

Seven Arts Entertainment Inc.  
Form PRER14A  
September 11, 2012

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

SCHEDULE 14A  
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

SEVEN ARTS ENTERTAINMENT INC.  
(Name of Registrant as Specified in Charter)

Not applicable  
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - 1) Title of each class of securities to which transaction applies: N/A
  - 2) Aggregate number of securities to which transaction applies: N/A
  - 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): N/A
  - 4) Proposed maximum aggregate value of transaction: N/A
  - 5) Total fee paid: N/A
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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- 1) Amount Previously Paid: N/A
- 2) Form, Schedule or Registration Statement No.: N/A
- 3) Filing Party: N/A
- 4) Date Filed: N/A



SEVEN ARTS ENTERTAINMENT INC.

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NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON SEPTEMBER 26, 2012

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To the Stockholders of Seven Arts Entertainment Inc.:

Notice is hereby given that a special meeting of the stockholders of Seven Arts Entertainment Inc. ("Company") will be held on September 7, 2012 at 9:00 a.m., local time, at Company's principal offices at 8439 Sunset Boulevard, Suite 402, West Hollywood, CA 90069, for the following purposes:

1. Amendment to Articles. To approve an amendment to our Amended Articles of Incorporation to
  - (i) designate 1,000,000 shares of the Company's capital stock as one or more series of preferred shares and 249,000,000 shares of the Company's capital stock as common shares, and
  - (ii) authorize the Board of Directors to increase or decrease the number of shares of common stock of the Company and to reclassify unissued shares of common stock as other forms of capital stock, without stockholder approval.
2. Issuance of Up To 200,000 Shares of Amended Series B Preferred Stock. To re-authorize the Board of Directors to issue up to 200,000 shares of Amended Series B Preferred Stock and to ratify the issuance of 181,850 shares of Series B Preferred Stock.
3. Approval Of Revised 2012 Stock Incentive Plan. To authorize the Board to increase the number of shares of the Company's common stock issuable in the Company's 2012 Stock Incentive Plan from 500,000 to 10,000,000.
4. Issuance Of Up To 125,125 Shares of Series A Preferred Stock. To authorize the Board of Directors to issue up to 125,125 shares of Series A Preferred Stock and to ratify the issuance of 125,125 shares of Series A Preferred Stock.
5. Ratification and Approval Of Securities Purchase Agreement, including related transactions, With JMJ Financial. To ratify and approve the Securities Purchase Agreement, including related transactions, between the Company and JMJ Financial.
6. Ratification and Approval Of Securities Purchase Agreement, including related transactions, With Tonaquint, Inc. To ratify and approve the Securities Purchase Agreement, including related transactions, between the Company and Tonaquint, Inc.
7. Approval Of Issuance Of Up To 5,000,000 Shares Of Our Common Stock Potentially Below The Greater Of Our Common Stock's Book Value Per Share Or Market Value. To authorize the Board of Directors to issue up to 5,000,000 shares of common stock at a price potentially below the greater of each common share's book value or

market value on the date of issuance.

8. **Other Business.** To transact such other business as may properly come before the special meeting of stockholders or any adjournment thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this Notice.

Our board of directors has fixed the close of business on August 31, 2012 as the record date for determining the stockholders entitled to notice of and to vote at this special meeting of stockholders and at any adjournment thereof.

We have decided to take advantage of the rules of the Securities and Exchange Commission that allow issuers to furnish proxy materials to their stockholders on the Internet. We believe that the rules will allow us to provide our stockholders with the information they need, while lowering the costs of delivery. Whether or not you expect to attend the special meeting of stockholders in person, it is important that your shares are represented. Please vote as soon as possible.

By Order of the Board,

By: /s/ Peter M. Hoffman  
Peter M. Hoffman  
Chief Executive Officer  
Los Angeles, California

September \_\_, 2012

SEVEN ARTS ENTERTAINMENT INC.  
8439 SUNSET BLVD., SUITE 402  
WEST HOLLYWOOD, CA 90069

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PROXY STATEMENT

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GENERAL INFORMATION

Proxy Solicitation

This proxy statement is furnished to stockholders of Seven Arts Entertainment Inc., a Nevada corporation (the “Company”), in connection with our solicitation of proxies for use in voting at our special meeting of stockholders (the “Special Meeting”) to be held on September 26, 2012 at 9:00 a.m., local time, at 8439 Sunset Blvd., Suite 402, West Hollywood, CA 90069 or at any adjournment thereof. The purposes of the Special Meeting and the matters to be acted upon are set forth in the accompanying Notice relating to the Special Meeting. Our board of directors (the “Board”) is not currently aware of any other matters that will come before the Special Meeting.

Pursuant to the rules adopted by the Securities and Exchange Commission (the “SEC”), we have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials (the “Notice”) to our stockholders. All stockholders will have the ability to access the proxy materials on a website referenced in the Notice or request to receive a printed set of the proxy materials. Instructions regarding how to access the proxy materials over the Internet or to request a printed copy may be found on the Notice. In addition, stockholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

The Notice was mailed to stockholders, and the proxy materials were first given to stockholders via Internet access, on or about September \_\_, 2012. On or before the time that the Notice was sent to stockholders, all materials identified in the Notice were publicly accessible, free of charge, at the website address specified in the Notice (<http://www.Shareholdermaterial.com/SAPX>) Such materials will remain available on that website for twelve months subsequent to the conclusion of the Special Meeting.

Our officers, agents and employees may communicate with stockholders, banks, brokerage houses and others by telephone, facsimile or in person to request that proxies be furnished. All expenses incurred in connection with this solicitation will be borne by us.

Voting and Proxy Revocability

If you are a stockholder of record, you may vote in person at the Special Meeting. We will give you a ballot when you arrive. If you are a record stockholder, but you do not wish to vote in person or if you will not be attending the Special Meeting, you may vote by proxy. You can vote by proxy over the Internet by following the instructions provided in the Notice. If you are a beneficial owner of shares held in street name, follow the voting instructions provided in the Notice and in any correspondence from the record stockholder.

You may revoke the authority granted by your execution and delivery of a proxy at any time before its effective exercise by delivering to the Company a written notice of revocation or a duly executed proxy bearing a later date, or by voting in person at the Special Meeting. If you deliver an executed proxy, and it is not subsequently revoked, your shares will be voted in the manner you direct on your proxy card. If no specifications are given, your shares will be

voted in favor of Proposals No. 1 through No. 5 and in the discretion of the proxy holders as to any other matters that may properly come before the Special Meeting.

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## Record Date and Voting Rights

Only stockholders of record at the close of business on August 31, 2012 are entitled to notice of and to vote at the Special Meeting or any adjournment thereof. On August 31, 2012, there were 2,907,100 shares of our common stock outstanding, each of which is entitled to one vote on each of the matters to be presented at the Special Meeting. On August 31, 2012, there were outstanding 125,125 shares of our Series A Preferred Stock and 181,850 shares of our Series B Preferred Stock outstanding, which represent in total 208,569 (i.e., 119,166 and 89,403) votes on each of the matters to be presented at the Special Meeting. No Holder of the Series B Preferred Stock will be entitled to vote with respect to ratification of Proposal No. 2, which affects holders of Series B Preferred Stock.

A third of the outstanding shares entitled to vote must be present in person or represented by proxy at the Special Meeting in order to have a quorum for transaction of business. Abstentions and broker non-votes will be counted for purposes of determining the presence or absence of a quorum. "Broker non-votes" are shares held by brokers or nominees which are not voted on a particular matter because instructions have not been received from the beneficial owner. If there is a quorum:

Upon the approval of a majority of the votes cast, the amendment to our Amended Articles of Incorporation to (i) designate 1,000,000 shares of the Company's capital stock as one or more series of preferred shares and 249,000,000 shares of the Company's capital stock as common shares, and (ii) authorize the Board of Directors to increase or decrease the number of shares of common stock of the Company and to reclassify unissued shares of common stock as other forms of capital stock, without stockholder approval will be approved.

