

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## Dolphin Entertainment, Inc.

**Form: 10-Q**

**Date Filed: 2018-05-15**

Corporate Issuer CIK: 1282224

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

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

For the quarterly period ended **March 31, 2018**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number: 001-38331**

**DOLPHIN ENTERTAINMENT, INC.**

*(Exact name of registrant as specified in its charter)*

**Florida**

*(State or other jurisdiction of  
incorporation or organization)*

**86-0787790**

*(I.R.S. Employer  
Identification No.)*

**2151 Le Jeune Road, Suite 150 – Mezzanine, Coral Gables, Florida 33134**

*(Address of principal executive offices, including zip code)*

**(305) 774-0407**

*(Registrant's telephone number)*

\_\_\_\_\_  
*(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)*

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

*(Do not check if a smaller reporting company)*

Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of common stock outstanding was 11,037,927 as of May 9, 2018.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(unaudited)

	As of March 31, 2018	As of December 31, 2017
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 4,538,122	\$ 5,296,873
Accounts receivable, net of allowance for doubtful accounts of \$392,530 and \$366,280, respectively.	3,087,579	3,700,618
Other current assets	525,155	422,118
Total current assets	8,150,856	9,419,609
Capitalized production costs	930,947	1,075,645
Intangible assets, net of accumulated amortization of \$1,346,558 and \$1,043,255, respectively.	8,203,442	8,506,745
Goodwill	12,778,860	12,778,860
Property, equipment and leasehold improvements	1,063,402	1,110,776
Investments	220,000	220,000
Deposits	445,289	485,508
Total Assets	<u>\$ 31,792,796</u>	<u>\$ 33,597,143</u>
<b>LIABILITIES</b>		
Current		
Accounts payable	\$ 928,265	\$ 1,097,006
Other current liabilities	7,466,944	6,487,819
Line of credit	1,700,390	750,000
Put Rights	2,675,568	2,446,216
Accrued compensation	2,562,500	2,500,000
Debt	2,948,492	3,987,220
Loan from related party	1,577,873	1,708,874
Deferred revenue	48,449	48,449
Convertible notes payable	800,000	800,000
Notes payable	500,000	300,000
Total current liabilities	21,208,481	20,125,584
Noncurrent		
Warrant liability	1,273,514	1,441,831
Put Rights	2,466,846	3,779,794
Convertible notes payable	75,000	75,000
Notes payable	400,000	600,000
Deferred tax	187,537	187,537
Other noncurrent liabilities	936,732	1,311,040
Total noncurrent liabilities	5,339,629	7,395,202
Total Liabilities	26,548,110	27,520,786
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.015 par value, 200,000,000 shares authorized, 11,229,144 and 10,565,789, respectively, issued and outstanding at March 31, 2018 and December 31, 2017.	168,437	158,487
Preferred Stock, Series C, \$0.001 par value, 50,000 shares authorized and outstanding at March 31, 2018 and December 31, 2017.	1,000	1,000
Additional paid in capital	97,141,970	98,816,550
Accumulated deficit	(92,066,721)	(92,899,680)
Total Stockholders' Equity	<u>\$ 5,244,686</u>	<u>\$ 6,076,357</u>
Total Liabilities and Stockholders' Equity	<u>\$ 31,792,796</u>	<u>\$ 33,597,143</u>

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

**DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
(unaudited)

	For the three months ended	
	March 31,	
	2018	2017
<b>Revenues:</b>		
Entertainment publicity	\$ 5,455,733	\$ —
Production and distribution	329,192	532,866
<b>Total revenues</b>	<b>5,784,925</b>	<b>532,866</b>
<b>Expenses:</b>		
Direct costs	571,336	500,526
Selling, general and administrative	1,032,407	187,774
Depreciation and amortization	371,181	4,635
Legal and professional	459,580	375,269
Payroll	3,449,345	336,354
<b>Total expenses</b>	<b>5,883,849</b>	<b>1,404,558</b>
Loss before other expenses	(98,924)	(871,692)
<b>Other Income (Expenses):</b>		
Acquisition costs	—	(537,708)
Change in fair value of warrant liability	168,317	6,823,325
Change in fair value of put rights	1,083,596	—
Interest expense	(267,426)	(452,137)
<b>Total other income (expenses)</b>	<b>984,487</b>	<b>5,833,480</b>
Income before income taxes	\$ 885,563	\$ 4,961,788
Income taxes	(52,604)	—
<b>Net income</b>	<b>\$ 832,959</b>	<b>\$ 4,961,788</b>
<b>Income per Share:</b>		
Basic	\$ 0.07	\$ 0.69
Diluted	\$ 0.07	\$ 0.10
<b>Weighted average number of shares used in per share calculation</b>		
Basic	12,517,660	7,238,707
Diluted	12,786,065	8,652,809

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

**DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited)

	For the three months ended	
	March 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 832,959	\$ 4,961,788
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	371,181	4,635
Amortization of capitalized production costs	149,698	429,278
Bad debt	26,250	—
Change in fair value of warrant liability	(168,317)	(6,823,325)
Change in fair value of put rights	(1,083,596)	—
Changes in operating assets and liabilities:		
Accounts receivable	586,789	1,952,427
Other current assets	(103,037)	2,283,026
Capitalized production costs	(5,000)	(17,361)
Deposits	40,219	105,149
Deferred revenue	—	(20,253)
Accrued compensation	62,500	62,500
Accounts payable	237,759	530,690
Other current liabilities	(571,957)	282,674
Other noncurrent liabilities	(374,309)	—
Net Cash Provided by Operating Activities	1,139	3,751,228
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	(20,504)	—
42West settlement of change of control provision	(20,000)	—
Acquisition of 42West, net of cash acquired	—	13,626
Net Cash (Used in) Provided by Investing Activities	(40,504)	13,626
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the line of credit	1,700,390	—
Repayment of the line of credit	(750,000)	—
Sale of common stock	—	500,000
Sale of common stock and warrants (unit) in Offering	81,044	—
Employee shares withheld for taxes	(56,091)	—
Repayment of debt	(1,038,728)	(5,842,827)
Proceeds from the exercise of warrants	—	35,100
Exercise of put rights	(525,000)	—
Advances from related party	—	672,000
Repayment to related party	(131,001)	(456,330)
Net Cash (Used in) Financing Activities	(719,386)	(5,092,057)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(758,751)	(1,327,203)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,296,873	1,912,546
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,538,122	\$ 585,343
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:</b>		
Interest paid	\$ 35,099	\$ —
<b>SUPPLEMENTAL DISCLOSURES OF NON CASH FLOW INFORMATION:</b>		
Issuance of shares of Common Stock related to the 42West Acquisition	\$ —	\$15,030,767

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

**DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**For the three months ended March 31, 2018**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholder's Equity
	Shares	Amount	Shares	Amount			
<b>Balance December 31, 2017</b>	<b>50,000</b>	<b>\$ 1,000</b>	<b>10,565,789</b>	<b>\$ 158,487</b>	<b>\$ 98,816,550</b>	<b>\$ (92,899,680)</b>	<b>\$ 6,076,357</b>
Net income for the three months ended March 31, 2018	—	—	—	—	—	832,959	832,959
Sale of common stock and warrants through an offering pursuant to a Registration Statement on Form S-1	—	—	20,750	312	80,732	—	81,044
Issuance of shares related to acquisition of 42West	—	—	760,694	11,410	(31,410)	—	(20,000)
Shares retired for payroll taxes per equity compensation plan	—	—	(17,585)	(264)	(35,410)	—	(35,674)
Shares retired from exercise of puts	—	—	(100,504)	(1,508)	(1,688,492)	—	(1,690,000)
<b>Balance March 31, 2018</b>	<b>50,000</b>	<b>\$ 1,000</b>	<b>11,229,144</b>	<b>\$ 168,437</b>	<b>\$ 97,141,970</b>	<b>\$ (92,066,721)</b>	<b>\$ 5,244,686</b>

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

**DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

**NOTE 1 – GENERAL**

Dolphin Entertainment, Inc. (the “Company,” “Dolphin,” “we,” “us” or “our”), formerly Dolphin Digital Media, Inc., is a leading independent entertainment marketing and premium content development company. Through its 2017 acquisition of 42West LLC (“42West”), the Company provides expert strategic marketing and publicity services to all of the major film studios, and many of the leading independent film distributors and streaming content providers, as well as for hundreds of A-list celebrity talent, including actors, directors, producers and recording artist. The strategic acquisition of 42West brings together industry-leading services with our legacy content production, creating significant opportunities to serve our collective constituents more strategically and grow and diversify the Company’s revenue streams. Dolphin’s content production business is a long established, leading independent producer, committed to distributing premium, best-in-class film and digital entertainment. Dolphin produces original feature films and digital programming primarily aimed at family and young adult markets

***2017 Public Offering***

On December 26, 2017, in an underwritten registered public offering, the Company sold 1,215,000 units at a public offering price of \$4.13 per unit (the “Offering”). Each unit consisted of one share of the Company’s common stock, par value \$0.015 (“Common Stock”) and one warrant to purchase one share of Common Stock at an exercise price of \$4.74 per share. The net proceeds of the Offering were approximately \$4.2 million, after deducting underwriting discounts and commissions and offering expenses payable by the Company. Pursuant to the related underwriting agreement, the Company issued 86,503 underwriter warrants and granted an over-allotment option to the underwriters, which they exercised on January 24, 2018 and purchased an additional 20,750 shares of Common Stock and 175,750 warrants, providing the Company with proceeds of \$81,044. Warrants were also issued to the underwriter of the Offering to purchase 1,453 shares of Common Stock at a purchase price of \$4.74 per share.

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements include the accounts of Dolphin, and all of its wholly owned subsidiaries, comprising Dolphin Films, Inc., Cybergeddon Productions, LLC, Dolphin SB Productions LLC, Dolphin Max Steel Holdings, LLC, Dolphin JB Believe Financing, LLC, Dolphin JOAT Productions, LLC and 42West.

The Company enters into relationships or investments with other entities, and, in certain instances, the entity in which the Company has a relationship or investment may qualify as a variable interest entity (“VIE”). The Company consolidates a VIE in its financial statements if the Company is deemed to be the primary beneficiary of the VIE. The primary beneficiary is the party that has the power to direct activities that most significantly impact the activities of the VIE and has the obligation to absorb losses or the right to benefits from the VIE that could potentially be significant to the VIE. The Company has included the VIEs, Max Steel Productions, LLC and JB Believe, LLC, in its condensed consolidated financial statements.

The unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of the Company’s management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been reflected in these unaudited condensed consolidated financial statements. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018. The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date, but does not include all the information and footnotes required by U.S. GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements should be read together with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

***Reclassifications***

Reclassifications have been made to our condensed consolidated financial statements for the prior year period to conform to classifications used in 2018.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The most significant estimates made by management in the preparation of the financial statements relate to the expected revenue and costs for investments in digital and feature film projects; estimates of sales returns and other allowances and provisions for doubtful accounts and impairment assessments for investment in feature film projects. Actual results could differ materially from such estimates.

***Stock based compensation***

In connection with the 42West Acquisition, the Company issued 59,320 shares of restricted stock to certain employees under the Company's 2017 Equity Incentive Plan (the "2017 Plan"). The Company issued these shares on August 21, 2017, all of which vested on February 21, 2018. The Company recognized compensation expense related to the restricted stock based on the number of employees who received the shares and were still employed by the Company at February 21, 2018 at the market price of the shares on grant date (August 21, 2017) less shares of restricted Common Stock that were retained for payroll and withholding taxes. For the three months ended March 31, 2018, the Company recorded net compensation expense of \$20,422 related to stock based compensation.

***Update to Significant Accounting Policies***

Our significant accounting policies are detailed in "Note 3: Summary of Significant Accounting Policies" within Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2017. Significant changes to our accounting policies as a result of adopting ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* are discussed below:

Revenue Recognition

The Company recognizes revenue upon the transfer of control of promised products and services to customers in an amount that reflects the consideration it expects to receive in exchange for those products or services. The Company enters into contracts with customers that generally contain one performance obligation. Contracts are accounted for when there is approval and commitment from both parties, the rights of the parties are identified, the contract has commercial substance and collectability of consideration is probable.

