2008, plus a second position security interest in the motion pictures pledged under the Arrowhead Loan. The Cheyne Loan matured on September 30, 2007. We repaid all sums then due to Cheyne, a sum of approximately $6,500,000, on or about April 2008, and received an assignment from Cheyne of their senior secured position on the film assets, including Cheyne s subordination agreement with ACG.

ACG has demanded payment of the ACG Loan. Failure to repay or refinance the ACG Loan could result in the loss of our rights to six motion pictures and our Chief Executive Officer, through his interest in SAP, could lose his equity position in our company.

We face substantial capital requirements and financial risks.

Our business requires a substantial investment of capital. The production, acquisition and distribution of motion pictures require a significant amount of capital. A significant amount of time may elapse between our expenditure of funds and the receipt of commercial revenues or tax credits derived from the production of our motion pictures. This time lapse requires us to fund a significant portion of our capital requirements from various financing sources. We cannot be certain that we can continue to successfully implement these financing arrangements or that we will not be subject to substantial financial risks relating to the production, acquisition, completion and release of future motion pictures. We currently employ a variety of structuring techniques, including debt or equity financing, in an effort to achieve our investment objectives. We cannot be certain that we will be able to negotiate structures which accomplish our objectives. We intend to increase (through internal growth or acquisition) our production slate or our production budgets, and if we do, we will be required to increase overhead and/or make larger up-front payments to talent and, consequently, bear greater financial risks. Any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

The costs of producing and marketing feature films have steadily increased and may further increase in the future, which may make it more difficult for a film to generate a profit or compete against other films. The costs of producing and marketing feature films have generally increased in recent years. These costs may continue to increase in the future, which may make it more difficult for our films to generate a profit or compete against other films. Historically, production costs and marketing costs have risen at a higher rate than increases in either the number of domestic admissions to movie theaters or admission ticket prices. A continuation of this trend would leave us more dependent on other media, such as home video, television, international markets and new media for revenue, and the revenues from such sources may not be sufficient to offset an increase in the cost of motion picture production. If we cannot successfully exploit these other media, it could have a material adverse effect on our business, results of operations and financial condition.

Budget overruns may adversely affect our business. Our business model requires that we be efficient in the production of our motion pictures. Actual motion picture production costs often exceed their budgets, sometimes significantly. The production, completion and distribution of motion pictures are subject to a number of uncertainties, including delays and increased expenditures due to creative differences among key cast members and other key creative personnel or other disruptions or events beyond our control. Risks such as

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death or disability of star performers, technical complications with special effects or other aspects of production, shortages of necessary equipment, damage to film negatives, master tapes and recordings or adverse weather conditions may cause cost overruns and delay or frustrate completion of a production. If a motion picture incurs substantial budget overruns, we may have to seek additional financing from outside sources to complete production. We cannot assure you that such financing on terms acceptable to us will be available, and the lack of such financing could have a material adverse effect on our business, results of operations and financial condition.

In addition, if a motion picture production incurs substantial budget overruns, we cannot assure you that we will recoup these costs, which could have a material adverse effect on our business, results of operations and financial condition. Increased costs incurred with respect to a particular film may result in any such film not being ready for release at the intended time and the postponement to a potentially less favorable time, all of which could cause a decline in box office performance, and, thus, the overall financial success of such film. Budget overruns could also prevent a picture from being completed or released. Although none of these events has occurred to us to date, any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

A substantial number of our motion pictures did not generate enough revenue to satisfy financing obligations secured by those motion pictures, and our future motion pictures may not generate enough revenue to satisfy

obligations entered into to finance their production.

We have obtained financing for most of our motion pictures and secured those financings with the assets from those and other motion pictures. If we are unable to generate sufficient revenues to repay those obligations under the terms of the financings, we lose those motion picture assets and any future revenues that we could derive from those assets. As noted, the revenues of the 12 and 6 motion pictures securing the Arrowhead Loan and the ACG Loan, respectively, have not met our estimates, and as a result, we have not been able to repay those loans in the periods set out in those loans. If we are unable to amend the terms of those loans or satisfy them otherwise, we could lose those motion picture assets. We cannot assure you that a failure to repay these obligations will not make the terms of future financings more onerous or prohibitive. We also cannot assure you that our estimates of revenues from motion pictures securing any other current or future financings will be accurate, and that we will be able to satisfy those financings with the revenues from the motion pictures securing those financings. The loss of motion picture assets as a result of any such default would adversely affect our business.

Our revenues and results of operations may fluctuate significantly.