Upon the approval of a majority of the votes cast, excluding the votes of any Series B Preferred Stock, the Board will be re-authorized to issue up to 200,000 shares of Amended Series B Preferred Stock, and the issuance of 181,850 shares of Series B Preferred Stock by the Board will be ratified.

Upon the approval of a majority of the votes cast, the Board will be authorized to amend the Company's Revised 2012 Stock Incentive Plan to increase the number of common shares issuable from 500,000 to 10,000,000 shares.

Upon the approval of a majority of the votes cast, excluding the votes of any Series A Preferred Stock, the Board will be authorized to issue up to 125,125 shares of Series A Preferred Stock will be satisfied.

Upon the approval of a majority of the votes cast, the Securities Purchase Agreement between the Company and JMJ Financial will be ratified and approved.

Upon the approval of a majority of the votes cast, the Securities Purchase Agreement between the Company and Tonaquint, Inc. will be ratified and approved.

Upon the approval of a majority of the votes cast, the Board will be authorized to issue up to 5,000,000 shares of common stock at a price potentially below the greater of the Company's common stock book value and market value.

If you are a beneficial holder and do not provide specific voting instructions to your broker, the organization that holds your shares will not be authorized to vote on the proposed reverse split of our common stock. Accordingly, we encourage you to vote promptly, even if you plan to attend the Special Meeting.





PROPOSAL NO. 1 – ADOPTION OF AMENDMENT TO AMENDED ARTICLES OF INCORPORATION TO (1) DESIGNATE 1,000,000 SHARES OF THE COMPANY’S CAPITAL STOCK AS ONE OR MORE SERIES OF PREFERRED SHARES AND 249,000,000 SHARES OF THE COMPANY’S CAPITAL STOCK AS COMMON SHARES, AND (2) AUTHORIZE THE BOARD OF DIRECTORS TO INCREASE OR DECREASE THE NUMBER OF SHARES OF COMMON STOCK OF THE COMPANY AND TO RECLASSIFY UNISSUED SHARES OF COMMON STOCK AS OTHER FORMS OF CAPITAL STOCK, WITHOUT STOCKHOLDER APPROVAL

Background. As originally filed, our Articles of Incorporation authorized 714 shares of capital stock. On March 25, 2012 at our 2012 Annual Meeting, our stockholders adopted an amendment to our then Amended Articles of Incorporation to increase the authorized shares of capital stock to 250,000,000. On August 20, 2012, the Board approved a reduction in the authorized shares of common stock of the Company to 35,667,839 in connection with the second phase of a reverse split of the Company’s shares of common stock, the first phase of which was authorized by the stockholders at the 2012 Annual Meeting. The Board proposes that the Amended Articles of Incorporation be further amended to (1) designate 1,000,000 shares of the Company’s capital stock as one or more series of preferred shares and 249,000,000 shares of the Company’s capital stock as common shares, and (2) authorize the Board of Directors to increase or decrease the number of shares of common stock of the Company and to reclassify unissued shares of common stock as other forms of capital stock, without stockholder approval.

On August 31, 2012, the Company effectuated a 1-for-70 reverse split of its common stock as of the close of the markets on that day. All of the share numbers and related share, conversion, or exercise prices referenced in this Proxy Statement have been adjusted to reflect the reverse split.

Purpose of Amendment

The Board believes that it is advisable and in our best interests and those of our stockholders to have available additional authorized but unissued shares of common stock in order to maintain our flexibility to use such shares for business and/or financing purposes in the future. The newly designated shares of common stock, if and when issued, will have the same rights and privileges as the shares of common stock currently authorized, issued and outstanding. The purposes of the designation of the number of shares of common and preferred stock and the authorization of the Board to reclassify common shares as other classes of capital stock or reduce or increase shares of common stock are:

- Raising capital,
- Expanding our business through acquisitions and other strategic transactions,
  - Paying stock dividends or effecting stock splits,
- Providing equity incentives to employees, officers and directors, and
  - Other general corporate purposes.

Our current plans, agreements, arrangements, or understandings for the issuance of additional shares relate solely to (i) the shares of our common stock underlying the convertible securities disclosed in the Company’s prior filings on Form 10-Q with the Securities and Exchange Commission, and (ii) in respect of any transactions potentially contemplated by Proposal No. 7 in this Proxy Statement, and (iii) the shares of common stock, if any, that may be issued pursuant to our filed, but not yet effective, registration statement.

Like the currently authorized but unissued shares of our common stock, any additional shares of common stock authorized by this proposal would be available for issuance without further action by our stockholders, unless further action is required by law. The authorization of additional shares of common stock will enable us, as the need may arise, to take advantage of market conditions and favourable opportunities without the delay and expense associated with the holding of a special meeting of our stockholders.

## Possible Effects Of Increasing Our Authorized Capital Stock and Designating 249,000,000 Shares Thereof As Common Stock

The additional shares of common stock, by reason of their designation, would have the same rights and privileges as the shares of common stock currently authorized, issued, and outstanding. Any issuance of additional shares of common stock would increase the number of outstanding shares of common stock and (unless such issuance was pro-rata among existing stockholders) the percentage ownership of existing stockholders would be diluted accordingly.

Although an increase in the authorized shares of common stock could, under certain circumstances, also be construed as having an anti-takeover effect (for example, by permitting easier dilution of the stock ownership of a person seeking to effect a change in the composition of our Board or contemplating a tender offer or other transaction resulting in our acquisition by another company), the proposed increase in shares authorized is not in response to any effort by any person or group to accumulate our common stock or to obtain control of us by any means. In addition, the proposal is not part of any plan by our Board to recommend or implement a series of anti-takeover measures.

## Resolution Adopting the Proposed Amendment

The following resolution, which will be presented at the Special Meeting, will adopt the proposed amendment to our Amended Articles of Incorporation to increase our authorized shares of capital stock.

RESOLVED, that Article III of the Articles of Incorporation, as amended, is hereby amended to read in its entirety as follows:

### Article III

The aggregate number of shares which the corporation shall have the authority to issue is 250,000,000 shares of stock at \$0.01 per value. The number of shares of common stock is designated as 249,000,000 and the number of shares of one or more classes of preferred stock is 1,000,000. The Board of Directors shall have the authority to increase or decrease the number of shares of common stock and to reclassify any share of common stock as one or more classes of capital stock other than common stock.

The proposed increase of the authorized shares of capital stock would become effective immediately upon the filing of the Share Increase Amendment with the office of the Secretary of State of the State of Nevada. We expect to file the Share Increase Amendment with the Secretary of State of the State of Nevada promptly upon approval by our stockholders. However, the Board reserves its right to elect to abandon the Share Increase Amendment if it determines, in its sole discretion, that this proposal is no longer in our best interests or those of our stockholders.

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Our Board recommends a vote FOR approval of the amendment of our Amended Articles of Incorporation to (1) designate 1,000,000 shares of the Company's capital stock as one or more classes of preferred shares and 249,000,000 shares of the Company's capital stock as common shares, and (2) authorize the Board of Directors to increase or decrease the number of shares of common stock of the Company and to reclassify unissued shares of common stock as other forms of capital stock, without stockholder approval.

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PROPOSAL NO. 2 — RE-AUTHORIZE THE BOARD OF DIRECTORS TO ISSUE UP TO 200,000 SHARES OF AMENDED SERIES B PREFERRED STOCK  
AND RATIFY THE ISSUANCE OF 181,850 SHARES OF SERIES B PREFERRED STOCK.

Background

At the Annual Meeting held on March 25, 2012 (“2012 Annual Meeting”), the Board of Directors sought approval from stockholders of the transaction with David Michery (as discussed in more detail below), which resulted in the issuance of 100,000 shares of the Company’s Series B preferred stock to Mr. Michery and the other individuals transferring ownership of certain music assets to the Company. The Board of Directors sought approval under the “Any Other Business” portion of the Annual Meeting. The stockholders granted such approval, both voting separately and voting with the votes of the holders of the “Series B preferred stock.”