The Company generates revenue from its entertainment publicity business by providing expert strategic marketing and publicity services to the major film studios, many of the leading independent and digital content providers and talent, including actors, directors, producers and recording artists. These services provided by the Company are simultaneously consumed by our clients as they are being rendered by the Company, and the Company considers that its performance obligation is completed as the clients simultaneously receive and consume the benefits. Because the Company's agreements with its clients provide for monthly services at a fixed fee, and each contract may be terminated with 30-day notice by either party with no termination penalty, the Company recognizes revenue as the monthly services are performed. Pursuant to some of the contracts with our customers, the Company may also be entitled to bonus payments upon a nomination or win of awards (e.g. Oscar, SAG, etc.). The Company determined that this type of variable consideration should not be recognized prior to the time the nomination or award is announced because this type of revenue is highly susceptible to factors outside of the Company's control. In addition, the Company invoices its clients for costs it incurs on behalf of its customers in connection with providing services, such as travel, meals and entertainment ("out of pocket costs"). The Company recognizes these costs on a gross basis when they are incurred and are considered part of the transaction price. For the three months ended March 31, 2018, the Company recognized revenues of \$5,455,733 from these types of contracts.

The Company also generates revenue from its content production business by producing motion pictures and licensing the domestic and international distribution rights of the motion pictures. The Company has contracts with a domestic distributor and several international distributors for its motion picture, *Max Steel*. For international distribution contracts, the Company is entitled to receive a minimum guarantee once the motion picture has been delivered as specified in each of the contracts. The Company considers its licensing of a motion picture the licensing of functional intellectual property as it has significant standalone functionality, that is the consumer can begin using the intellectual property without additional support or changes. Revenues from the licensing of functional intellectual property are recognized once the intellectual property is available to the customer and license period has begun.

Under most of the contracts, the Company is entitled to royalties from international distributors after the international distributors have received revenues over the amount paid to the Company as a minimum guarantee. The Company determined that royalties from international distributors would be subject to the sales-based royalty exception, that allows the revenue to be recognized only when the later of the following events occurs; (i) the subsequent sale occurs; and (ii) the performance obligation to which the sales-based royalty has been allocated has been satisfied.

The Company's domestic distribution agreement for *Max Steel* is considered a "rent a system" agreement whereby the distributor agrees to distribute the motion picture, using its relationships and existing agreements with theaters, home entertainment, subscription-video-on-demand, Netflix and other revenue streams for a fee ranging between 12.5% and 15% of the revenues generated. The agreement is for a 15-year period and commenced on October 14, 2016, the date of the theatrical release of *Max Steel*. The distributor reports to the Company on a monthly basis, and revenue is recognized as the motion picture is made available to the customer and the license period with the customer has begun. Under the arrangement with our domestic distributor, the Company acts as the principal and revenues are recognized on a gross basis. Revenues recognized by the Company for the licensing of the motion picture *Max Steel* for the three months ended March 31, 2018 were \$329,192.

### ***Recent Accounting Pronouncements***

#### Accounting Guidance adopted during 2018

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 —Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which provides guidance for revenue recognition. This ASU will supersede the revenue recognition requirements in ASC Topic 605, and most industry specific guidance, and replace it with a new Accounting Standards Codification ("ASC") Topic 606. The FASB has also issued several subsequent ASUs which amend ASU 2014-09. The amendments do not change the core principle of the guidance in ASC 606.

The core principle of ASC 606 is that revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The guidance in ASU 2014-09 also specifies the accounting for some costs to obtain or fulfill a contract with a customer. ASC 606 will require the Company to make significant judgments and estimates. ASC 606 also requires more extensive disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

**DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

Public business entities are required to apply the guidance of ASC 606 to annual reporting periods beginning after December 15, 2017 (2018 for the Company), including interim reporting periods within that reporting period. Accordingly, the Company adopted ASU 606 in the first quarter of 2018.

ASC 606 requires an entity to apply ASC 606 using one of the following two transition methods:

1. Retrospective approach: Retrospectively to each prior reporting period presented and the entity may elect certain practical expedients.
2. Modified retrospective approach: Retrospectively with the cumulative effect of initially applying ASC 606 recognized at the date of initial application. If an entity elects this transition method it also is required to provide the additional disclosures in reporting periods that include the date of initial application of (a) the amount by which each financial statement line item is affected in the current reporting period by the application ASU 606 as compared to the guidance that was in effect before the change, and (b) an explanation of the reasons for significant changes.

The Company substantially completed its assessment of the impact of ASC 606 and adopted ASC 606, following the modified retrospective approach, as of January 1, 2018. The Company's assessment included examination of the following areas of the new standard:

*Variable Consideration:* The Company is entitled to royalties from certain international distributors based on the sales made by these distributors after recoupment of a minimum guarantee. The Company is also entitled to certain bonus payments if certain of their clients receive awards as specified in the engagement contracts. Under the new revenue recognition rules, revenues will be recorded based on best estimates available in the period of sales or usage. The Company determined that royalties from the international distributors would be subject to the sales-based royalty exception, that allows the revenue to be recognized only when the later of the following events occurs; (i) the subsequent sale occurs; and (ii) the performance obligation to which the sales-based royalty has been allocated has been satisfied. For the bonus payments available to the Company if its clients are either nominated or receive awards, the Company determined that the revenue should not be recognized prior to the time the nomination or award is announced since this type of revenue is highly susceptible to factors outside of the Company's influence.

*Principal vs. Agent:* The new standard includes new guidance as to how to determine whether the Company is acting as a principal, in which case revenue would be recognized on a gross basis, or whether the Company is acting as an agent, in which case revenues would be recognized on a net basis. The Company evaluated the principal vs. agent in both our entertainment publicity business and our content production and distribution business and determined that for the existing contracts, the Company acted as the principal. The Company had previously recorded these contracts as a principal so there will not be an adjustment related to this area.

*Functional vs Symbolic Intellectual Property:* The new standard includes guidance on how to recognize revenue depending on whether the intellectual property is functional or symbolic. The Company licenses its completed motion picture to distributors. This type of intellectual property is considered functional intellectual property because it has significant standalone functionality, that is the consumer can begin using the intellectual property without additional support or changes. Revenues from the licensing of functional intellectual property are to be recognized once the intellectual property is available to the customer and license period has begun.

*Performance obligation satisfied over time:* Our entertainment publicity business renders services to clients for a fixed monthly fee. These services provided by the Company are simultaneously consumed by our clients as they are being rendered by the Company, and the Company considers that its performance obligation is completed as the clients simultaneously receive and consume the benefits. Because the Company's agreements with its clients provide for monthly services at a fixed fee, and each contract may be terminated with 30-day notice by either party with no termination penalty, the Company recognizes revenue over time as the monthly services are performed.

Based on the Company's evaluation of the new guidance, the Company believes that revenues from prior periods were recognized in a manner consistent with the new guidance and that a cumulative adjustment was not necessary upon implementation in the first quarter of 2018.

**DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective on a retrospective or modified retrospective basis for annual reporting periods beginning after December 15, 2017 (2018 for the Company), and interim periods within those years, with early adoption permitted. The Company adopted this new guidance effective January 1, 2018 without a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”). ASU 2016-18 provides guidance on the classification of restricted cash and cash equivalents in the statement of cash flows. Although it does not provide a definition of restricted cash or restricted cash equivalents, it states that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of period total amounts shown on the statement of cash flows. ASU 2016-18 was adopted by the Company on January 1, 2018 without a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718). This update mandates that entities will apply the modification accounting guidance if the value, vesting conditions or classification of a stock-based award changes. Entities will have to make all of the disclosures about modifications that are required today, in addition to disclosing that compensation expense has not changed. Additionally, the new guidance also clarifies that a modification to an award could be significant and therefore requires disclosure, even if the modification accounting is not required. The Company adopted the guidance on a prospective basis effective January 1, 2018.

Accounting Guidance not yet adopted

In February 2016, The FASB issued ASU 2016-02, Leases (Topic 642) intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets—referred to as “lessees”—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lease will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—the new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The updated guidance is effective for us as of January 1, 2019 and early adoption is permitted.

ASU 2016-02 will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 (2019 for the Company). For all other organizations, the ASU on leases will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application will be permitted for all organizations. The Company is currently reviewing the impact that implementing this ASU will have.

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In July 2017, FASB issued ASU No. 2017-11, Earnings per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). ASU 2017-11 consists of two parts. The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update re-characterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 (2019 for the Company). Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect. The Company is currently reviewing the impact that implementing this ASU will have.

**NOTE 2 — GOING CONCERN**

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. GAAP and contemplate the continuation of the Company as a going concern. Although the Company had net income of \$832,959 for the three months ended March 31, 2018, it has recorded an accumulated deficit of \$92,066,721 as of March 31, 2018. As of March 31, 2018, the Company had a working capital deficit of \$13,057,625 and therefore does not have adequate capital to fund its obligations as they come due or to maintain or develop its operations. The Company is dependent upon funds from the issuance of debt securities, securities convertible into shares of its Common Stock, sales of shares of Common Stock and financial support of certain stockholders. If the Company is unable to obtain funding from these sources within the next 12 months, it could be forced to liquidate.

These factors raise substantial doubt about the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. In this regard, management currently plans to raise any necessary additional funds through loans and additional issuance of its Common Stock, securities convertible into its Common Stock, debt securities, as well as available bank and non-bank financing, or a combination of such financing alternatives. There is no assurance that the Company will be successful in raising additional capital. Any issuance of additional shares of Common Stock or securities convertible into Common Stock would dilute the equity interests of our existing shareholders, perhaps substantially. The Company currently has the rights to several scripts and intends to obtain financing to produce one of the scripts during 2018 and release it in 2019. It expects to earn a producer and overhead fee for each of these productions. There can be no assurances that such productions will be released or fees will be realized in future periods. With the acquisition of 42West, the Company is currently exploring opportunities to expand the services currently being offered by 42West while reducing expenses through synergies with the Company. There can be no assurance that the Company will be successful in selling these services to clients or reducing expenses. The Company has filed a Form S-3 with the Securities and Exchange Commission under which it may sell up to \$30,000,000 of equity securities. There can be no assurance that the Company will be successful in selling equity securities to raise additional funds.

**NOTE 3 — ACQUISITION OF 42WEST**

On March 30, 2017, the Company entered into a purchase agreement in respect of the 42West acquisition (the “Purchase Agreement”) pursuant to which the Company acquired 100% of the membership interests of 42West and 42West became a wholly owned subsidiary of the Company. 42West is an entertainment public relations agency offering talent entertainment and targeted marketing, strategic communication services.

Pursuant to the Purchase Agreement, the Company agreed to pay a purchase price at closing equal to \$18,666,666 (less, the amount of 42West’s transaction expenses paid by the Company and payments by the Company of certain of 42West’s indebtedness) in shares of Common Stock (“Stock Consideration”) determined based on the Common Stock’s 30-trading-day average stock price immediately prior to the closing date, which was \$9.22 per share, plus a contingent earn out of up to an additional 1,012,292 shares of Common Stock (the “Earn Out Consideration”). The Purchase Agreement included a customary working capital adjustment, which resulted in a post-closing adjustment of \$646,031 in favor of the sellers. Of this amount \$185,031 was made as a cash payment in 2017 with the balance paid through the issuance of Common Stock. As of March 31, 2018, the Company has issued an aggregate amount of 1,584,422 shares of Common Stock to the sellers of 42West, certain 42West employees with change of control provisions in their employment agreements, a former employee of 42West with a change of control provision in his termination agreement and as stock bonuses for certain 42West employees. The Company will issue an additional 275,167 shares of Common Stock during 2018, for a total of 1,859,589 shares of Common Stock. This total does not include any shares that may become issuable in respect of the Earn Out Consideration.

In addition, the Company agreed to settle certain other change of control provisions with certain 42West employees and one former employee by offering a cash payment in lieu of shares of Common Stock. As a result, the Company made payments in the aggregate amount of (i) \$20,000 on February 23, 2018; (ii) \$292,112 on March 30, 2018. The Company will make additional payments in the aggregate amount of \$361,760 on March 29, 2019 to these 42West employees and former employee.