Revenues and results of operations are difficult to predict and depend on a variety of factors. Our revenues and results of operations depend significantly upon the performance of the motion pictures that we license for distribution, which we cannot predict with certainty. Accordingly, our revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods. Furthermore, largely as a result of these predictive difficulties, we may not be able to achieve analysts projected earnings. Revisions to projected earnings could cause investors to lose confidence in us, which in turn could materially and adversely affect our business, our financial condition and the market value of our securities.

Accounting practices used in our industry may accentuate fluctuations in operating results. In addition to the cyclical nature of the entertainment industry, our accounting practices (which are standard for the industry) may accentuate fluctuations in our operating results. While such fluctuations have not occurred to date, we may in the future experience such fluctuations due to industry-wide accounting practices. In accordance with U.K. and U.S. generally accepted accounting principles and industry practice, we amortize film and television programming costs using the individual-film-forecast method. Under this accounting method, we amortize film and television programming costs for each film or television program based on the following ratio:

$$\frac{\text{Revenue earned by title in the current period}}{\text{Estimated total revenues by title}}$$

and compare to amortization recorded to date. If the current calculation provides a higher number than the amortization that we have recorded to date, we charge the difference to the profit and loss account and vice

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versa if the calculation provides a lower number. We review, and revise when necessary, our total revenue estimates on a title-by-title basis at least every six months. This review may result in a change in the rate of amortization and/or a write-down of the film asset to its estimated fair value. Results of operations in future years depend upon our amortization of our film costs. Periodic adjustments in amortization rates may significantly affect these results. In addition, we are required to expense film advertising costs as incurred, but are also required to recognize the revenue from any motion picture over the entire revenue stream expected to be generated by the individual picture.

We depend on a limited number of projects, and the loss or failure of a major project could have a material adverse effect on our business. Our revenue is generated from a limited number of films. Films that we develop, finance, or license for distribution vary due to the opportunities available to us and to targeted audience response, both of which are unpredictable and subject to change. The loss or failure of a major project could have a material adverse effect on our results of operations and financial condition as well as on the market price of our securities. We cannot assure you that any project we undertake or participate in will be successful.

We rely upon pre-sales, advances and guarantees.

We attempt to minimize some of the financial risks normally associated with motion picture production by obtaining, at various stages prior to release of our motion pictures, advances and guarantees from distributors in exchange for distribution rights to such pictures in particular territories. Advances and guarantees paid by a distributor for distribution rights to a film generally represent a minimum purchase price for such rights. While guarantees from distributors reduce some of the financial risk of our motion pictures by guaranteeing the receipt of certain revenues upon delivery of these motion pictures for distribution, such advances and guarantees do not assure the profitability of our motion pictures or our Company's operations. While the licensing of distribution rights in exchange for advances and guarantees reduces our risk with respect to unsuccessful films, it may also result in our receiving lower revenues with respect to highly successful films than if such licensing of distribution rights were made upon different terms that, for example, might have provided lower or no advances and guarantees to us but also a lower distribution fee (i.e. a lower percentage of gross revenues) to the distributor. We believe the international pre-sale market has become increasingly difficult to navigate resulting in fewer pre-sales with lower minimum guarantees, and this situation may continue for the indefinite future. As the international marketplace for motion pictures demands increasingly costly motion pictures, we cannot be certain that the amount of advances and guarantees which we anticipate generating on a given film project will be greater than or equal to our cost of producing such motion picture.

In today's rapidly changing and competitive marketplace for motion pictures, it is possible that the amount of such advances and guarantees alone, after payment of our operating expenses, even if greater than our direct cost of producing a specific film, will not be sufficient to provide us with a significant return on our invested capital. Should we incur higher than expected overhead or production expenses, that amount may not be sufficient to provide a return of all or substantially all of our invested capital. To the extent that we do not produce one or more films that generate overages for us, there may be a material adverse effect upon our Company and the potential for returns on, and even the return of, our capital.

Our executive officers, directors and principal shareholders will continue to control our company after the offering.

After this offering, our directors, executive officers, entities affiliated with our directors and our executive officers and our principal shareholders will beneficially own in the aggregate approximately 52.3% of our outstanding ordinary shares. Accordingly, these persons, acting together, will have the ability to substantially influence all matters submitted to our shareholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. These persons will also have the ability to control our management and affairs. Accordingly, the concentration of ownership may have the effect of delaying, deferring or preventing a change in control, impeding a merger, consolidation, takeover or other business combination involving us or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, even if that transaction would be beneficial to other shareholders.