The Company failed to file with NASDAQ a copy of the Certificate of Designation of Rights and Preferences of the Series B Preferred Stock (“Certificate”) and the agreements for the issuance of 181,850 shares of Series B preferred stock at least 15 days prior to the issuance of such shares by the Company on February 23, 2012. Upon review of the Certificate, in a letter dated July 3, 2012, NASDAQ determined that the Certificate violated NASDAQ Listing Rule 5640 in that: (1) the conversion price adjustment in Paragraph 6(H) of the Certificate could cause the conversion price to be reduced below the closing bid of the Company’s common stock immediately preceding the entering into of a binding agreement to issue any shares of Series B preferred stock, and (2) the right of the holder to vote as a class to elect two members of the Board of Directors of the Company did not take into account subsequent reductions in the holder’s “ownership position.”

The NASDAQ Staff also stated that they would not accept such stockholder approval at the 2012 Annual Meeting since (1) the requests for the approval and the terms of the Certificate were not included in the Company’s Proxy Statement and were approved as Other Business, and (2) the Series B stockholders were permitted to vote on such approval even though there were sufficient votes to approve the Certificate and the issuance of Series B preferred stock, without reference to the votes of any holder of Series B preferred stock, and without reference to any votes obtained by proxy (as well as assuming that all proxy votes opposed the motion).

NASDAQ Delist Letter

NASDAQ issued a letter dated July 30, 2012 stating its intension to delist the Company's common stock by reason of the violation or alleged violation of NASDAQ rules for the following reasons:-

1. Violation of Stockholder Approval Rules. NASDAQ stated that the Company entered into a binding agreement with the stockholders of Big Jake Music ("BJM") on September 29, 2011 for the purchase of BJM ("BJM Purchase Agreement") under which the Company could potentially issue up to 7.1 million shares of the Company's common stock on conversion of up to \$5,000,000 of a new issue of the Company's Series B preferred stock ("Series B Preferred"), which amounts on conversion would result in an issuance of 20% or more of the voting power of the Company outstanding common stock immediately prior to September 29, 2011, a purported violation of Listing Rule 5635(a)(1). Management believes that no binding agreement was entered into with the shareholders of BJM on September 29, 2011 or until February 23, 2012, since substantial closing conditions for such acquisition had not then been met and would never be met, which required substantial renegotiation of the material terms and conditions of the BJM Purchase Agreement with the shareholders of BJM. Until February 23, 2012, no Series B Preferred was authorized by the Board; no certificates of designation were filed with the State of Nevada; and no shares were issued to BJM's shareholders or into the escrow; hence, no shareholders of BJM had any voting or ownership rights with respect to the Company's common stock under Nevada law or otherwise until February 23, 2012. Notwithstanding the difference in opinion between the Company and the NASDAQ Staff concerning the effective date of the BJM Purchase Agreement (which date may be relevant for calculation of the above-referenced 20% voting power issue), the NASDAQ Staff stated that the Company violated its Rules because the conversion adjustment provisions of the Series B Preferred could result in the holders ultimately having more than 20% of the voting power or ownership rights with respect to the Company's common stock, as calculated in accordance with the Rules. The NASDAQ Staff also stated that the Company failed to respond to its requests for copies of the BJM Purchase Agreement.

NASDAQ also stated that the Company further violated Listing Rule 5635(a)(1) by acquiring certain music assets of David Michery ("Michery") in a binding agreement on December 19, 2011 ("Michery Acquisition Agreement") for up to \$10,000,000 of Series B Preferred, which could result on conversion in the issuance of up to 9 million shares of the Company's common stock, which would have been more than 20% of the voting power of the Company outstanding immediately prior to December 19, 2011. Management believes no binding agreement was entered into with Michery on December 19, 2011 or before February 23, 2012, since substantial closing conditions for such acquisition had not then been met and would never be met, which required substantial renegotiation of the material terms and conditions of the Michery Acquisition Agreement. Until February 23, 2012, no Series B Preferred was authorized by the Board; no certificate of designation was filed with the State of Nevada; and no shares were issued to Michery or to any person; hence, Michery did not have any voting or ownership rights with respect to the Company's common stock under Nevada law or otherwise until February 23, 2012.

On February 23, 2012, the shareholders of BJM received \$1,000,000 of Series B preferred stock with the balance of \$7,000,000 of Series B Preferred to be placed in escrow with our counsel. Management believes it is unlikely that such escrowed Series B Preferred will be ever delivered to the shareholders of BJM, and has not authorized counsel to vote such shares. On February 22, 2012, the holders of Series B Preferred by reason of the sale of BJM would own on conversion of such Series B Preferred less than 20% of the common stock of the Company issued and outstanding on February 22, 2012, including conversion of Series A preferred stock.

Management determined to seek approval of the Michery Acquisition Agreement at the 2012 Annual Meeting as Other Business, which, it believed, eliminated any potential violation of Listing Rule 5635(1)(i). Such approval was obtained at the 2012 Annual Meeting by (i) the common shares physically present at the Annual Meeting, (ii) the common shares present at the Annual Meeting by proxy, and (iii) by Michery. NASDAQ objected to this stockholder approval because that specific matter was not disclosed in the Proxy Statement and because Michery voted his Series B Preferred shares in favor of the transaction (as permitted under Nevada law). Further, the Proxy Statement included requested approval of a proposal for any financing transactions approved by the Board, even at a below market or

book value price, which could result in an issuance of 20% more of the voting rights or common stock to the issuee. This proposal was also adopted by the stockholders.

However, in light of NASDAQ's concern that the terms of the Series B Preferred violate its Rules, the Company has (a) amended the Series B Preferred ("Revised Series B Preferred") to remediate any such NASDAQ Listing Rule violations in respect of the Series B Preferred and (b) has called this Special Meeting to seek, among other purposes, the ratification of the Certificate of Designation of the Revised Series B Preferred and the approval of the issuance of up to 181,850 shares of Revised Series B Preferred pursuant to the BJM Purchase Agreement and Michery Acquisition Agreement, as discussed below.

2. Violating of Voting Rights Rules. NASDAQ stated that the terms of the Series B Preferred issued pursuant to the BJM Purchase Agreement and the Michery Acquisition Agreement violated Listing Rule 5640 because the conversion adjustment provisions of the Series B Preferred could result in the Series B Preferred voting on an as-if-converted basis based on a conversion price that could potentially be lower than \$.25, the closing bid price on February 22, 2012. This possibility has been eliminated in the Revised Series B Preferred.

The NASDAQ Staff also stated that the terms of the Series B Preferred, which provided those holders with the right to elect two of our directors, violated Listing Rule 5640, as such right does not “step down” after conversion of Series B Preferred to a proportionate number of directors to the remaining unconverted shares of Series B Preferred. The Revised Series B Preferred eliminates any voting by the holders of Series B Preferred when less than 100,000 shares of Revised Series B Preferred remain outstanding.

3. Failure To Timely Submit Notification And Respond To Staff Requests . The NASDAQ Staff stated that the Company did not timely submit listing applications for the BJM Purchase Agreement and the Michery Acquisition Agreement and did not timely respond to Staff requests for information relating to share issuances. The BJM deal began when we were still a foreign private issuer .At the time we believed that no listing application was required for the BJM Purchase Agreement by reason of our status as a foreign issuer. We have now filed appropriate listing applications for the BJM Purchase Agreement and Michery Acquisition Agreement.