Also in connection with the 42West acquisition, on March 30, 2017, the Company entered into put agreements (the “Put Agreements”) with each of the sellers. Pursuant to the terms and subject to the conditions set forth in the Put Agreements, the Company has granted the sellers the right, but not obligation, to cause the Company to purchase up to an aggregate of 1,187,094 of their respective shares of Common Stock received as Stock Consideration for a purchase price equal to \$9.22 per share during certain specified exercise periods set forth in the Put Agreements up until December 2020 (the “Put Rights”). This amount includes the put rights allowable after earning the Earn Out Consideration achieved during the year ended December 31, 2017. On March 11, 14 and 21, 2018, the sellers of 42West notified the Company that they would be exercising puts, pursuant to the Put Agreements, for an aggregate of 183,296 shares of Common Stock at a purchase price of \$9.22 per share. As a result, on April 2, 2018, the Company purchased 150,758 shares of Common Stock for an aggregate amount of \$1,390,000 and on April 10, 2018 purchased 32,538 shares of Common Stock for \$300,000. As of March 31, 2018, the Company had purchased 373,095 shares of Common Stock from the sellers for an aggregate amount of \$3,440,000.

During the quarter ended March 31, 2018, the Company entered into put agreements with three 42West employees with change of control provisions in their employment agreements. The Company agreed to purchase up to 50% of the shares of Common Stock to be received by the employees in satisfaction of the change of control provision in their employment agreements. During the quarter ended March 31, 2018, the Company purchased a total of 51,485 shares of Common Stock for an aggregate amount of \$474,680. The employees have the right, but not the obligation, to cause the Company to purchase an additional 89,050 shares of Common Stock, including the Earn Out Consideration.

Each of Leslee Dart, Amanda Lundberg and Allan Mayer (the “Principal Sellers”) entered into employment agreements with the Company to continue as employees of the Company for a three-year term after the closing of the 42West acquisition. Each of the employment agreements of the Principal Sellers contains lock-up provisions pursuant to which each Principal Seller has agreed not to transfer any shares of Common Stock in the first year, except pursuant to an effective registration statement on Form S-1 or Form S-3 (an “Effective Registration Statement”) promulgated under the Securities Act of 1933, as amended (the “Securities Act”) or upon exercise of the Put Rights pursuant to the Put Agreement, and, except pursuant to an Effective Registration Statement, no more than 1/3 of the shares received by the Principal Sellers as consideration for the acquisition in the second year and no more than an additional 1/3 of the shares received by the Principal Sellers as consideration for the acquisition in the third year, following the closing date.

In addition, in connection with the 42West acquisition, on March 30, 2017, the Company entered into a registration rights agreement with the sellers (the "Registration Rights Agreement"), pursuant to which the sellers are entitled to rights with respect to the registration of their shares of Common Stock under the Securities Act. All fees, costs and expenses of underwritten registrations under the Registration Rights Agreement (other than underwriting discounts) will be borne by the Company. At any time after the one-year anniversary of the Registration Rights Agreement, the Company will be required, upon the request of such sellers holding at least a majority of the Stock Consideration received by the sellers, to file a registration statement on Form S-1 and use its reasonable efforts to affect a registration covering up to 25% of the Stock Consideration received by the sellers. In addition, if the Company is eligible to file a registration statement on Form S-3, upon the request of such sellers holding at least a majority of the Stock Consideration received by the sellers, the Company will be required to use its reasonable efforts to effect a registration of such shares on Form S-3 covering up to an additional 25% of the Stock Consideration received by the sellers. The Company is required to effect only one registration on Form S-1 and one registration statement on Form S-3, if eligible. The right to have the Stock Consideration received by the sellers registered on Form S-1 or Form S-3 is subject to other conditions and limitations contained in the Registration Rights Agreement.

#### **NOTE 4 — CAPITALIZED PRODUCTION COSTS, ACCOUNTS RECEIVABLES AND OTHER CURRENT ASSETS**

##### Capitalized Production Costs

Capitalized production costs include the unamortized costs of completed motion pictures and digital projects which have been produced by the Company, costs of scripts for projects that have not been developed or produced and costs for projects that are in production. These costs include direct production costs and production overhead and are amortized using the individual-film-forecast method, whereby these costs are amortized and participations and residuals costs are accrued in the proportion that current year's revenue bears to management's estimate of ultimate revenue at the beginning of the current year expected to be recognized from the exploitation, exhibition or sale of the motion picture or web series.

##### Motion Pictures

For the three months ended March 31, 2018 and 2017, revenues earned from motion pictures were \$329,192 and \$532,866 mainly attributable to *Max Steel*, the motion picture released on October 14, 2016. The Company amortized capitalized production costs (included as direct costs) in the condensed consolidated statements of operations using the individual film forecast computation method in the amounts of \$149,698 and \$429,278, respectively, for the three months ended March 31, 2018 and 2017, related to *Max Steel*. Following the release of *Max Steel*, the Company used a discounted cash flow model and determined that the fair value of the capitalized production costs should be impaired by \$2,000,000 due to lower than expected domestic box office performance. The impairment was recorded in 2016. As of March 31, 2018 and December 31, 2017, the Company had balances of \$683,447 and \$833,145, respectively, recorded as capitalized production costs related to *Max Steel*.

The Company has purchased scripts, including one from a related party, for other motion picture productions and has capitalized \$247,500 and \$242,500 in capitalized production costs as of March 31, 2018 and December 31, 2017, respectively, associated with these scripts. The Company intends to produce these projects, but they were not yet in production as of March 31, 2018.

As of March 31, 2018 and December 31, 2017, respectively, the Company had total capitalized production costs of \$930,947 and \$1,075,645, respectively, net of accumulated amortization, tax incentives and impairment charges, recorded on its condensed consolidated balance sheets related to motion pictures.

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Digital Productions

During 2016, the Company produced a new digital project showcasing favorite restaurants of NFL players throughout the country. The Company entered into a co-production agreement and was responsible for financing 50% of the project's budget. Per the terms of the agreement, the Company is entitled to 50% of the profits of the project, net of any distribution fees. The show was produced throughout several cities in the United States and was released on Destination America, a digital cable and satellite television channel, on September 9, 2017. The Company does not expect to derive any revenues from this initial release.

For the three months ended March 30, 2018 and 2017, the Company did not earn any revenues related to digital productions.

During 2017, the Company determined that the fair value of the capitalized production costs of the digital productions was below the carrying value and impaired \$269,444 of capitalized production costs related to the NFL digital productions. As of both March 31, 2018 and December 31, 2017, the Company had no capitalized production costs related to digital productions.

The Company has assessed events and changes in circumstances that would indicate that the Company should assess whether the fair value of the productions is less than the unamortized costs capitalized and did not identify indicators of impairment, other than those noted above related to *Max Steel* and the digital productions.

Accounts Receivables

The Company entered into various agreements with foreign distributors for the licensing rights of our motion picture, *Max Steel*, in certain international territories. The Company delivered the motion picture to the distributors and satisfied the other requirements of these agreements. In addition, the domestic distributor of *Max Steel* reports to the Company on a monthly basis the sales of the motion picture in the United States. As of March 31, 2018 and December 31, 2017, the Company had accounts receivables of \$977,718 and \$1,821,970, respectively, each net of allowance for doubtful accounts of \$227,280, related to the revenues of *Max Steel*, of which \$744,122 and \$727,674, respectively, each net of allowance for doubtful accounts of \$227,280, were from foreign distributors.

The Company's trade accounts receivable related to its entertainment public relations business are recorded at amounts billed to customers, and presented on the balance sheet, net of the allowance for doubtful accounts. The allowance is determined by various factors, including the age of the receivables, current economic conditions, historical losses and other information management obtains regarding the financial condition of customers. As of March 31, 2018 and December 31, 2017, the Company had accounts receivable balances of \$2,109,861 and \$1,878,647, respectively, net of allowance for doubtful accounts of \$165,250 and \$139,000, respectively, related to the entertainment PR business.

Other Current Assets

The Company had a balance of \$525,155 and \$422,118 in other current assets on its condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, these amounts were primarily composed of deferred offering costs, indemnification asset related to the 42West acquisition and prepaid expenses. As of December 31, 2017, these amounts were primarily comprised the indemnification asset and prepaid expenses.

Deferred offering costs— On February 2, 2018, the Company filed Form S-3 Registration Statement under the Securities Act, to register shares of Common Stock, warrants and units for an initial offering amount of up to \$30,000,000. Legal and professional fees related to the filing of the Form S-3 have been deferred until such time as the offering takes place. As of March 31, 2018, the Company had deferred \$54,850 related to the filing of the Form S-3.

Indemnification asset— The Company recorded in other current assets on its condensed consolidated balance sheet, \$300,000 related to certain indemnifications associated with the 42West Acquisition.

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Prepaid expenses – The Company records in other assets on its condensed consolidated balance sheets amounts prepaid for insurance premiums. The amounts are amortized on a monthly basis over the life of the policy.

**NOTE 5 — PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Property, equipment and leasehold improvement consists of:

	March 31, 2018	December 31, 2017
Furniture and fixtures	\$ 494,528	\$ 483,306
Computers and equipment	441,868	432,586
Leasehold improvements	<u>448,661</u>	<u>448,661</u>
	1,385,057	1,364,553
Less: accumulated depreciation	<u>(321,655)</u>	<u>(253,777)</u>
Property, equipment and leasehold improvements, net of accumulated depreciation	<u>\$ 1,063,402</u>	<u>\$ 1,110,776</u>

The Company depreciates furniture and fixtures over a useful life of between five and seven years, computer and equipment over a useful life of between three and five years and leasehold improvements over the remaining term of the related leases. The Company recorded depreciation expense of \$67,878 for the three months ended March 31, 2018.

**NOTE 6 — INVESTMENT**

Investments, at cost, consist of 344,980 shares of common stock of The Virtual Reality Company (“VRC”), a privately held company. In exchange for services rendered by 42West to VRC during 2015, 42West received both cash consideration and a promissory note that was convertible into shares of common stock of VRC. On April 7, 2016, VRC closed an equity financing round resulting in common stock being issued to a third-party investor. This transaction triggered the conversion of all outstanding promissory notes into shares of common stock of VRC. The Company’s investment in VRC represents less than 1% noncontrolling ownership interest in VRC. The Company had a balance of \$220,000 on its condensed consolidated balance sheets as of both March 31, 2018 and December 31, 2017, related to this investment.

**NOTE 7 — DEBT**

**Prints and Advertising Loan and Security Agreement**

During 2016, Dolphin Max Steel Holding, LLC, a Florida limited liability company and a wholly owned subsidiary of Dolphin Films (“Max Steel Holdings”), entered into a loan and security agreement (the “P&A Loan”) providing for a non-revolving credit facility in an aggregate principal amount of up to \$14,500,000 that matured on August 25, 2017. Proceeds of the credit facility in the aggregate amount of \$12,500,000 were used to pay a portion of the print and advertising expenses (“P&A”) of the domestic distribution of *Max Steel*. To secure Max Steel Holdings’ obligations under the P&A Loan, the Company granted to the lender a security interest in bank account funds totaling \$1,250,000 pledged as collateral and rights to the assets of Max Steel Holdings. Repayment of the loan was intended to be made from revenues generated by *Max Steel* in the United States. *Max Steel* did not generate sufficient funds to repay the loan prior to the maturity date. As a result, if the lender forecloses on the collateral securing the loan, the Company’s subsidiary will lose the copyright for *Max Steel* and, consequently, will no longer receive any revenues from the domestic distribution of *Max Steel*. In addition, we would impair the entire capitalized production costs of *Max Steel* included as an asset on our balance sheet, which as of March 31, 2018 was \$683,447. The loan is also partially secured by a \$4,500,000 corporate guaranty from a party associated with the film, of which Dolphin provided a backstop guaranty of \$620,000. The lender had retained a reserve of \$1,531,871 for loan fees and interest. Amounts borrowed under the credit facility accrue interest at either (i) a fluctuating per annum rate equal to the 5.5% plus a base rate or (ii) a per annum rate equal to 6.5% plus the LIBOR determined for the applicable interest period, as determined by the borrower.