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Additionally, we have entered into an Intercompany Agreement with SAP, a company controlled by our Chief Executive Officer, Peter Hoffman. Pursuant to the Intercompany Agreement, we granted SAP the power and authority to enter into agreements on our behalf. Although under the terms of the agreement, SAP is not to take any actions on our behalf without our approval, in practice we have not required SAP to receive our prior approval. If our board of directors continues to allow SAP to take actions under this agreement without board approval, SAP and, indirectly, Peter Hoffman will have a level of control over our operations that exists outside of our management structure.

We have a limited operating history.

Our predecessor was formed in 1992, and later transferred all its motion picture assets to SAP, one of our controlling shareholders and a company controlled by Peter Hoffman, our Chief Executive Officer, in October, 2002. SAP acquired control of our company in September 2004 by a transfer of all its motion picture rights to Seven Arts Filmed Entertainment Limited, our wholly owned subsidiary. Although our predecessors have a more extensive operating history, our company began operations in its current form and business strategy in September, 2004. As a result, investors will have only a limited period of motion picture operations to evaluate our performance.

We currently lack a credit facility.

We do not have any credit facility with respect to financing production of our motion pictures. We have primarily depended upon financing arrangements tied to specific motion pictures for the funding of our productions. Given the tightening of credit markets, we are seeking to establish a credit facility to provide us with more flexibility in the funding of our productions or operations. We cannot assure you that we can secure a credit facility or that, if we secure a credit facility, the terms will be favorable to us.

We face risks from doing business internationally.

We distribute motion pictures outside the United States through third-party licensees and derive revenues from these sources. As a result, our business is subject to certain risks inherent in international business, many of which are beyond our control. These risks include:

laws and policies affecting trade, investment and taxes, including laws and policies relating to the repatriation of funds and withholding taxes, and changes in these laws,

changes in local regulatory requirements, including restrictions on content,

differing cultural tastes and attitudes,

differing degrees of protection for intellectual property,

financial instability and increased market concentration of buyers in foreign television markets, including in European pay television markets,

the instability of foreign economies and governments and

war and acts of terrorism.

Events or developments related to these and other risks associated with international trade could adversely affect our revenues from non-U.S. sources, which could have a material adverse effect on our business, financial condition and results of operations.

Amendments to current laws and regulations governing our operations could have a material adverse impact on our business.

Our operations are subject to substantial government regulation, particularly regulations governing the use of tax credits granted during film production in Louisiana, the United Kingdom, Canada and Hungary. We receive a substantial portion of the financing for our motion picture production from tax credits and other tax preferred financings. Amendments to current laws and regulations governing these tax credits or other aspects of our business, including intellectual property and censorship laws, could increase our costs of operations, reduce our revenues, jeopardize the ownership of certain assets or increase the cost of financing our motion

pictures. Tax regulations, intellectual property laws or other rules and regulations affecting our business may be changed in a manner which may adversely affect us and our ability to operate our business plan.

The production of a larger budget motion picture may adversely affect our operating results.

Historically, we have primarily produced motion pictures with budgets of between $5 million and $15 million. We may occasionally produce a motion picture with a larger budget of between $30 million and $50 million. To produce such a motion picture, we believe that we will need to co-produce such motion pictures with major studios and ensure a studio-wide release and a commitment to cover P&A costs or with one or more other independent production companies. To date, we have not produced or co-produced a motion picture with a budget in that range. We cannot assure you that we can successfully produce and distribute motion pictures in that budgetary range, that we can find a major studio to co-produce such motion pictures or that we can secure a studio-wide release or a commitment from a studio to cover P&A costs.

We may not be able to execute our distribution strategy with CineWorks Media, LLC.

We intend to make an investment from our working capital of up to $3,000,000 of equity in CineWorks Media, LLC, if it completes its current private placement offering, representing less than 10% of CineWork s equity. If CineWorks is formed as was most recently described to us, it will be an independent distributor of rights of motion pictures in the United States and Canada. We intend to have CineWorks Media distribute some or all of our motion pictures in the United States and Canada. CineWorks Media will be managed separately from us. We cannot guarantee you that we will be able to successfully invest in CineWorks Media, that we will be able to enter into a distribution arrangement on acceptable terms with CineWorks Media or that CineWorks will successfully become a distributor of motion picture rights and we will be able to recoup our investment. A failure of any of the above may result in us being unable to execute our proposed change in our distribution strategy in the United States and Canada and losing any investment that we may make in CineWorks.

Risks Relating to Our Industry

Our success depends on external factors in the motion picture industry.