4. Company’s Financial Condition. In issues not heretofore raised with us, the NASDAQ Staff questioned whether we are able to operate our business, pay our employees and suppliers and otherwise meet our obligations as a public company, even though we have done so for the twenty years we and our predecessors have been in business, and have no going concern qualification in any accounting statement. We had provided NASDAQ a cash flow projection for 18 months which showed positive and substantial cash flow. The NASDAQ Staff cited our “extremely low stock price” as a concern. We acknowledge that many factors could result in a low trading price. Further, the NASDAQ Staff cited our dispute with NASDAQ over the fee for the listing of additional shares which we contested for the reasons set forth above, but paid when our protests were unsuccessful. Lastly, NASDAQ cites our disclosure of the investigation of tax credits in New Orleans by the US Attorney’s Office, which tax credits have been re-audited and confirmed. No charges have been brought against any officer of the Company or any of its subsidiaries and none is pending. None of the foregoing in the opinion of management affects or will affect our on-going business.

Neither the Company nor any holder of Series B preferred stock intended that the Series B preferred stock would have voting rights that would exceed those of the common stockholders, as measured on the date of issuance of the Series B, at any point in time. However, to eliminate any doubt on the matter, the Company and the holders have agreed to amend the Certificate as set forth on the Correct Certificate of Designation of Series B Preferred Stock attached hereto as Annex B (“Amended Series B Preferred Stock”) to reflect the Company’s and such holders’ intent:

- A. That the Series B preferred stock shall not be entitled to vote on an as-if-converted into common shares basis at a conversion price of less than \$.2501 per common share (the closing bid price on February 22, 2012, the trading day immediately preceding the date of issuance of the Series B preferred stock). This limitation shall remain in effect so long as the Series B preferred stock remains outstanding and shall not be impacted by any vote of the stockholders to re-authorize the issuance of the Series B preferred stock or to ratify the Series B preferred stock currently outstanding
- B. To provide that the rights of the holders of Series B preferred stock to elect two directors of the Company will terminate if less than 100,000 shares of Series B preferred stock are outstanding.
- C. There will be no conversion of any shares of the Series B preferred stock until the earlier of September 30, 2012, or approval of the issuance of the Amended Series B Preferred Stock by the stockholders. If stockholder approval has not been obtained for the Series B preferred stock by September 30, 2012, then the holders of the Series B preferred stock shall have the right to convert the Series B preferred stock into 89,404 shares, which represents 19.99% of the total capital shares outstanding on February 22, 2012, which was the last trading day immediately prior to the execution of the binding, definitive agreement for the issuance of the 181,850 shares of Series B preferred stock currently outstanding, on a pro rata basis. Notwithstanding the foregoing, the holders of the Series B preferred stock are currently entitled to vote their shares on an as-if-converted basis up to 89,404, which represents 19.99% of the issued and outstanding capital stock on February 22, 2012, the last trading day immediately prior to the execution of the binding definitive agreement for the issuance of the Series B preferred stock, on a pro rata basis.

On filing of the Amended Series B Preferred Stock as shown on Annex B, the Certificate has no further force or effect and the rights of the holders shall be as set forth on Annex B.

#### Need for Stockholder Approval

The Company is amending the Certificate and seeking stockholder approval for the re-authorization of the Series B preferred stock and the ratification of the issuance of the Series B preferred stock currently outstanding in response to concerns that have been raised by NASDAQ regarding the Company's compliance with the NASDAQ shareholder approval and voting rights rules, as set forth in NASDAQ Listing Rules 5635 and 5640, respectively. Notwithstanding, the Company is not able to provide any assurances that these actions will be accepted by NASDAQ or that the Company's common shares will not be delisted from The NASDAQ Capital Market in the future.

In connection with the issuance of 100,000 shares of Series B preferred stock, we also became obligated to issue an additional 1,850 shares such that the total number of shares of Series B preferred stock that are included in this Proposal 2 is 181,850.

Furthermore, stockholder approval does not obviate the need for compliance with the requirements of the Securities Exchange Act of 1934 (the "Exchange Act") or other NASDAQ CM requirements.





#### Increased Dilution

By the way of example if we assume a conversion price of \$35.00, we would have an additional approximately 514,286 shares of common stock outstanding if all the Amended Series B Preferred Stock is converted into common stock. You should, therefore, consider the potential dilution in determining whether to approve this proposal.

#### Potential Negative Effect On Our Stock Price

If Proposal No. 2 receives the necessary approval and we are authorized to issue additional shares of our common stock upon the conversion of the Amended Series B Preferred Stock, all of those shares will become eligible for sale in the public markets, after expiration of the six-month holding period (from the initial issuance of the Series B Preferred Stock, or, under certain circumstances, the expiration of any relevant escrow period) required under Rule 144 of the Securities Act of 1933. These shares could become eligible for resale in the public markets earlier if we file a registration statement with the SEC covering the resale of the shares and such registration statement is declared effective. Any such sales, or the anticipation of the possibility of such sales, would represent an overhang on the market and could depress the market price of our common stock.

#### Vote Required; Board of Directors' Recommendation

The approval of our proposal to re-authorize the Board to issue of the Amended Series B Preferred Stock and to ratify the issuance 180,000 shares of Amended Series B Preferred Stock will require the affirmative vote of at least a majority of the votes cast by the holders of shares of common stock present or represented at the Special Meeting and entitled to vote.

#### Resolution Granting Board Authority

The following resolution will be presented at the Special Meeting to grant authority to the Board to re-authorize the issuance of up to 200,000 shares of Amended Series B Preferred Stock and to ratify the issuance of 181,850 of Series B preferred stock currently outstanding.

RESOLVED, the Board of Directors of the Company shall have the authority to issue up to 200,000 shares of Amended Series B Preferred Stock and the issuance of the 181,850 shares of Series B Preferred Stock currently outstanding is hereby ratified.

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Our Board recommends a vote FOR the grant of authority to the Board of Directors to issue up to 200,000 shares of Amended Series B Preferred Stock and to ratify the issuance of 181,850 shares of Series B Preferred Stock .

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PROPOSAL NO. 3 – APPROVAL OF REVISED 2012 STOCK INCENTIVE PLAN

The Plan

Our Board of Directors unanimously approved the 2012 Stock Incentive Plan (the “2012 Plan”) on January 11, 2012, subject to stockholder approval at the 2012 Annual Meeting, which occurred on March 25, 2012. Our Board of Directors is requesting that our stockholders approve a revision to the 2012 plan because of its belief that an increase in the number of shares of common stock of the Company available under the Revised 2012 Plan is in the Company’s interest and that of our stockholders (“Revised 2012 Plan”). The following summary of certain features of the Revised 2012 Plan is qualified in its entirety by reference to the actual text of the Revised 2012 Plan, which is attached as Annex C to this Proxy Statement. If approved by the stockholders, the Compensation Committee or our Board of Directors may suspend or terminate the 2012 Plan at any time.

The Revised 2012 Plan provides for the grant to employees, including executive officers, of restricted stock, as well as cash or other stock-based awards and other benefits. The purpose of the Revised 2012 Plan is to enable us to attract and retain qualified persons as employees, officers and directors and others, whose services are required by us, and to motivate such persons by providing them with equity participation in us.

A maximum of 10,000,000 shares of common stock may be issued and awarded under the Revised 2012 Plan . The maximum number of shares of common stock that may be subject to stock awards granted to any one participant during any single year period is 5,000,000.

The Revised 2012 Plan is administered by the Compensation Committee, which has, subject to specified limitations, the full authority to grant equity awards and establish the terms and conditions for vesting and exercise thereof. Awards of restricted stock under the Revised 2012 Plan may qualify for the “performance-based compensation” exception under Internal Revenue Code Section (the “IRC”) Section 162 (m) pursuant to their expected terms. Cash-based awards and awards of restricted stock, performance units and stock may qualify under Section 162(m) of the IRC if the terms of the award of the state, in terms of an objective formula or standard, the method of computing the amount of compensation payable under the award and preclude discretion to increase the amount of compensation payable under the terms of the award.

Unless the Compensation Committee determines otherwise, if a recipient of restricted stock ceases to have a relationship with our Company, non-vested shares of restricted stock shall be forfeited. The Compensation Committee may grant cash awards at such times and in such amounts as it deems appropriate. The Compensation Committee may grant has the right to grant other stock-based awards, which may include the grant of Common Stock based on certain conditions, the payment of cash based on the market performance of our Common Stock and the grant of certain securities convertible into Common Stock.