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During 2017, the Company agreed to allow the lender to apply the \$1,250,000 balance held in the bank account as collateral to the loan balance and the party associated with the film paid the lender the guaranty of \$4,500,000. During 2017, the Company recorded a gain on extinguishment of debt of \$3,880,000, related to the payment of the guaranty. The Company recorded its \$620,000 backstop guaranty in other current liabilities. As of March 31, 2018 and December 31, 2017, the Company had outstanding balances of \$866,825 and \$1,900,970, respectively, related to this agreement recorded on the condensed consolidated balance sheets. On its condensed consolidated statement of operations for the three months ended March 31, 2018, the Company recorded interest expense of \$60,607 related to the P&A Loan. For the three months ended March 31, 2017, the Company recorded (i) interest expense of \$220,155 related to the P&A Loan and (ii) \$500,000 in direct costs from loan proceeds that were not used by the distributor for the marketing of the film and returned to the lender.

#### **Production Service Agreement**

During 2014, Dolphin Films entered into a financing agreement to produce *Max Steel* (the "Production Service Agreement"). The Production Service Agreement was for a total amount of \$10,419,009 with the lender taking a \$892,619 producer fee. The Production Service Agreement contained repayment milestones to be made during 2015, which, if not met, accrued interest at a default rate of 8.5% per annum above the published base rate of HSBC Private Bank (UK) Limited until maturity on January 31, 2016 or the release of the movie. Due to a delay in the release of *Max Steel*, the Company did not make the repayments as prescribed in the Production Service Agreement. As a result, the Company recorded accrued interest of \$1,512,630 and \$1,455,745, respectively, as of March 31, 2018 and December 31, 2017 in other current liabilities on the Company's condensed consolidated balance sheets. The loan was partially secured by international distribution agreements entered into by the Company prior to the commencement of principal photography and the receipt of tax incentives. As a condition to the Production Service Agreement, the Company acquired a completion guarantee from a bond company for the production of the motion picture. The funds for the loan were held by the bond company and disbursed as needed to complete the production in accordance with the approved production budget. The Company recorded debt as funds were transferred from the bond company for the production.

As of March 31, 2018 and December 31, 2017, the Company had outstanding balances of \$2,081,667 and \$2,086,249, respectively, related to this debt on its condensed consolidated balance sheets.

#### **Line of Credit**

The Company's subsidiary, 42West had a \$1,750,000 revolving credit line agreement with City National Bank, which matured on November 1, 2017. Borrowings bore interest at the bank's prime lending rate plus 0.875%. The debt, including letters of credit outstanding, was collateralized by substantially all of the assets of 42West and guaranteed by the Principal Sellers of 42West. The outstanding loan balance as of December 31, 2017 was \$750,000. The line of credit was not renewed, and, during the quarter ended March 31, 2018, the Company paid the outstanding balance of \$750,000.

On March 15, 2018, 42West entered into a business loan agreement with BankUnited, N.A. (the "Loan Agreement") for a revolving line of credit. The revolving line of credit matures on March 15, 2020 and bears interest on the outstanding balance at the bank's prime rate plus 0.25% per annum. The maximum amount that can be drawn on the revolving line of credit is \$2,300,000. Amounts outstanding under the note are secured by 42West's current and future inventory, chattel paper, accounts, equipment and general intangibles. On March 28, 2018, the Company drew \$1,690,000 from the line of credit facility to purchase 183,296 shares of Common Stock, per the Put Agreements.

The Loan Agreement contains customary affirmative covenants, including covenants regarding maintenance of a maximum debt to total net worth ratio of at least 4.0:1.0 and a minimum debt service coverage of 1.40x based on fiscal year-end audit to be calculated as provided in the Loan Agreement. Further, the Loan Agreement contains customary negative covenants, including those that, subject to certain exceptions, restrict the ability of 42West to incur additional indebtedness, grant liens, make loans, investments or certain acquisitions, or enter into certain types of agreements. Upon the occurrence of an event of default, the bank may accelerate the maturity of the loan and declare the unpaid principal balance and accrued but unpaid interest immediately due and payable. In the event of 42West's insolvency, such outstanding amounts will automatically become due and payable. 42West may prepay any amounts outstanding under the Loan Agreement without penalty.

**Payable to Former Member of 42West**

During 2011, 42West entered into an agreement to purchase the interest of one of its members. Pursuant to the agreement, the outstanding purchase price for such interest became payable in connection with the Company's acquisition of the membership interests of 42West (Note 3). The Company paid \$300,000 during April 2017 and the \$225,000 on January 5, 2018. The outstanding balance at December 31, 2017 of \$225,000 was included in other current liabilities on the accompanying condensed consolidated balance sheet.

**NOTE 8 — NOTES PAYABLE**

**Convertible Notes**

*2017 Convertible Debt*

On July 18, July 26, July 27, July 31, August 30, September 6, September 8 and September 22, 2017, the Company entered into unsecured subscription agreements pursuant to which it issued convertible promissory notes, each with substantially similar terms, for an aggregate principal amount of \$875,000. Each of the convertible promissory notes matures one year from the date of issuance, with the exception of one note in the amount of \$75,000 which matures two years from the date of issuance, and bears interest at a rate of 10% per annum. The principal and any accrued and unpaid interest of the convertible promissory notes are convertible by the respective holders into shares of Common Stock at a price equal to either (i) the 90-trading day average price per share of Common Stock as of the date the holder submits a notice of conversion or (ii) if an Eligible Offering (as defined in the convertible promissory notes) of Common Stock is made, 95% of the public offering price per share of Common Stock.

During the three months ended March 31, 2018, the Company paid interest on these notes in the aggregate amount of \$19,265 and recorded interest expense in the amount of \$21,875 relating to these notes. As of March 31, 2018 and December 31, 2017, the Company recorded accrued interest of \$22,847 and \$20,237, respectively, relating to the convertible notes payable. As of each of March 31, 2018 and December 31, 2017, the Company had balances of \$800,000 in current liabilities and \$75,000 in noncurrent liabilities relating to these convertible promissory notes.

**Nonconvertible Notes Payable**

On November 30, 2017, the Company entered into an unsecured promissory note in the amount of \$200,000 that matures on January 15, 2019. The promissory note bears interest of 10% per annum and can be prepaid without a penalty at any time prior to its maturity.

On June 14, 2017, the Company entered into an unsecured promissory note in the amount of \$400,000, maturing on June 14, 2019. The promissory note bears interest of 10% per annum and can be prepaid without a penalty after the initial six months.

On July 5, 2012, the Company entered into an unsecured promissory note in the amount of \$300,000 bearing 10% interest per annum and payable on demand.

During the three months ended March 31, 2018, the Company made interest payments on its nonconvertible promissory notes in the aggregate amount of \$15,834. The Company had balances of \$175,636 and \$169,073 as of March 31, 2018 and December 31, 2017, respectively, for accrued interest recorded in other current liabilities in its consolidated balance sheets, relating to these promissory notes. The Company recorded interest expense for the three months ended March 31, 2018 and March 31, 2017 of \$22,397 and \$7,397, respectively, relating to these promissory notes. As of March 31, 2018, the Company had balances of \$500,000 in current liabilities and \$400,000 in noncurrent liabilities on its condensed consolidated balance sheets relating to these nonconvertible notes payable. As of December 31, 2017, the Company had balances of \$300,000 in current liabilities and \$600,000 in noncurrent liabilities on its condensed consolidated balance sheets relating to these nonconvertible promissory notes.

**NOTE 9 — LOANS FROM RELATED PARTY**

Dolphin Entertainment, LLC (“DE LLC”), an entity wholly owned by the Company’s CEO, William O’Dowd, has previously advanced funds for working capital to Dolphin Films. During 2016, Dolphin Films entered into a promissory note with DE LLC (the “DE LLC Note”) in the principal amount of \$1,009,624. The DE LLC Note is payable on demand and bears interest at 10% per annum. During 2017, the Company agreed to include certain script costs and other payables totaling \$594,315 that were owed to DE LLC as part of the DE LLC Note.

During the three months ended March 31, 2018, the Company repaid \$131,001 of the principal balance and recorded interest expense of \$39,930 relating to the DE LLC Note. As of March 31, 2018, the Company had a principal balance of \$1,577,873 and accrued interest of \$215,434 relating to the DE LLC Note on its condensed consolidated balance sheet. During the three months ended March 31, 2017, the Company recorded interest expense of \$23,287 relating to the DE LLC Note. As of December 31, 2017, the Company had a principal balance of \$1,708,874 and accrued interest of \$175,504 relating to the DE LLC Note on its consolidated balance sheet.

**NOTE 10 — FAIR VALUE MEASUREMENTS**

Warrants

During 2016, the Company issued Series G, H, I, J and K Common Stock warrants (collectively, the “Warrants”) which are accounted for as derivatives (see Note 14), and for which a liability is recorded in the aggregate and measured at fair value in the consolidated balance sheets on a recurring basis, and the change in fair value from one reporting period to the next is reported as income or expense in the consolidated statements of operations. On March 31, 2017, Warrants J and K were exercised and are no longer outstanding.

The Company records the fair value of the liability in the condensed consolidated balance sheets under the caption “Warrant liability” and records changes to the liability against earnings or loss under the caption “Changes in fair value of warrant liability” in the condensed consolidated statements of operations. The carrying amounts at fair value of the aggregate liability for the Warrants recorded on the consolidated balance sheet as of March 31, 2018 and December 31, 2017, is \$1,273,514 and \$1,441,831, respectively. Due to the change in the fair value of the Warrant Liability for the period in which the Warrants were outstanding during the three months ended March 31, 2018 and 2017, the Company recorded gains on the change in fair value of the warrant liability on its statements of operations of \$168,317 and \$6,823,325, respectively.

Warrants outstanding at December 31, 2017 had the following terms:

	Issuance Date	Number of Common Shares	Per Share Exercise Price	Initial Term (years)	Expiration Date
Series G Warrants	November 4, 2016	750,000	\$ 4.12	1.08	January 31, 2019
Series H Warrants	November 4, 2016	250,000	\$ 4.12	1.08	January 31, 2019
Series I Warrants	November 4, 2016	250,000	\$ 4.12	2.08	January 31, 2020

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Warrants outstanding at March 31, 2018 had the following terms:

	Issuance Date	Number of Common Shares	Per Share Exercise Price	Remaining Term (years)	Expiration Date
Series G Warrants	November 4, 2016	750,000	\$ 4.12	0.83	January 31, 2019
Series H Warrants	November 4, 2016	250,000	\$ 4.12	0.83	January 31, 2019
Series I Warrants	November 4, 2016	250,000	\$ 4.12	1.83	January 31, 2020

During the three months ended March 31, 2018, the Company signed an amended and restated Series G Warrant that (i) eliminated the provision that permitted the warrant to be extended beyond its original expiration date of January 31, 2018 if the warrant holder was not able to fully exercise the warrant and remain below a 9.9% ownership threshold and (ii) provided for a definitive expiration date of the warrant of January 31, 2019.

The Warrants have a full ratchet down round provision, which would result in a downward adjustment to the exercise price in the event the Company issues Common Stock for a price per share less than the applicable exercise price of the Warrants in effect immediately prior to such issuance.

Due to the existence of the full ratchet down round provision, which creates a path-dependent nature of the exercise prices of the Warrants, the Company concluded it is necessary to measure the fair value of the Warrants using a Monte Carlo Simulation model, which incorporates inputs classified as "level 3" according to the fair value hierarchy in ASC 820, Fair Value. In general, level 3 assumptions utilize unobservable inputs that are supported by little or no market activity in the subject instrument and that are significant to the fair value of the liabilities. The unobservable inputs the Company utilizes for measuring the fair value of the Warrant liability reflects management's own assumptions about the assumptions that market participants would use in pricing the asset or liability as of the reporting date.