Our success depends on the commercial success of motion pictures, which is unpredictable. Operating in the motion picture industry involves a substantial degree of risk. Each motion picture is an individual artistic work, and inherently unpredictable audience reactions primarily determine commercial success. Generally, the popularity of our motion pictures depends on many factors, including public reception, the format of their initial release, for example, theatrical or direct-to-video, the actors and other key talent, their genre and their specific subject matter. The commercial success of our motion pictures also depends upon the quality and acceptance of motion pictures that our competitors release into the marketplace at or near the same time, critical reviews, the availability of alternative forms of entertainment and leisure activities, general economic conditions and other tangible and intangible factors, many of which we do not control and all of which may change. We cannot predict the future effects of these factors with certainty, any of which factors could have a material adverse effect on our business, results of operations and financial condition.

In addition, because a motion picture s performance in ancillary markets, such as home video and pay and free television, is often directly related to its box office performance or television ratings, poor box office results or poor television ratings may negatively affect future revenue streams. Our success will depend on the experience and judgment of our management to select and develop new investment and production opportunities. We cannot assure you that our motion pictures will obtain favorable reviews or ratings, or that our motion pictures will perform well at the box office or in ancillary markets. The failure to achieve any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

Changes in the United States, global or regional economic conditions could adversely affect the profitability of our business. The current severe decrease in economic activity in the United States or in other regions of the world in which we do business could adversely affect demand for our films, thus reducing our revenue and earnings. A decline in economic conditions could reduce performance of our theatrical, television and home entertainment releases. In addition, an increase in consumer costs generally, or consumer costs in a

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particular sector of the entertainment industry, could result in a shift in consumer demand away from the entertainment we offer, which could also adversely affect our revenues and, at the same time, increase our costs.

Distributors failure to promote our programs may adversely affect our business. Licensed distributors decisions regarding the timing of release and promotional support of our motion pictures and related products are important in determining the success of these pictures and products. We do not control the timing and manner in which our licensed distributors distribute our motion pictures. Any decision by those distributors not to distribute or promote one of our motion pictures or related products or to promote our competitors motion pictures or related products to a greater extent than they promote ours could have a material adverse effect on our business, results of operations and financial condition.

We could be adversely affected by strikes, potential strikes or other union job actions. We directly or indirectly depend upon highly specialized union members who are essential to the production of motion pictures. A strike by, or a lockout of, one or more of the unions that provide personnel essential to the production of motion pictures could delay or halt our ongoing production activities. In November 2007, the members of the Writer s Guild of America went on strike, and a new agreement was not approved until February 2008. Additionally, the Directors Guild of America and Screen Actors Guild (SAG) collective bargaining agreements expired in 2008, and while an agreement has been reached with the Directors Guild, negotiations with SAG, which agreement expired on June 30, 2008, are ongoing. A SAG or other union strike or action, depending on the length of time, could cause a delay or interruption in our production and release of new motion pictures, which could have a material adverse effect on our business, results of operations and financial condition.

Even if SAG does not call a strike, the threat of a strike may delay production. Starting in June 2008, SAG provided certain independent production companies with guaranteed completion contracts, or waivers, that would allow those companies to proceed with the production of specified motion pictures in the event of a strike by SAG. In January 2009, SAG announced that it would not provide any more waivers. Almost all financing of the production of motion pictures by independent production companies involves third parties providing film production completion bonds to guarantee the repayment of the financings upon the abandonment of production if certain conditions are met. Such film completion bonds do not provide for the repayment of the financing if a production is abandoned due to a strike. Without such waivers and in view of a potential strike, there may be dramatically less financing of the production of motion pictures by independent production companies as it will be difficult or impossible to obtain a film production completion bond, and it may be too risky to start films where production could be interrupted by a strike.

We face substantial competition in all aspects of our business.

We are smaller and less diversified than many of our competitors. As an independent distributor and producer, we constantly compete with major U.S. and international studios and independent producers and distributors. Most of the major U.S. studios are part of large diversified corporate groups with a variety of other operations, including television networks and cable channels, that can provide both the means of distributing their products and stable sources of earnings that may allow them better to offset fluctuations in the financial performance of their motion picture operations. In addition, the major studios and larger independent producers and distributors have more resources with which to compete for ideas, storylines and scripts created by third parties as well as for actors, directors and other personnel required for production. The resources of the major studios and larger independent producers and distributors may also give them an advantage in acquiring other businesses or assets, including film libraries, that we might also be interested in acquiring. Our inability to compete successfully could have a material adverse effect on our business, results of operations and financial condition.

The motion picture industry is highly competitive and at times may create an oversupply of motion pictures in the market. The number of motion pictures released by our competitors may create an oversupply of product in the market, reduce our share of box office receipts and make it more difficult for our films to succeed commercially. Oversupply may become most pronounced during peak release times, such as school holidays and national holidays, when theater attendance is expected to be highest. For this reason, and because of our more limited production and advertising b