With respect to awards of restricted stock, if no election is made under Section 83(b) of the IRC and repurchase rights of the shares are retained by us, a taxable event will occur on each date the participant's ownership rights vest as to the number of shares that vest on that date, and the holding period for capital gains purposes will not commence until the date the shares vest. Any dividends received with respect to shares subject to the restrictions will be treated as additional compensation income and not as dividend income. The participant will recognize ordinary income on each date shares vest in an amount equal to the excess of the fair market value of such shares on that date over the amount paid for such shares. Any income recognized by a participant, who is an employee, will be subject to employment taxes and income tax withholding by us out of the participant's current compensation. If such compensation is insufficient to cover the amount to be withheld, the participant will be required to make a direct payment to us for the balance of the tax withholding obligation. We are entitled to a tax deduction in an amount equal to the ordinary income recognized by the participant. The participant's basis in the shares will be equal to the purchase price, if any, increased by the amount of ordinary income recognized. If instead a Section 83(b) election is made not later than 30 days after the date of transfer, then the participant will recognize ordinary income on the date of purchase in an amount equal to the excess of the fair market value of such shares on the date of purchase over the purchase price paid for such shares. Any change in the value of the shares after the date of grant will be taxed as a capital gain or capital loss only if and when the shares are disposed of by the participant. If the Section 83(b) election is made, the participant's holding period for capital gains begins on the date of grant. The Section 83(b) election is irrevocable. If a section 83(b) election is made and the participant then forfeits the restricted stock, the participant may not deduct as a loss the amount previously included in gross income. We will be entitled to a deduction at the same time, and in an amount equal to, the ordinary income recognized by the participant with respect to shares of restricted stock.

The foregoing is only a summary of certain federal income tax consequences of the Revised 2012 Plan and is based on our understanding of present federal tax laws and regulations.

In the event of a stock dividend, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, spin-off, combination, repurchase, or other distribution of our stock or property, or other change in our corporate structure, the Compensation Committee may, in its sole discretion, in order to prevent diminution or enlargement of a participant's benefits under the Revised 2012 Plan, substitute or adjust the number and class of shares that may be delivered under the Revised 2012 Plan and/or the number, class and price of shares covered by an outstanding award.

If a change in control of the Company occurs, then, to the extent permitted by applicable law, the surviving corporation may assume all awards then-outstanding under the Revised 2012 Plan or substitute similar awards in lieu of awards granted under the Revised 2012 Plan. If a change in control occurs, the compensation committee may, among other things, provide for acceleration of benefits, lapsing of restrictions and vesting of benefits for any award that has been outstanding for at least six months, or provide for cash payments to be made to holders of certain awards and the cancellation of awards where the exercise price exceeds the fair market value of the shares.

Subject to the foregoing, the Compensation Committee has broad discretion to describe the terms and conditions applicable to awards granted under the Revised 2012 Plan. The Compensation Committee may at any time discontinue granting awards under the Revised 2012 Plan or otherwise suspend, amend or terminate the Revised 2012 Plan and may, with the consent of an award recipient, make such modifications of the terms and conditions of such recipient's award as the Compensation Committee shall deem advisable. The Compensation Committee may amend the Revised 2012 Plan; provided, however, that no amendment shall be effective unless approved by stockholders if such approval is required under 162(m) of the IRC, Rule 16b-3 of the Exchange Act, the rules of the NYSE Amex or other applicable exchange, or applicable law.

Vote Required; Board of Director's Recommendation

The approval of the Revised 2012 Plan will require the affirmative vote of a majority of the outstanding shares of our Common Stock.

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Our Board of Directors recommends that stockholders vote FOR approval and adoption of the 2012 Stock Incentive Plan.

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**PROPOSAL NO. 4 – AUTHORIZE THE BOARD OF DIRECTORS TO ISSUE UP TO 125,125 SHARES OF SERIES A PREFERRED STOCK AND RATIFY THE ISSUANCE OF 125,125 SHARES OF SERIES A PREFERRED STOCK**

Background. Prior to the transfer of its NASDAQ listing of Seven Arts Pictures plc (“PLC”) to the Company on August 31, 2011, PLC had committed to issuance of 125,125 Series A Preferred Stock for a purchase price of \$1,251,250 with Palm Finance Inc. (“Palm”), a principal creditor of PLC. The Company agreed to assume PLC’s obligation to authorize and issue 125,125 shares of Series A Preferred Stock of the Company to Palm and on or about October 26, 2011, filed a Certificate of Designation of Rights and Preference (“Series A Certificate”) for such Series A Preferred Stock. A copy of the Series A Certificate is attached as Annex A.

Under the terms of the Series A Certificate, Palm could convert its shares of Series A Preferred Stock into 119,166 shares of our common stock, which is more than 20% of the shares of common stock outstanding on October 25, 2011. While Palm has not converted any shares of Series Preferred Stock, it is entitled to do so at \$10.50 which was less than the market value and book value of each share of common stock on October 25, 2011.

#### Need for Stockholder Approval

While not referred to in the NASDAQ Delist Letter described in Proposal No. 2 above, NASDAQ has sought to review the Series A Certificate and will likely reject the Company's position that PLC's commitment to issuance of the Series A Preferred Stock prior to the transfer of its PLC's NASDAQ listing eliminates the applicability of NASDAQ Listing Rule 5640 discussed in Proposal No. 2 above.

As a result, the Company is seeking stockholder approval for the Board's authorization of the Series A Certificate and the ratification of the issuance to Palm of 125,125 shares of Series A Preferred Stock to ensure compliance with NASDAQ Listing Rules 5635 and 5640. The Company is not able to provide any assurances that these actions will be accepted by NASDAQ or that the Company's common shares will not be delisted from the NASDAQ CM in the future.

Furthermore, stockholder approval does not obviate the need for compliance with the requirements of the Exchange Act or other NASDAQ CM requirements.

#### Increased Dilution

Palm may convert its 125,125 shares of Series A Preferred Stock into 119,166 shares of our common stock. You should therefore consider the potential dilution in determining whether to approve this proposal.

#### Potential Negative Effect on our Stock Price

If Proposal No. 4 receives the necessary approval and we are authorized to issue up to 50,000,000 additional shares of our common stock directly or upon the conversion of the Convertible Debt and the exercise of the Warrants, all of those shares will become eligible for sale in the public markets, after expiration of the six-month holding period required under Rule 144 of the Securities Act of 1933. These shares could become eligible for resale in the public markets earlier if, subsequent to the sale of the Convertible Debt or common stock, we file a registration statement with the SEC covering the resale of the shares and such registration statement is declared effective. Any such sales, or the anticipation of the possibility of such sales, would represent an overhang on the market and could depress the market price of our common stock.

#### Vote Required; Board of Directors' Recommendation

The approval of our proposal to authorize the Board to issue the Series A Preferred Stock and to ratify the issuance of 125,125 shares of Series A Preferred Stock will require the affirmative vote of at least a majority of the votes cast by the holders of shares of common stock present or represented at the Special Meeting and entitled to vote.

#### Resolution Granting Board Authority

The following resolution will be presented at the Annual Meeting to grant authority to the Board to issue up to 50,000,000 shares of common stock potentially below the greater of a share of common stock's book value or market value at the time of issuance and to ratify the Securities Purchase Agreement and the related transactions with JMJ Financial dated as of June 29, 2012:

RESOLVED, the Board of Directors of the Company shall have the authority to issue up to 50,000,000 shares of common stock at a price per share less than the greater of a share's book value or market value at the time of issuance, and

FURTHER RESOLVED, the Securities Purchase Agreements dated as of June 27, 2012 between JMJ Financial and Securities Purchase Agreement dated as of August 20, 2012 between Tonaquint Inc. and the Company are ratified by the stockholders.

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Our Board recommends a vote FOR the grant of authority to the Board of Directors to issue Series A Preferred Stock and to ratify the issuance of 125,125 shares of Series A Preferred Stock.