The Company determined the fair values of the Warrants by using the following key inputs to the Monte Carlo Simulation model at December 31, 2017:

Inputs	Series G	Series H	Series I
Volatility <sup>(1)</sup>	68.3%	68.3%	67.1%
Expected term (years)	1.08	1.08	2.08
Risk free interest rate	1.771%	1.771%	1.898%
Common stock price	\$ 3.60	\$ 3.60	\$ 3.60
Exercise price	\$ 4.12	\$ 4.12	\$ 4.12

The Company determined the fair values of the Warrants by using the following key inputs to the Monte Carlo Simulation model March 31, 2018:

Inputs	Series G	Series H	Series I
Volatility <sup>(1)</sup>	71.1%	71.1%	63.7%
Expected term (years)	0.83	0.83	1.83
Risk free interest rate	2.06%	2.06%	2.25%
Common stock price	\$ 3.52	\$ 3.52	\$ 3.52
Exercise price	\$ 4.12	\$ 4.12	\$ 4.12

(1) "Level 3" input.

The stock volatility assumption represents the range of the volatility curves used in the valuation analysis that the Company has determined market participants would use based on comparison with similar entities. The risk-free interest rate is interpolated where appropriate, and is based on treasury yields. The valuation model also included a level 3 assumption as to dates of potential future financings by the Company that may cause a reset of the exercise price.

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Because derivative financial instruments are initially and subsequently carried at fair values, the Company's income or loss will reflect the volatility in changes to these estimates and assumptions. The fair value is most sensitive to changes at each valuation date in the Company's Common Stock price, the volatility rate assumption, and the exercise price, which could change if the Company were to do a dilutive future financing.

For the Warrants, which measured at fair value categorized within Level 3 of the fair value hierarchy, the following is a reconciliation of the fair values from December 31, 2017 to March 31, 2018:

	<u>Warrants Series G, H and I</u>
Beginning fair value balance reported in the consolidated balance sheet at December 31, 2017	\$ 1,441,831
Change in fair value (gain) reported in the statements of operations	(168,317)
Ending fair value balance reported in the consolidated balance sheet at March 31, 2018	<u>\$ 1,273,514</u>

During the three months ended March 31, 2017, the Company recorded a change in fair value (gain) of warrants in the amount of \$6,823,325 related to the Warrants, including J and K that were exercised during that period. discussed above.

On December 26, 2017, the Company issued 1,300,050 warrants as part of the unit in the Company's Offering. On January 24, 2018, an additional 177,203 warrants were issued pursuant to the over-allotment option given to the underwriter of the Offering. The warrants, which measured at fair value categorized within Level 1 of the fair value hierarchy, were valued using the closing market price for the warrants of \$0.40 per warrant on December 26, 2017 and \$0.41 per warrant on January 24, 2018. The warrants are classified as equity and subsequent fair value measurements are not required.

Put Rights

In connection with the 42West Acquisition (see Note 3) on March 30, 2017, the Company entered into the Put Agreements, pursuant which it granted the Put Rights to the sellers. This includes the Put Rights allowable for the Earn Out Consideration that was achieved during the year ended December 31, 2017. During the three months ended March 31, 2018, the sellers exercised their Put Rights, in accordance with the Put Agreements for 183,296 shares of Common Stock and were paid \$1,690,000 subsequent to the quarter ended March 31, 2018. The \$1,690,000 is recorded in other current liabilities in the condensed consolidated balance sheet as of March 31, 2018.

During the quarter ended March 31, 2018, the Company entered into put agreements with three 42West employees with change of control provisions in their employment agreements. The Company agreed to purchase up to 50% of the shares of Common Stock to be received by the employees in satisfaction of the change of control provision in their employment agreement. During the quarter ended March 31, 2018, the Company purchased a total of 51,485 shares of Common Stock for an aggregate amount of \$474,680. The employees have the right, but not the obligation, to cause the Company to purchase an additional 89,050 shares of Common Stock, including shares that may become issuable in respect of the Earn Out Consideration.

The Company records the fair value of the liability in the consolidated balance sheets under the caption "Put Rights" and records changes to the liability against earnings or loss under the caption "Changes in fair value of put rights" in the consolidated statements of operations. The fair value of the Put Rights on the date of acquisition was \$3,800,000. The carrying amount at fair value of the aggregate liability for the Put Rights recorded on the consolidated balance sheets at March 31, 2018 and December 31, 2017 is \$5,142,414 and \$6,226,010, respectively. Due to the change in the fair value of the Put Rights for the period in which the Put Rights were outstanding during the three months ended March 31, 2018, the Company recorded a gain of \$1,083,596 on the change in fair value of the put rights in the condensed consolidated statement of operations.

The Company utilized the Black-Scholes Option Pricing Model, which incorporates significant inputs that are not observable in the market, and thus represents a Level 3 measurement as defined in ASC 820. The unobservable inputs utilized for measuring the fair value of the Put Rights reflect management's own assumptions about the assumptions that market participants would use in valuing the Put Rights as of the March 31, 2018 and December 31, 2017.

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The Company determined the fair value by using the following key inputs to the Black-Scholes Option Pricing Model:

Inputs	As of March 31, 2018	As of December 31, 2017
Equity Volatility estimate	65% - 75%	105.0%
Discount rate based on US Treasury obligations	1.65% - 2.36%	1.50% - 1.99%

For the Put Rights, which measured at fair value categorized within Level 3 of the fair value hierarchy, the following is a reconciliation of the fair values from December 31, 2017 to March 31, 2018:

Ending fair value balance reported in the consolidated balance sheet at December 31, 2017	\$ 6,226,010
Change in fair value (gain) reported in the statements of operations	(1,083,596)
Ending fair value balance reported in the consolidated balance sheet at March 31, 2018	<u>\$ 5,142,414</u>

Contingent Consideration

In connection with the 42West acquisition (see Note 3), the sellers had the potential to earn up to \$9,333,333 (1,012,292 shares of Common Stock) upon the achievement of certain adjusted EBITDA targets (as defined in the Purchase Agreement) based on the operations of 42West over the three-year period beginning January 1, 2017 (the "Contingent Consideration").

The fair value of the Contingent Consideration on the date of the 42West acquisition was \$3,627,000. The sellers of 42West achieved the adjusted EBITDA target during 2017 and earned the Earn Out Consideration. The number of shares to be issued for the Contingent Consideration is determined by dividing the \$9,333,333 by \$9.22, which was the per share price of the Common Stock used for determining the consideration payable in connection with the 42West Acquisition. The Company will issue a total of 1,012,292 shares of Common Stock over a period of three years. Based on closing market price of the Company's common stock on December 29, 2017 (the date the Contingent Consideration was deemed earned) of \$3.60, the Company recorded \$3,644,251 in equity and reduced its liability by the same amount to account for the contingent consideration being earned. For its initial measurement of fair value, the Company utilized a Monte Carlo Simulation model, which incorporates significant inputs that are not observable in the market, and thus represents a Level 3 measurement as defined in ASC 820. The unobservable inputs utilized for measuring the fair value of the Contingent Consideration reflect management's own assumptions about the assumptions that market participants would use in valuing the Contingent Consideration as of the acquisition date.

The Company determined the fair value on the date of acquisition by using the following key inputs to the Monte Carlo Simulation Model:

Inputs	On the date of Acquisition (March 30, 2017)
Risk Free Discount Rate (based on US government treasury obligation with a term similar to that of the Contingent Consideration)	1.03% -1.55%
Annual Asset Volatility Estimate	72.5%
Estimated EBITDA	\$3,600,000 - \$3,900,000

**NOTE 11 — VARIABLE INTEREST ENTITIES**

VIEs are entities that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses or the right to receive the residual returns of the entity. The most common type of VIE is a special-purpose entity ("SPE"). SPEs are commonly used in securitization transactions in order to isolate certain assets, and distribute the cash flows from those assets to investors. The legal documents that govern the transaction specify how the cash earned on the assets must be allocated to the SPE's investors and other parties that have rights to those cash flows. SPEs are generally structured to insulate investors from claims on the SPE's, assets by creditors of other entities, including the creditors of the seller of the assets.

The primary beneficiary of a VIE is required to consolidate the assets and liabilities of the VIE. The primary beneficiary is the party that has both (1) the power to direct the activities of an entity that most significantly impact the VIE's economic performance; and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all the facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities.

To assess whether the Company has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity investments, servicing fees, and derivative or other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE.

The Company performs ongoing reassessments of (1) whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain triggering events, and therefore would be subject to the VIE consolidation framework, and (2) whether changes in the facts and circumstances regarding the Company's involvement with a VIE cause the Company's consolidation conclusion to change. The consolidation status of the VIEs with which the Company is involved may change as a result of such reassessments. Changes in consolidation status are applied prospectively with assets and liabilities of a newly consolidated VIE initially recorded at fair value unless the VIE is an entity which was previously under common control, which in that case is consolidated based historical cost. A gain or loss may be recognized upon deconsolidation of a VIE depending on the carrying amounts of deconsolidated assets and liabilities compared to the fair value of retained interests and ongoing contractual arrangements.

The Company evaluated the entities in which it did not have a majority voting interest and determined that it had (1) the power to direct the activities of the entities that most significantly impact their economic performance and (2) had the obligation to absorb losses or the right to receive benefits from these entities. As such the financial statements of Max Steel Productions, LLC and JB Believe, LLC are consolidated in the condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017, and in the condensed consolidated statements of operations and statements of cash flows presented herein for the three months ended March 31, 2018 and 2017. These entities were previously under common control and have been accounted for at historical costs for all periods presented.

	Max Steel Productions, LLC			JB Believe LLC		
	As of and for the three ended March 31, 2018	As of December 31, 2017	As of and for the three ended March 31, 2017	As of and for the three ended March 31, 2018	As of December 31, 2017	As of and for the three ended March 31, 2017
(in USD)						
Assets	8,776,867	8,716,184	8,839,208	—	—	—
Liabilities	(12,078,367)	(12,011,149)	(13,063,380)	(6,743,568)	(6,743,278)	(6,762,058)
Revenues	329,192	5,889,003	517,303	—	65,112	15,563
Expenses	(335,727)	(5,589,303)	(1,146,810)	(290)	(34,561)	(3,792)

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Max Steel Productions, LLC was initially formed for the purpose of recording the production costs of the motion picture *Max Steel*. Prior to the commencement of the production, the Company entered into a Production Service Agreement to finance the production of the film. As described in Note 7, the Production Service Agreement was for a total amount of \$10,419,009 with the lender taking a \$892,619 producer fee. Pursuant to the financing agreements, the lender acquired 100% of the membership interests in of Max Steel Productions, LLC with the Company controlling the production of the motion picture and having the rights to sell the motion picture.

As of March 31, 2018 and December 31, 2017, the Company had capitalized production costs balances of \$683,447 and \$833,145, respectively, and balances of \$977,718 and \$1,821,970, each net of allowances for doubtful accounts of \$227,280, respectively, in accounts receivable related to *Max Steel*. All proceeds from the sale of international licensing rights to the motion picture *Max Steel* and certain tax credits are used to repay the amounts due under the Production Service Agreement. As such, the Company will not receive any cash proceeds from the sale of the international licensing rights until the proceeds received from the Production Service Agreement are repaid. For the three months ended March 31, 2018 and 2017, the proceeds from the international sales agreements and certain tax credits that were used to repay amounts due under the Production Service Agreement amounted to \$4,582 and \$2,897,739, respectively. If the amounts due under the Production Service Agreement are not repaid from the proceeds of the international sales, the Company may lose the international distribution rights, in which case it would no longer receive the revenues from these territories and would impair the capitalized production costs and related accounts receivable. The Company believes that the lender's only recourse under the Production Service Agreement is to foreclose on the collateral securing the loans, which consists of the foreign distribution rights for *Max Steel*. However, if the lender were to successfully assert that the Company is liable to the lender for the payment of this debt despite the lack of any contractual obligation on behalf of the Company, payment of the loan would have a material adverse effect on our liquidity, results of operation and financial condition.

As of March 31, 2018 and December 31, 2017, there were outstanding balances of \$2,081,667 and \$2,086,249, respectively, related to this debt.

JB Believe LLC, an entity owned by Believe Film Partners LLC, of which the Company owns a 25% membership interest, was formed for the purpose of recording the production costs of the motion picture "*Believe*". The Company was given unanimous consent by the members to enter into domestic and international distribution agreements for the licensing rights of the motion picture, *Believe*, until such time as the Company had been repaid \$3,200,000 for the investment in the production of the film and \$5,000,000 for the P&A to market and release the film in the United States. The Company has not been repaid these amounts and as such is still in control of the distribution of the film. JB Believe LLC currently has no assets, as the capitalized production costs were either amortized or impaired in previous years. JB Believe LLC's primary liability is to the Company which it owes \$6,491,834.