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PROPOSAL 5. RATIFICATION AND APPROVAL OF SECURITIES PURCHASE AGREEMENT, INCLUDING RELATED TRANSACTIONS, BETWEEN JMJ FINANCIAL AND THE COMPANY

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

1. Loan to the Company of \$500,000 at a 10% one-time interest charge due October 27, 2012.
2. If unpaid at maturity, the loan is convertible into common stock at the election of JMJ Financial at the lesser of \$2.80 or 80% of the average of the three lowest trade prices in the 20 trading days previous to the conversion, subject to certain penalties, anti-dilution adjustments and reset provisions.
3. Warrants to purchase up to 119,098 shares of common stock at \$2.10 per share, exercisable by June 27, 2016.
4. Issuance to JMJ Financial of 71,429 shares of common stock as an origination fee.
5. Full recourse personal guaranty by CEO Peter Hoffman with a pledge of 357,143 shares of common stock owned by Mr. Hoffman.
6. JMJ Financial shall not own or control 20% or more of the Company’s common stock at any time unless our stockholder’s have ratified the JMJ Securities Purchase Agreement, including related transactions. Failure of the Company to permit its stockholders to vote on such ratification by September 21, 2012 (whether or not the stockholders so ratify) is an event of default under the JMJ Securities Purchase Agreement.

Need for Stockholder Approval

In order for JMJ Financial to exercise all of its rights under its JMJ Securities Purchase Agreement, including related transactions, the stockholders must approve this Proposal 5. Without stockholder approval, the shares of our common stock issued directly, the shares underlying the warrants, the shares underlying the convertible promissory note, and the pledged shares will be subject to listing approval on NASDAQ CM and the 20% limitation as referenced above under Rule 5635(d) of the Company Guide of NASDAQ CM. As of the record date, we had 2,907,100 shares of common stock outstanding. Accordingly, the JMJ Securities Purchase Agreement is being submitted to the stockholders for approval in order to comply with NASDAQ CM listing requirements.

Management does not anticipate that any shares of our common stock will be issued to JMJ Financial at less than market value as of June 26, 2012 (\$2.10), but may do so due to the terms of the anti-dilution provision of the Securities Purchase Agreement. Management does expect that the shares issued to JMJ Financial will be less than book value of each share on June 26, 2012. The ultimate number of shares to which JMJ Financial might become entitled could exceed 20% of our outstanding stock as of June 27, 2012, but to ensure that no regulatory issue interferes with the Company’s performance of its responsibilities under the JMJ Securities Purchase Agreement and as required by the JMJ Securities Purchase Agreement, the Company seeks ratification and approval by stockholders of the JMJ Securities Purchase Agreement, including related transactions.

Notwithstanding stockholder approval of this proposal, the listing on the NASDAQ CM of any of the shares that we may issue to JMJ Finance following such stockholder approval will require NASDAQ CM approval of an application for the listing of these additional shares. Furthermore, stockholder approval does not obviate the need for compliance with the requirements of the Exchange Act or other NASDAQ CM requirements.

Increased Dilution

We would have an additional approximately 750,000 shares of common stock if all the common shares issuable to JMJ Financial are issued. You should, therefore, consider the potential dilution in determining whether to approve this proposal.

Potential Negative Effect on our Stock Price

If Proposal No. 5 receives the necessary approval and we are authorized to issue to JMJ Financial additional shares of our common stock directly or upon exercise of the warrants issued to JMJ Financial or conversion of the convertible note issued to JMJ Financial or upon a default and the exercise of JMJ Financial's rights to foreclose on some or all of the pledged securities, all of those shares will become eligible for sale in the public markets, after expiration of the relevant holding periods required under Rule 144 of the Securities Act of 1933. These shares could become eligible for resale in the public markets earlier if we file a registration statement with the SEC covering the resale of the shares and such registration statement is declared effective. Any such sales, or the anticipation of the possibility of such sales, would represent an overhang on the market and could depress the market price of our common stock.

Vote Required; Board of Directors' Recommendation

The approval of our proposal to ratify and approve the JMJ Securities Purchase Agreement, including related transactions will require the affirmative vote of at least a majority of the votes cast by the holders of shares of common stock present or represented at the Special Meeting and entitled to vote.

Resolution Granting Board Authority

The following resolution will be presented at the Special Meeting to ratify and approve the JMJ Securities Purchase Agreement, including related transactions, dated as of June 27, 2012.

RESOLVED, the Securities Purchase Agreement dated as of June 27, 2012, including related transactions, between JMJ Financial and the Company is ratified and approved by the stockholders.

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Our Board recommends a vote FOR ratification and approval of the JMJ Securities Purchase Agreement, including related transactions, between the Company and JMJ Financial

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PROPOSAL 6. RATIFICATION AND APPROVAL OF THE SECURITIES PURCHASE AGREEMENT  
BETWEEN THE COMPANY AND TONAQUINT, INC.

The Company entered into a Securities Purchase Agreement dated August 20, 2012 with Tonaquint, Inc. (“Tonaquint Securities Purchase Agreement”) with the following material terms:

1. Loan to the Company of \$500,000 with original issue discount of \$60,000, due February 19, 2013, at the rate of 8% per annum, \$250,000 of which is advanced only on stockholder approval as sought hereby.
2. Loan is convertible into the Company’s common stock at \$2.80 per share at the election of the holder.
3. The holder will not own or control 20% or more of the Company’s common stock until and unless stockholder ratification of the Tonaquint Securities Purchase Agreement is given.

Need for Stockholder Approval

In order for Tonaquint to exercise its rights under the Tonaquint Securities Purchase Agreement, including related transactions, our stockholders must have approved this Proposal No. 6. Without stockholder approval, the shares of our common stock issued directly or as underlying the convertible note issued to Tonaquint will be subject to listing approval on NASDAQ CM and the 20% limitation as referenced above under Rule 5635(d) of the Company Guide of NASDAQ CM. As of the record date, we had 2,907,100 shares of common stock outstanding. Accordingly, the Tonaquint Securities Purchase Agreement, including related transactions, is being submitted to the stockholders for approval in order to comply with NASDAQ CM listing requirements.

Management does not anticipate that any shares of our common stock will be issued to Tonaquint at less than market value as of August 20, 2012 (\$2.10), but may do so due to the terms of the anti-dilution provision of the Securities Purchase Agreement. Management does expect that the shares issued to Tonaquint will be less than book value of each share on August 20, 2012. The ultimate number of shares to which Tonaquint might become entitled could exceed 20% of our outstanding stock as of August 20, 2012, but to ensure that no regulatory issue interferes with the Company’s performance of its responsibilities under the Tonaquint Securities Purchase Agreement and as required by the Tonaquint Securities Purchase Agreement, the Company seeks ratification and approval by stockholders of the Tonaquint Securities Purchase Agreement, including related transactions.

Notwithstanding stockholder approval of this proposal, the listing on the NASDAQ CM of any of the shares that we may issue to Tonaquint following such stockholder approval will require NASDAQ CM approval of an application for the listing of these additional shares. Furthermore, stockholder approval does not obviate the need for compliance with the requirements of the Exchange Act or other NASDAQ CM requirements.

Increased Dilution

We would have an additional approximately 750,000 shares of common stock outstanding if all the common shares are potentially issuable to Tonaquint. You should, therefore, consider the potential dilution in determining whether to approve this proposal.

Potential Negative Effect on our Stock Price

If Proposal No. 6 receives the necessary approval and the Securities Purchase Agreement with Tonaquint is ratified and approved, shares issuable to Tonaquint will become eligible for sale in the public markets, after expiration of the relevant holding period required under Rule 144 of the Securities Act of 1933. These shares could become eligible for

resale in the public markets earlier if we file a registration statement with the SEC covering the resale of the shares and such registration statement is declared effective. Any such sales, or the anticipation of the possibility of such sales, would represent an overhang on the market and could depress the market price of our common stock.

Vote Required; Board of Directors' Recommendation

The approval and ratification of the Tonaquint Securities Purchase Agreement, including related transactions, will require the affirmative vote of at least a majority of the votes cast by the holders of shares of common stock present or represented at the meeting and entitled to vote.

Resolution Granting Board Authority

The following resolution will be presented at the Special Meeting to ratify and approve the Tonaquint Securities Purchase Agreement, including related transactions.

RESOLVED, the Securities Purchase Agreements dated as of August 20, 2012, including related transactions, between Tonaquint Inc. and the Company is ratified and approved by the stockholders.

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Our Board recommends a vote FOR ratification and approval of the Securities Purchase Agreement, including related transactions, between the Company and Tonaquint, Inc.

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**PROPOSAL 7. TO AUTHORIZE THE BOARD OF DIRECTORS TO ISSUE UP TO 714 SHARES OF COMMON STOCK AT A PRICE POTENTIALLY BELOW THE GREATER OF EACH COMMON SHARE'S BOOK VALUE OR MARKET VALUE ON THE DATE OF ISSUANCE.**

The Company intends to issue up to 714 shares of its common stock in one or more transactions exempt from registration pursuant to the provisions of Sections 3(b) or 4(2) of the Securities Act of 1933, as amended, or Regulation D or Regulation S, with one or a limited number of third-party, accredited investors ("New Investors"). Any transaction approved by the stockholders must close on or before December 15, 2012. No transaction closed after December 15, 2012 shall be approved or ratified by this Proposal 7. Such transaction(s) may involve the sale of shares of either common stock, convertible debt ("Convertible Debt"), and/or warrants to purchase common stock ("Warrants"), aggregating up to 5,000,000 shares of common stock, for up to \$5,000,000 of purchase price, to a limited number of third-party, accredited New Investors. All transactions will be made on terms deemed acceptable by our Board of Directors, which may include an issuance price, a conversion price per share and/or a warrant exercise price potentially up to 33% below the greater of a share of our common stock's book value or its market value at the time of issuance in order to meet current market conditions and requirements.

#### Need for Stockholder Approval

In order for New Investors to be permitted to convert all of their Convertible Debt into shares of our common stock and to exercise all of their Warrants and/or in order for us to sell up to approximately 714 shares of our common stock, our stockholders must have approved this Proposal No. 7. Without stockholder approval, the shares of our common stock issued directly or as underlying the Convertible Debt and/or Warrants will be subject to listing approval on NASDAQ CM and the 20% limitation as referenced above under Rule 5635(d) of the Company Guide of NASDAQ CM. As of the record date, we had 2,907,100 shares of common stock outstanding. Accordingly, our potential new issuance(s) is being submitted to the stockholders for approval in order to comply with NASDAQ CM listing requirements.

Management does not anticipate that any shares of our common stock will be issued to New Investors at less than market value but may do so due to the terms of the anti-dilution provision of agreements with New Investors. Management does expect that the shares issued to New Investors will be less than book value of each share on the date issued. The ultimate number of shares to which New Investors might become entitled could exceed 20% of our outstanding stock on the date issued, but to ensure that no regulatory issue interferes with the Company's performance of its responsibilities to New Investors, the Company seeks to authorize the Board of Directors to potentially issue common stock below the greater of market value or book value on the date of issue. No issuance of common stock to any new Investor shall be at a price of less than 714.

Notwithstanding stockholder approval of this proposal, the listing on the NASDAQ CM of any of the shares that we may issue to New Investors following such stockholder approval will require NASDAQ CM approval of an application for the listing of these additional shares. Furthermore, stockholder approval does not obviate the need for compliance with the requirements of the Exchange Act or other NASDAQ CM requirements.

#### Increased Dilution

We would have an additional approximately 714 shares of common stock outstanding if all the common shares are potentially issuable to New Investors. You should, therefore, consider the potential dilution in determining whether to approve this proposal.

#### Potential Negative Effect on our Stock Price

If Proposal No. 7 receives the necessary approval, all shares issuable to New Investors will become eligible for sale in the public markets, after expiration of the six-month holding period required under Rule 144 of the Securities Act of 1933. These shares could become eligible for resale in the public markets earlier if we file a registration statement with the SEC covering the resale of the shares and such registration statement is declared effective. Any such sales, or the anticipation of the possibility of such sales, would represent an overhang on the market and could depress the market price of our common stock.

Vote Required; Board of Directors' Recommendation

The approval of our proposal to issue up to 714 shares of common stock, or up to 714 shares of common stock upon conversion of the yet to-be-issued Convertible Debt and the exercise of yet to-be-issued Warrants at a potential issuance price per share below the greater of a share of our common stock's book value or its market value at the time of issuance will require the affirmative vote of at least a majority of the votes cast by the holders of shares of common stock present or represented at the Special Meeting and entitled to vote.

Resolution Granting Board Authority

The following resolution will be presented at the Special Meeting to grant authority to the Board to issue up to 714 shares of common stock potentially below the greater of a share of common stock's book value or market value at the time of issuance.

RESOLVED, the Board of Directors of the Company shall have the authority to issue, on or before December 15, 2012, up to 714 shares of common stock at the price per share at a price potentially up to 33% less than the greater of a share's book value or market value at the time of issuance.

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Our Board recommends a vote FOR the grant of authority to the Board of Directors to issue up to 714 shares of common stock at a price per share potentially up to 33% below the greater of a share's book value or market value at the time of issuance.

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## BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth information regarding the ownership of our common stock as of August 31, 2012 by (i) each person known by the Company to own beneficially more than five percent (5%) of our common stock; (ii) each director and nominee for director of the Company; (iii) each executive officer named in the Summary Compensation Table (see “Executive Compensation”); and (iv) all directors and executive officers of the Company as a group.

Name of Beneficial Owner (2)	Address of Beneficial Owner	Amount of Beneficial Ownership (2)	Percent of Class	
<b>SERIES A PREFERRED (11)</b>				
Palm Finance issued and certificated (11)	233 Wilshire Blvd, Suite 200, Santa Monica, CA 90401	125,125	100	%
Palm Finance issued not certificated (11)	234 Wilshire Blvd, Suite 200, Santa Monica, CA 90401	-	0	%
<b>SERIES B PREFERRED (12)</b>				
David Michery (12) (35,500 prefs + 38,000)	8439 Sunset Boulevard, West Hollywood, CA 90069	83,500	46	%
David Michery Trust (12) (5,000 prefs + 5,000)	c/o 8439 Sunset Boulevard, West Hollywood, CA 90069		0	%
Lincoln Centre Equities	c/o 8439 Sunset Boulevard, West Hollywood, CA 90070	59,500	33	%
Lincoln Centre Growth Partners	c/o 8439 Sunset Boulevard, West Hollywood, CA 90071	10,000	6	%
Jason Shapiro	c/o 8439 Sunset Boulevard, West Hollywood, CA 90072	10,000	6	%
<b>COMMON STOCK</b>				
Peter Hoffman(3)	8439 Sunset Boulevard, West Hollywood, CA 90069	360,000	12	%
Kate Hoffman (4)	136-144 New Kings Road, London SW6 4LZ	714	*	
Elaine New (5)	136-144 New Kings Road, London SW6 4LZ	714	*	
Robert Kaiser (6)	8439 Sunset Boulevard, West Hollywood, CA 90069	4,714	*	
Hubert Gibbs (7)	136-144 New Kings Road, London SW6 4LZ	714	*	
Dan Reardon (8)	8439 Sunset Boulevard, West Hollywood, CA 90069	714	*	
Tony Hickox (9)	8439 Sunset Boulevard, West Hollywood, CA 90069	714	*	
David Michery (10)	8439 Sunset Boulevard, West Hollywood, CA 90069	-	*	
Brett Pogany		-	*	
		368,286	12.64	%

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Total officers and directors as a group (9 persons) (16) 8439 Sunset Boulevard, West Hollywood, CA 90069

5% HOLDERS

Palm Finance	233 Wilshire Blvd, Suite 200, Santa Monica, CA 90401	119,167	4	%
David Michery (10)	8439 Sunset Boulevard, West Hollywood, CA 90069	38,000	0	%

\* =Less than 1%

(1) As at August 31, 2012, 2,907,100 shares of common stock were issued and outstanding.