**NOTE 12 — STOCKHOLDERS' EQUITY**

A. Preferred Stock

The Company's Amended and Restated Articles of Incorporation authorize the issuance of 10,000,000 shares of preferred stock. The Board of Directors has the power to designate the rights and preferences of the preferred stock and issue the preferred stock in one or more series.

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On February 23, 2016, the Company amended its Articles of Incorporation to designate 1,000,000 preferred shares as "Series C Convertible Preferred Stock" with a \$0.001 par value which may be issued only to an "Eligible Series C Preferred Stock Holder". On May 9, 2017, the Board of Directors of the Company approved the amendment of the Company's articles of incorporation to reduce the designation of Series C Convertible Preferred Stock to 50,000 shares with a \$0.001 par value. The amendment was approved by the Company's shareholders on June 29, 2017 and the Company filed Amended and Restated Articles of Incorporation with the State of Florida (the "Second Amended and Restated Articles of Incorporation") on July 6, 2017. Pursuant to the Second Amended and Restated Articles of Incorporation, each share of Series C Convertible Preferred Stock will be convertible into one share of Common Stock (one half of a share post-split on September 14, 2017) subject to adjustment for each issuance of Common Stock (but not upon issuance of common stock equivalents) that occurred, or occurs, from the date of issuance of the Series C Convertible Preferred Stock (the "issue date") until the fifth (5th) anniversary of the issue date (i) upon the conversion or exercise of any instrument issued on the issued date or thereafter issued (but not upon the conversion of the Series C Convertible Preferred Stock), (ii) upon the exchange of debt for shares of Common Stock, or (iii) in a private placement, such that the total number of shares of Common Stock held by an "Eligible Class C Preferred Stock Holder" (based on the number of shares of Common Stock held as of the date of issuance) will be preserved at the same percentage of shares of Common Stock outstanding held by such Eligible Class C Preferred Stock Holder on such date. An Eligible Class C Preferred Stock Holder means any of (i) DE LLC for so long as Mr. O'Dowd continues to beneficially own at least 90% of DE LLC and serves on its board of directors or other governing entity, (ii) any other entity in which Mr. O'Dowd beneficially owns more than 90%, or a trust for the benefit of others, for which Mr. O'Dowd serves as trustee and (iii) Mr. O'Dowd individually. Series C Convertible Preferred Stock will only be convertible by the Eligible Class C Preferred Stock Holder upon the Company satisfying one of the "optional conversion thresholds". Specifically, a majority of the independent directors of the Board, in its sole discretion, must have determined that the Company accomplished any of the following (i) EBITDA of more than \$3.0 million in any calendar year, (ii) production of two feature films, (iii) production and distribution of at least three web series, (iv) theatrical distribution in the United States of one feature film, or (v) any combination thereof that is subsequently approved by a majority of the independent directors of the Board based on the strategic plan approved by the Board. While certain events may have occurred that could be deemed to have satisfied this criteria, the independent directors of the Board have not yet determined that an optional conversion threshold has occurred. Except as required by law, holders of Series C Convertible Preferred Stock will only have voting rights once the independent directors of the Board determine that an optional conversion threshold has occurred. Only upon such determination, will the Series C Convertible Preferred Stock be entitled or permitted to vote on all matters required or permitted to be voted on by the holders of Common Stock and will be entitled to that number of votes equal to three votes for the number of Conversion Shares (as defined in the Certificate of Designation) into which such Holder's shares of the Series C Convertible Preferred Stock could then be converted.

The Certificate of Designation also provides for a liquidation value of \$0.001 per share and dividend rights of the Series C Convertible Preferred Stock on parity with the Company's Common Stock.

Effective July 6, 2017, the Company amended its Articles of Incorporation to among other things cancel previous designations of Series A Convertible Preferred Stock and Series B Convertible Preferred Stock.

**B. Common Stock**

On August 21, 2017, 59,320 shares of restricted stock were issued under the 2017 Plan. Employees who received these awards were required to remain employed by the Company until the vesting date (February 21, 2018), otherwise such awards would be forfeited. On February 21, 2018, 53,475 shares issued pursuant to the 2017 Plan vested.

Effective February 23, 2016, the Company amended its Amended Articles of Incorporation to increase the number of authorized shares of its Common Stock from 200,000,000 to 400,000,000. Effective September 14, 2017, the Company amended its Amended and Restated Articles of Incorporation to effectuate a 1:2 reverse stock split. As a result, the number of authorized shares of Common Stock was reduced from 400,000,000 to 200,000,000 shares.

On January 5, 2018, the Company issued 762,654 shares of its Common Stock to the sellers of 42West pursuant to the purchase agreement pursuant to which we acquired 42West. See Note 3 for further details on the acquisition.

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On January 22, 2018, the underwriters in the Offering exercised their over-allotment option with respect to 20,750 shares of Common Stock and 175,750 warrants to purchase Common Stock. Warrants were also issued to the underwriter of the Offering to purchase 1,453 shares of Common Stock at a purchase price of \$4.74 per share. The closing date of the over-allotment option was January 24, 2018, and the Company received \$81,044 of proceeds from the sale.

On February 21, 2018, employees of 42West who had been issued shares of Common Stock under the 2017 Plan returned 17,585 shares of Common Stock in respect of payroll and withholding taxes. The value of the shares returned to the Company was calculated using the market price of the Common Stock on February 21, 2018 of \$3.19 per share.

On March 11, 14 and 21, 2018, the sellers of 42West exercised Put Rights for 183,296 shares of Common Stock and were paid an aggregate amount of \$1,390,000 on April 2, 2018 and \$300,000 on April 10, 2018.

On March 20, 2018, three 42West employees exercised Put Rights for 51,485 shares of Common Stock and were paid an aggregate amount of \$474,680.

As of March 31, 2018 and December 31, 2017, the Company had 11,229,144 and 10,565,789 shares of Common Stock issued and outstanding, respectively.

**NOTE 13 — EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted income per share:

	Three months ended	
	March 31,	
	2018	2017
<b>Numerator</b>		
Net income attributable to Dolphin Entertainment shareholders and numerator for basic earnings per share	\$ 832,959	\$ 4,961,788
Change in fair value of warrants	—	(4,066,254)
Interest expense (Convertible notes payable)	21,875	—
Numerator for diluted earnings per share	<u>\$ 854,834</u>	<u>\$ 895,534</u>
<b>Denominator</b>		
Denominator for basic EPS - weighted-average shares	12,517,660	7,238,706
Effect of dilutive securities:		
Warrants	—	1,378,536
Shares issuable for 42West acquisition	—	35,567
Convertible notes payable	268,405	—
Denominator for diluted EPS - adjusted weighted-average shares assuming exercise of warrants	<u>12,786,065</u>	<u>8,652,809</u>
Basic earnings per share	\$ 0.07	\$ 0.69
Diluted income per share	\$ 0.07	\$ 0.10

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Basic earnings per share is computed by dividing income attributable to the shareholders of Common Stock (the numerator) by the weighted-average number of shares of Common Stock outstanding (the denominator) for the period. Diluted earnings per share assume that any dilutive warrants were exercised and any dilutive convertible securities outstanding were converted, with related preferred stock dilution requirements and outstanding Common Stock adjusted accordingly. For warrants that are carried as liabilities at fair value, when exercise is assumed in the denominator for diluted earnings per share, the related change in the fair value of the warrants recognized in the consolidated statements of operations for the period, is added back or subtracted from net income during the period. In periods of losses, diluted loss per share is computed on the same basis as basic loss per share, as the inclusion of any other potential shares outstanding would be anti-dilutive.

Warrants to purchase 2,945,000 shares of Common Stock were outstanding at December 31, 2016. During the three months ended March 31, 2017, warrants for 1,170,000 shares were exercised. The denominator used to compute diluted income per share for the three months ended March 31, 2017 includes the effect of assumed exercises of dilutive warrants during the quarter. The numerator for diluted loss per share for the three months ended March 31, 2017 subtracts the gain for the change in fair value of warrant liability of \$4,066,254 related to the Warrants "J" and Warrants "K" included in net income for the quarter that would not have been recorded had the warrants been exercised at the beginning of the period.

For the three months ended March 31, 2018, convertible promissory notes were assumed to have been converted at the beginning of the period and included in the denominator for diluted earnings per share. Interest expense recorded during the three months ended March 31, 2018 and related to the convertible promissory notes was added back to the numerator for diluted earnings per share. The Company also had outstanding at March 31, 2018 3,089,368 warrants to purchase shares of Common Stock at purchase prices ranging from \$4.12 to \$10.00 per share. Because the average market price per share of Common Stock during the three months ended March 31, 2018 was lower than the respective exercise prices of the warrants, the warrants were not considered "in the money" and were not included in the calculation of diluted earnings per share.

**NOTE 14 — WARRANTS**

A summary of warrants outstanding at December 31, 2017 and issued, exercised and expired during the three months ended March 31, 2018 is as follows:

Warrants:	Shares	Weighted Avg. Exercise Price
Balance at December 31, 2017	2,912,165	\$ 5.11
Issued	177,203	4.74
Exercised	—	—
Expired	—	—
Balance at March 31, 2018	<u>3,089,368</u>	<u>\$ 5.09</u>

On March 10, 2010, we issued to T Squared Investments, LLC ("T Squared") Warrant "E" for 175,000 shares of Common Stock at an exercise price of \$10.00 per share with an expiration date of December 31, 2012. T Squared can continually pay the Company an amount of money to reduce the exercise price of Warrant "E" until such time as the exercise price of Warrant "E" is effectively \$0.004 per share. Each time a payment by T Squared is made to Dolphin, a side letter is executed by both parties that states the new effective exercise price of Warrant "E" at that time. At such time when T Squared has paid down Warrant "E" to an exercise price of \$0.004 per share or less, T Squared shall have the right to exercise Warrant "E" via a cashless provision. During the years ended December 31, 2010 and 2011, T Squared paid down a total of \$1,625,000. During the year ended December 31, 2016, the Company and T Squared entered into a warrant purchase agreement whereby T Squared paid \$50,000 for the issuance of Warrants G, H and I as described below. Per the provisions of the warrant purchase agreement, the \$50,000 was to reduce the exercise price of Warrant "E". On April 13, 2017, T Squared exercised 162,885 warrants using the cashless exercise provision, in the warrant agreement and received 162,885 shares of the Common Stock. Because T Squared applied the \$1,675,000 that it had previously paid the Company to pay down the exercise price of the warrants, the exercise price for the remaining 12,115 warrants was recalculated and is currently \$6.20 per share of Common Stock. T Squared did not make any payments during the three months ended March 31, 2018 to reduce the exercise price of the warrants.

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During the year ended December 31, 2012, T Squared agreed to amend a provision in a preferred stock purchase agreement (the "Preferred Stock Purchase Agreement") dated May 2011 that required the Company to obtain consent from T Squared before issuing any Common Stock below the existing conversion price as defined in the Preferred Stock Purchase Agreement. As a result, the Company has extended the expiration date of Warrant "E" (described above) to September 13, 2015 and on September 13, 2012, the Company issued 175,000 warrants to T Squared ("Warrant "F") with an exercise price of \$10.00 per share. Under the terms of Warrant "F", T Squared has the option to continually pay the Company an amount of money to reduce the exercise price of Warrant "F" until such time as the exercise price of Warrant "F" is effectively \$0.004 per share. At such time, T Squared will have the right to exercise Warrant "F" via a cashless provision and hold for six months to remove the legend under Rule 144 of the Securities Act. The Company agreed to extend both warrants until December 31, 2018 with substantially the same terms as herein discussed. T Squared did not make any payments during the three months ended March 31, 2018 to reduce the exercise price of the warrants.