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

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

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

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

(6) Represents 3,429 shares of common stock held of record and beneficially and 90,000 shares of common stock underlying options that are exercisable within 60 days of this proxy statement.

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

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

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

(10) David Michery is the record and beneficial owner of 38,000 shares of Series B Preferred Stock, none of which is convertible into shares of our common stock until September 30 2012, at which time the conversion price will be confirmed. Mr. Michery is



also the record owner of an additional 35,500 shares of Series B Preferred Stock, all of which are subject to a two-year earnout provision. Mr. Michery is also the beneficial owner of 10,000 shares held in David Michery Trust. Mr. Michery retains all of the voting rights in respect of such shares. Mr Michery has the right in his contract to 28,571 options to buy common stock but these are not as yet granted.

(11) The per-share conversion price for the Series A Preferred Stock is \$10.50 125,125 shares of Series A Preferred Stock are certificated.

(12) The per-share conversion price for the Series B Preferred Stock will be confirmed after September 30, 2012, as a function of 110% of the net asset value per share as of September 30, 2011, as then modified for any issuances of shares during the one-year period thereafter if such issuances are at or below 80% or below of \$1.10 per share. None of these shares is convertible into shares of our common stock until September 30 2012. The holders retain all of the voting rights in respect of such shares. 120,000 of the 180,000 shares are subject to certain earn-out provisions. The holders retain all of the voting rights in respect of such shares.

(13) Represents 119,167 shares of common stock underlying the shares of Series A Preferred Stock.

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

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

(16) Includes all information in footnotes 3 through 10, inclusively.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who beneficially own more than ten percent (10%) of our common stock, to file initial reports of ownership and reports of changes in ownership with the SEC. Executive officers, directors and greater than ten percent (10%) beneficial stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

We have 6 directors who are late in filing their Forms 3 and 4.

#### Executive Compensation

##### 2011 Summary Compensation Table

The following table sets forth information concerning all cash and non-cash compensation paid or to be paid by us as well as certain other compensation awarded, earned by and paid, during the indicated fiscal year, to the Chief Executive Officer and Chief Financial Officer.

## 2011 Director Compensation

Our Board is responsible for consideration and determination of director compensation.

## Officer and Director Compensation

Name	Annual Compensation		Other Annual Compensation (\$)	Securities Under Option/SAR's Granted (#)	Long-Term Compensation Awards		All Other Compensation (\$)
	Salary (\$)	Bonus (\$)			Shares/Units Subject to Resale	LTIP Payouts (\$)	
Peter Hoffman	500,000	-	-	100,000	-	-	-
Elaine New	225,000	-	-	100,000	-	-	-
Kate Hoffman	78,000	-	-	100,000	-	-	-

## Executive Officer Employment Agreements

We have an employment agreement with Peter Hoffman pursuant to which he will act as our CEO until December 31, 2013. In connection with that employment agreement, we have granted Mr. Hoffman:

the right to sole responsibility for creative and business decisions regarding motion pictures we develop and produce,  
a right of first refusal to produce remakes, sequels or prequels of motion pictures produced by Mr. Hoffman and acquired by us or any motion picture produced by us during his employment,  
an annual salary of \$500,000 per year plus bonuses, expenses and a signing option and  
a right upon termination without cause to a lump sum payment of approximately \$1,500,000, an assignment of all projects in development during the term of his employment and any amounts due upon such compensation as an excise tax.

We have an oral employment agreement with Kate Hoffman pursuant to which she will act as our COO ad infinitum at a salary of \$85,000 per year plus bonuses and expenses. Ms. Hoffman's contract contains a "non-compete" clause pursuant to which she will be excluded from competing against us for 6 months following the date of her termination.

We have an oral employment agreement with Elaine New pursuant to which she will act as an executive director ad infinitum at a salary of \$225,000 (£150,000) per year plus bonuses and expenses. Ms. New's contract contains a "non-compete" clause pursuant to which she will be excluded from competing against us for 6 months following the date of her termination.

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

Director Compensation

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

Robert Kaiser will receive \$1,500 per month per meeting attended.

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## Outstanding Equity Awards at 2011 Fiscal Year-End

The following table provides information on all restricted stock, stock options and SAR awards (if any) held by our named executive officers as of August 31, 2012.

Name	Number of Options Granted	% Of Total Options Granted on Grant Date	Exercise Price per Share	Grant Date	Expiration Date	Mkt. Value of Securities Underlying Options on Date of Grant
Peter Hoffman	714	100%	\$ 30.8	14/10/2011	13/10/2016	\$ 30.8
Elaine New	714	100%	\$ 30.8	14/10/2011	13/10/2016	\$ 30.8
Katrin Hoffman	714	100%	\$ 30.8	14/10/2011	13/10/2016	\$ 30.8
Robert Kaiser	714	100%	\$ 30.8	14/10/2011	13/10/2016	\$ 30.8
Dan Reardon	714	100%	\$ 30.8	14/10/2011	13/10/2016	\$ 30.8
Hubert Gibb	714	100%	\$ 30.8	14/10/2011	13/10/2016	\$ 30.8
Anthony Hickox	714	100%	\$ 30.8	14/10/2011	13/10/2016	\$ 30.8
Peter Hoffman	714	100%	\$ 27.3	06/12/2011	05/12/2016	\$ 27.3
Elaine New	714	100%	\$ 27.3	06/12/2011	05/12/2016	\$ 27.3
Katrin Hoffman	714	100%	\$ 27.3	06/12/2011	05/12/2016	\$ 27.3
Robert Kaiser	714	100%	\$ 27.3	06/12/2011	05/12/2016	\$ 27.3
Dan Reardon	714	100%	\$ 27.3	06/12/2011	05/12/2016	\$ 27.3
Hubert Gibb	714	100%	\$ 27.3	06/12/2011	05/12/2016	\$ 27.3
Anthony Hickox	714	100%	\$ 27.3	06/12/2011	05/12/2016	\$ 27.3
Robert Kaiser	714	100%	\$ 62.3	01/09/2011	31/08/2016	\$ 62.3
Total Granted	750,000					

1) 50% of the options vest on December 31, 2011

2) 50% of the options vest on December 31, 2012

## 2011 Director Compensation

Our Board is responsible for consideration and determination of director compensation.

#### OTHER MATTERS

We participate in a procedure known as “householding.” This means that if you share the same last name with other stockholders living in your household, you may receive only one copy of our Notice. Pursuant to the SEC rules, stockholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of our Notice, unless one or more of these stockholders notifies us that they wish to continue receiving individual copies. This procedure will reduce our printing costs and postage fees.

If you are eligible for householding, but you and other stockholders of record with whom you share an address currently receive multiple copies of the Notice, or if you hold stock in more than one account, and in either case you wish to receive only a single copy of each of the Notice for your household, please contact our Corporate Secretary at Seven Arts Entertainment Inc., 8439 Sunset Boulevard, Suite 402, West Hollywood, CA 90069, Attn: Edward Bottenheim or by telephone at (323) 372-3083.

If you participate in householding and wish to receive a separate copy of the Notice, or if you do not wish to participate in householding and prefer to receive separate copies in the future, please contact our Corporate Secretary as indicated above.

Beneficial owners can request information about householding from their banks, brokers or other holders of record.

The Board knows of no other matters that will be presented for consideration at our Special Meeting. However, if other matters are properly brought before the Special Meeting, the proxy holders will vote your shares in their discretion.

Accompanying this Proxy Statement are:

- Annex A Certificate of Designation of our Series A Preferred Stock
- Annex B Certificate of Designation of our Series B Preferred Stock, as amended

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