On September 13, 2012, the Company sold 175,000 warrants with an exercise price of \$10.00 per share and an expiration date of September 13, 2015 for \$35,000. Under the terms of these warrants, the holder has the option to continually pay the Company an amount of money to reduce the exercise price of the warrants until such time as the exercise price is effectively \$0.004 per share. At such time, the holder will have the right to exercise the warrants via a cashless provision. The Company recorded the \$35,000 as additional paid in capital. The Company agreed to extend the warrants until December 31, 2018 with substantially the same terms as herein discussed. The holder of the warrants did not make any payments during the three months ended March 31, 2018 to reduce the exercise price of the warrants.

On November 4, 2016, the Company issued a Warrant "G", a Warrant "H" and a Warrant "I" to T Squared ("Warrants "G", "H" and "I"). A summary of Warrants "G", "H" and "I" issued to T Squared is as follows:

Warrants:	Number of Shares	Exercise price at December 31, 2017	Original Exercise Price	Fair Value as of March 31, 2018	Fair Value as of December 31, 2017	Expiration Date
Warrant "G"	750,000	\$ 4.12	\$ 10.00	\$ 709,638	\$ 800,750	January 31, 2019
Warrant "H"	250,000	\$ 4.12	\$ 12.00	236,570	267,133	January 31, 2019
Warrant "I"	250,000	\$ 4.12	\$ 14.00	327,306	373,948	January 31, 2020
	<u>1,250,000</u>			<u>\$ 1,273,514</u>	<u>\$ 1,441,831</u>	

The Warrants "G", "H" and "I" contain an antidilution provision providing that, in the event the Company sells grants or issues any Common Stock or options, warrants, or any instrument convertible into shares of Common Stock or equity in any other form at a deemed per share price below the then current exercise price per share of the Warrants "G", "H" and "I", then the then current exercise price per share for the warrants that are outstanding will be reduced to such lower price per share. Under the terms of the Warrants "G", "H" and "I", T Squared has the option to continually pay the Company an amount of money to reduce the exercise price of any of Warrants "G", "H" and "I" until such time as the exercise price of Warrant "G", "H" and/or "I" is effectively \$0.02 per share. At such time when the T Squared has paid down the warrants to an exercise price of \$0.02 per share or less T Squared will have the right to exercise the Warrants "G", "H" and "I" via a cashless provision.

On December 26, 2017, the Company issued shares of Common Stock, with a warrant, (the "Unit") for a purchase price of \$4.13 per Unit, pursuant to an S-1 Registration Statement filed by the Company. As a result, the exercise price of each of Warrants "G", "H" and "I" was reduced to \$4.12.

Due to the existence of the antidilution provision, the Warrants "G", "H" and "I" are carried in the consolidated financial statements as of March 31, 2018 and December 31, 2017 as derivative liabilities at fair value (see Note 10).

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As discussed above, in the Offering, the Company sold 1,215,000 Units that each contained one (1) share of Common Stock and one (1) warrant to purchase one share of Common Stock at a purchase price of \$4.74. Warrants were also issued to the underwriter of the Offering to purchase up to 85,050 shares of Common Stock at purchase price of \$4.74. On January 22, 2018, the underwriters exercised their over-allotment option with respect to 175,750 warrants to purchase Common Stock at a purchase price of \$4.74 per share. Warrants were also issued to the underwriter of the Offering to purchase 1,453 shares of Common Stock at a purchase price of \$4.74 per share. The Company determined that each of these warrants should be classified as equity and valued the warrants on the date of issuance using the closing market price for the warrants on December 26, 2017 of \$0.40 per warrant and \$0.41 per warrant on January 22, 2018. The fair value of the warrants was recorded in additional paid in capital.

**NOTE 15 — RELATED PARTY TRANSACTIONS**

In 2008, the Company entered into a ten-year licensing agreement with DE LLC, a related party. Under the license, the Company is authorized to use DE LLC's brand properties in connection with the creation, promotion and operation of subscription based Internet social networking websites for children and young adults. The license requires that the Company pays to DE LLC royalties at the rate of fifteen percent of net sales from performance of the licensed activities. The Company did not use any of the brand properties related to this agreement and as such, there was no royalty expense for the three months ended March 31, 2018 and 2017.

On December 31, 2014, the Company and its CEO renewed his employment agreement for a period of two years commencing January 1, 2015. The agreement stated that the CEO was to receive annual compensation of \$250,000 plus bonus. In addition, the CEO was entitled to an annual discretionary bonus as determined by the Company's Board of Directors. As part of his agreement, he received a \$1,000,000 signing bonus in 2012 that is recorded in accrued compensation on the condensed consolidated balance sheets. Any unpaid and accrued compensation due to the CEO under this agreement will accrue interest on the principal amount at a rate of 10% per annum from the date of this agreement until it is paid. The Company accrued \$2,562,500 and \$2,500,000 of compensation as accrued compensation and \$1,033,972 and \$971,809 of interest in other current liabilities on its condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017, respectively, in relation to Mr. O'Dowd's employment. The Company recorded interest expense related to accrued compensation \$62,163 and \$55,999, respectively, for the three months ended March 31, 2018 and 2017, on the condensed consolidated statements of operations.

On March 30, 2017, KCF Investments LLC and BBCF 2011 LLC, entities under the common control of Mr. Stephen L Perrone, an affiliate of the Company, exercised Warrants "J" and "K" and were issued an aggregate of 1,170,000 shares of the Company's Common Stock at an exercise price of \$0.03 per share.

On March 30, 2017, in connection with the 42West Acquisition, the Company and Mr. O'Dowd, as personal guarantor, entered into four separate Put Agreements with each of the sellers of 42West, pursuant to which the Company granted Put Rights to the sellers. Pursuant to the terms of one such Put Agreement, Mr. Allan Mayer, a member of the board of directors of the Company, exercised Put Rights and caused the Company to purchase 56,940 shares of Common Stock at a purchase price of \$9.22 for an aggregate amount of \$525,000, during the three months ended March 31, 2018.

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**NOTE 16 — SEGMENT INFORMATION**

As a result of the 42West Acquisition (see Note 3), the Company determined that as of the second quarter of 2017, it operates in two reportable segments, the Entertainment Publicity Division (“EPD”) and the Content Production Division (“CPD”). The EPD segment is composed of 42West and provides clients with diversified services, including public relations, entertainment content marketing and strategic marketing consulting. CPD is composed of Dolphin Entertainment, Dolphin Films, and Dolphin Digital Studios and engages in the production and distribution of digital content and feature films.

The profitability measure employed by our chief operating decision maker for allocating resources to operating divisions and assessing operating division performance is operating income (loss). Salaries and related expenses include salaries, bonus, commission and other incentive related expenses. Legal and professional expenses primarily include professional fees related to financial statement audits, legal, investor relations and other consulting services, which are engaged and managed by each of the segments. In addition, general and administrative expenses include rental expense and depreciation of property, equipment and leasehold improvements for properties occupied by corporate office employees.

In connection with the 42West Acquisition, the Company assigned \$9,550,000 of intangible assets, less the accumulated amortization of \$1,346,558 and goodwill of \$12,778,860 to the EPD segment.

	<u>Three months ended March 31, 2018</u>
<b>Revenue:</b>	
EPD	\$ 5,455,733
CPD	329,192
Total	<u>\$ 5,784,925</u>
<b>Segment operating income (loss):</b>	
EPD	\$ 525,739
CPD	(624,663)
Total	(98,924)
Interest expense	(267,426)
Other income, net	1,251,913
<b>Income before income taxes</b>	<u>\$ 885,563</u>
	<u>As of March 31, 2018</u>
<b>Total assets:</b>	
EPD	\$27,425,084
CPD	4,367,712
Total	<u>\$31,792,796</u>

**NOTE 17 — COMMITMENTS AND CONTINGENCIES**

***Litigation***

On or about January 25, 2010, an action was filed by Tom David against Winterman Group Limited, Dolphin Digital Media (Canada) Ltd., Malcolm Stockdale and Sara Stockdale in the Superior Court of Justice in Ontario (Canada) alleging breach of a commercial lease and breach of a personal guaranty. On or about March 18, 2010, Winterman Group Limited, Malcolm Stockdale and Sara Stockdale filed a Statement of Defense and Crossclaim. In the Statement of Defense, Winterman Group Limited, Malcolm Stockdale and Sara Stockdale denied any liability under the lease and guaranty. In the Crossclaim filed against Dolphin Digital Media (Canada) Ltd., Winterman Group Limited, Malcolm Stockdale and Sara Stockdale seek contribution or indemnity against Dolphin Digital Media (Canada) Ltd. alleging that Dolphin Digital Media (Canada) agreed to relieve Winterman Group Limited, Malcolm Stockdale and Sara Stockdale from any and all liability with respect to the lease or the guaranty. On or about March 19, 2010, Winterman Group Limited, Malcolm Stockdale and Sara Stockdale filed a Third-Party Claim against the Company seeking contribution or indemnity against the Company, formerly known as Logica Holdings, Inc., alleging that the Company agreed to relieve Winterman Group Limited, Malcolm Stockdale and Sara Stockdale from any and all liability with respect to the lease or the guaranty. The Third-Party Claim was served on the Company on April 6, 2010. On or about April 1, 2010, Dolphin Digital Media (Canada) filed a Statement of Defense and Crossclaim. In the Statement of Defense, Dolphin Digital Media (Canada) denied any liability under the lease and in the Crossclaim against Winterman Group Limited, Malcolm Stockdale and Sara Stockdale, Dolphin Digital Media (Canada) seeks contribution or indemnity against Winterman Group Limited, Malcolm Stockdale and Sara Stockdale alleging that the leased premises were used by Winterman Group Limited, Malcolm Stockdale and Sara Stockdale for their own use. On or about April 1, 2010, Dolphin Digital Media (Canada) also filed a Statement of Defense to the Crossclaim denying any liability to indemnify Winterman Group Limited, Malcolm Stockdale and Sara Stockdale. The ultimate results of these proceedings against the Company cannot be predicted with certainty. On or about March 12, 2012, the Court served a Status Notice on all the parties indicating that since more than (2) years had passed since a defense in the action had been filed, the case had not been set for trial and the case had not been terminated, the case would be dismissed for delay unless action was taken within ninety (90) days of the date of service of the notice. The Company has not filed for a motion to dismiss and no further action has been taken in the case. The ultimate results of these proceedings against the Company could result in a loss ranging from 0 to \$325,000. On March 23, 2012, Dolphin Digital Media (Canada) Ltd filed for bankruptcy in Canada. The bankruptcy will not protect the Company from the Third-Party Claim filed against it. However, the Company has not accrued for this loss because it believes that the claims against it are without substance and it is not probable that they will result in loss. As of March 31, 2018, the Company has not received any other notifications related to this action.

***Tax Filings***

The Company accrued \$120,000 for estimated penalties associated with not filing certain information returns. The penalties per return are \$10,000 per entity per year. The Company received notification from the Internal Revenue Service concerning information returns for the year ended December 31, 2009. The Company responded with a letter stating reasonable cause for the noncompliance and requested that penalties be abated. During 2012, the Company received a notice stating that the reasonable cause had been denied. The Company decided to pay the penalties and not appeal the decision for the 2009 Internal Revenue Service notification. There is no associated interest expense as the tax filings are for information purposes only and would not result in further income taxes to be paid by the Company. The Company made payments in the amount of \$40,000 during the year ended December 31, 2012 related to these penalties. At each of March 31, 2018 and December 31, 2017, the Company had a remainder of \$40,000 in accruals related to these late filing penalties which is presented as a component of other current liabilities.

***Incentive Compensation Plan***

On June 29, 2017, the shareholders of the Company approved the 2017 Plan which replaced the 2012 Plan. The 2017 Plan was adopted as a flexible incentive compensation plan that would allow us to use different forms of compensation awards to attract new employees, executives and directors, to further the goal of retaining and motivating existing personnel and directors and to further align such individuals' interests with those of the Company's shareholders. Under the 2017 Plan, the total number of shares of Common Stock reserved and available for delivery under the 2017 Plan (the "Awards"), at any time during the term of the 2017 Plan, will be 1,000,000 shares of Common Stock. The 2017 Plan imposes individual limitations on the amount of certain Awards, in part with the intention to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). Under these limitations, in any fiscal year of the Company during any part of which the 2017 Plan is in effect, no participant may be granted (i) stock options or stock appreciation rights with respect to more than 300,000 shares, or (ii) performance shares (including shares of restricted stock, restricted stock units, and other stock based-awards that are subject to satisfaction of performance goals) that the Compensation Committee intends to be exempt from the deduction limitations under Section 162(m) of the Code, with respect to more than 300,000 shares, in each case, subject to adjustment in certain circumstances. The maximum amount that may be paid out to any one participant as performance units that the Compensation Committee intends to be exempt from the deduction limitations under Section 162(m) of the Code, with respect to any 12-month performance period is \$1,000,000 (pro-rated for any performance period that is less than 12 months), and with respect to any performance period that is more than 12 months, \$2,000,000. On August 21, 2017, the Company issued 59,320 shares as Awards to certain employees. There was a vesting period of six months and February 21, 2018, 53,475 shares became fully vested. During the three months ended March 31, 2018, the Company recorded a net compensation expense of \$20,422 related to these Awards.

***Employee Benefit Plan***

42West has a 401(K) profit sharing plan that covers substantially all 42West employees. Contributions to the plan are at discretion of management. The Company's contributions were \$68,047 for the three months ended March 31, 2018.

***Employment Contracts***

During 2017, the Company entered into a three-year employment agreement with a senior level management employee and renewed two other agreements that had expired with other senior level managers. The contracts define each individual's compensation, along with specific salary increases mid-way through the term of each contract. The employment agreement contains provisions for termination and as a result of death or disability and entitles the employee to bonuses, commission, vacations and to participate in all employee benefit plans offered by the Company. The employment contracts of four other senior level managers have expired and the Company is negotiating the renewal terms.

As a condition to the closing of the 42West acquisition described in Note 3, the three Principal Sellers entered into employment agreements (the "Employment Agreements") with the Company and will continue as employees of the Company for a three-year term. Each of the Employment Agreements provides for a base salary with annual increases and bonuses if certain performance targets are met. The Employment Agreements also contain provisions for termination and as a result of death or disability. During the term of the Employment Agreement, the Principal Sellers are entitled to participate in all employee benefit plans, practices and programs maintained by the Company and are entitled to paid vacation in accordance with the Company's policy. Each of the Employment Agreements contains lock-up provisions pursuant to which each Principal Seller has agreed not to transfer any shares of Common Stock in the first year, no more than 1/3 of the Initial Consideration and Post-Closing Consideration received by such Seller in the second year and no more than an additional 1/3 of the Initial Consideration and Post-Closing Consideration received by such Seller in the third year, following the closing date of the 42West Acquisition.

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On April 5, 2018, the Principal Sellers signed amendments to their respective employment agreements that modified the annual bonus provisions. These amendments eliminated the rights of each of them (i) to be eligible to receive in accordance with the provisions of the Company's incentive compensation plan, a cash bonus for the calendar year 2017 if certain performance goals were achieved and (ii) to receive an annual bonus, for each year during the term of each such employment agreement, of \$200,000 in shares of common stock based on the 30-day trading average market price of such common stock. The amendment provides for each of the Principal Sellers to be eligible under the Company's incentive compensation plan to receive annual cash bonuses beginning with the calendar year 2018 based on the achievement of certain performance goals.

**Leases**

42West is obligated under an operating lease agreement for office space in New York, expiring in December 2026. The lease is secured by a standby letter of credit amounting to \$677,354, and provides for increases in rent for real estate taxes and building operating costs. The lease also contains a renewal option for an additional five years.

42West is obligated under an operating lease agreement for office space in California, expiring in December 2021. The lease is secured by a cash security deposit of \$44,788 and a standby letter of credit amounting to \$100,000 at March 31, 2018. The lease also provides for increases in rent for real estate taxes and operating expenses, and contains a renewal option for an additional five years, as well as an early termination option effective as of February 1, 2019. Should the early termination option be executed, the Company will be subject to a termination fee in the amount of approximately \$637,000. The Company does not expect to execute such option.

On November 1, 2011, the Company entered into a 60 month lease agreement for office space in Miami. The lease expired on October 31, 2016 and the Company extended the lease until June 30, 2018 with substantially the same terms as the original lease.

On June 1, 2014, the Company entered into a 62 month lease agreement for office space in Los Angeles, California. The monthly rent is \$13,746 with annual increases of 3% for years 1-3 and 3.5% for the remainder of the lease. The Company is also entitled to four half months of free rent over the life of the agreement. On June 1, 2017, the Company entered into an agreement to sublease the office space in Los Angeles, California. The sublease is effective June 1, 2017 through July 31, 2019 and the Company will receive (i) \$14,891.50 per month for the first twelve months, with the first two months of rent abated and (ii) \$15,338.25 per month for the remainder of the sublease.

Future minimum annual rent payments are as follows:

<b>Period ended March 31, 2018</b>	
April 1 – December 31, 2018	\$ 1,001,053
2019	1,326,535
2020	1,433,403
2021	1,449,019
2022	912,864
Thereafter	3,762,980
	<u>\$ 9,885,854</u>

Rent expense, including escalation charges, amounted to \$370,850, for the three months ended March 31, 2018.

***Motion Picture Industry Pension Accrual***

42West is a contributing employer to the Motion Picture Industry Pension Individual Account and Health Plans (collectively the "Plans"), two multiemployer pension funds and one multiemployer welfare fund, respectively, that are governed by the Employee Retirement Income Security Act of 1974, as amended. The Plans are conducting an audit of 42West's books and records for the period June 7, 2011 through August 20, 2016 in connection with the alleged contribution obligations to the Plans. Based on a recent audit for periods prior to June 7, 2011, 42West expects that the Plans may seek to collect approximately \$300,000 in pension plan contributions, health and welfare plan contributions and union once the audit is completed. The Company believes the exposure to be probable and has recognized this liability in other current liabilities on the condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017.

**NOTE 18 – SUBSEQUENT EVENTS**

On April 2, 2018, the Company paid \$1,390,000 to the sellers of 42West for Put Rights that was exercised on March 11, 14 and 21, 2018.

On April 2, 2018, the Company paid \$50,000 of the principal balance of the DE LLC Note.

On April 10, 2018, the Company paid \$300,000 to one of the sellers of 42West for a Put Right that was exercised on March 21, 2018.

On April 12, 2018, the Company repaid \$200,000 of the principal balance of the DE LLC Note.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

We are a leading independent entertainment marketing and premium content production company. We were first incorporated in the State of Nevada on March 7, 1995 and domesticated in the State of Florida on December 4, 2014. Our Common Stock began trading on The Nasdaq Capital Market on December 21, 2017 under the symbol "DLPN".

Through our acquisition of 42West, we provide expert strategic marketing and publicity services to all of the major film studios, and many of the leading independent film distributors and streaming content providers, as well as for hundreds of A-list celebrity talent, including actors, directors, producers and recording artists. Our content production business is a long-established leading independent producer, committed to distributing film and digital entertainment primarily aimed at family and young adult markets. The strategic acquisition of 42West brings together industry-leading marketing services with our legacy content production business, creating significant opportunities to serve our respective constituents more strategically and to grow and diversify our revenue streams.

As a result of the 42West acquisition, we operate in two reportable segments: our entertainment publicity division and our content production division. The entertainment publicity division comprises 42West and provides clients with diversified services, including public relations, entertainment content marketing and strategic communications consulting. The content production division comprises Dolphin Films Inc. ("Dolphin Films") and Dolphin Digital Studios and specializes in the production and distribution of feature films and digital content.

We have established an acquisition strategy based on identifying and acquiring companies that complement our existing entertainment publicity services and content production businesses. We believe that complementary businesses, such as data analytics and digital marketing, can create synergistic opportunities and bolster profits and cash flow. We have identified potential acquisition targets and are in various stages of discussion and diligence with such targets. We intend to complete at least one acquisition during 2018, but there is no assurance that we will be successful in doing so, whether in 2018 or at all. We are planning to fund such acquisition through loans or additional sales of our Common Stock, securities convertible into our Common Stock, debt securities or a combination of such financing alternatives; however, there can be no assurance that we will be successful in raising any necessary capital.

### Going Concern

In the audit opinion for our financial statements as of and for the year ended December 31, 2017, our independent auditors included an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern based upon our accumulated deficit as of December 31, 2017 and our level of working capital. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. Management is planning to raise any necessary additional funds through loans and additional sales of our Common Stock, securities convertible into our Common Stock, debt securities or a combination of such financing alternatives; however, there can be no assurance that we will be successful in raising any necessary additional capital or securing loans. Such issuances of additional shares of Common Stock or securities convertible into Common Stock would dilute the equity interests of our existing shareholders, perhaps substantially. In addition, we are exploring ways to reduce expenses by identifying certain costs that can be combined, for example, subleasing one of our Los Angeles, CA facilities and consolidating our Los Angeles, CA operations. We are currently exploring opportunities to expand the services currently being offered by 42West while reducing expenses through synergies. There can be no assurance that we will be successful in selling these services to clients or reducing expenses. We have filed a Form S-3 with the Securities and Exchange Commission (the "SEC") under which we may sell up to \$30,000,000 of equity securities. There can be no assurance that we will be successful in selling equity securities to raise additional funds.

## Revenues

During the three months ended March 31, 2018, we derived the majority of our revenues from 42West. 42West derives its revenues from providing public relations services for celebrities, entertainment and targeted content marketing for film and television series, and strategic communications services for corporations. During the three months ended March 31, 2018 and 2017, revenues from production and distribution were derived from the domestic and international distribution sales of our motion picture, *Max Steel*. The table below sets forth the components of revenue for the three months ended March 31, 2018 and 2017:

	For the three months ended March 31,	
	2018	2017
<b>Revenues:</b>		
Entertainment publicity	94.3%	0.0%
Production and distribution	5.7%	100.0%
Total revenue	100.0%	100.0%

### *Entertainment Publicity*

Our revenue is directly impacted by the retention and spending levels of existing clients and by our ability to win new clients. We believe that we have a stable client base, and we have continued to grow organically through referrals and actively soliciting new business. We earn revenues primarily from four sources: (i) celebrity talent services in exchange for monthly fees beginning at \$5,000 per client; (ii) content marketing services under multiyear master service agreements in exchange for fixed project-based fees ranging from \$25,000 to \$300,000 per project; (iii) numerous individual engagements for entertainment content marketing services for durations between three and six months and (iv) strategic communications services in exchange for monthly fees ranging from \$10,000 to \$30,000 per client.

We earn entertainment publicity revenues primarily through the following:

- **Talent** – We earn fees from creating and implementing strategic communication campaigns for performers and entertainers, including Oscar and Emmy winning film and television stars, directors, producers and Grammy winning recording artists. Our services in this area include ongoing strategic counsel, media relations, studio and/or network liaison work, and event and tour support. Many of our clients have been with 42West since it was founded in 2004. We intend to hire new individuals or teams whose existing books of business and talent rosters can be accretive to revenues and profits of the business.
- **Entertainment and Targeted Marketing** – We earn fees from providing marketing direction, public relations counsel and media strategy for entertainment content (including theatrical films, television programs, DVD and VOD releases, and online series) from all the major studios, as well as content producers ranging from individual filmmakers and creative artists to production companies, film financiers, DVD distributors, and other entities. In addition, we provide entertainment marketing services in connection with film festivals, awards campaigns, event publicity and red carpet management. As part of our services we offer marketing and publicity services that are tailored to reach diverse audiences. Our clients for this type of service include major studios and independent producers for whom we create targeted multicultural marketing campaigns.

We expect that increased movie marketing budgets at several large key clients will drive growth of revenue and profit in 42West's Entertainment and Targeted Marketing division over the next several years.

- **Strategic Communications** – We earn fees by advising companies looking to create, raise or reposition their public profiles, primarily in the entertainment industry. We believe that growth in 42West's Strategic Communications division will be driven by increasing demand for these services by traditional and non-traditional media clients who are expanding their activities in the content production, branding, and consumer products sectors. We also help studios and filmmakers deal with controversial movies, as well as high-profile individuals address sensitive situations. We expect that this growth trend will continue for the next three to five years.

## Production and Distribution

### ***Dolphin Films***

For the three months ended March 31, 2018 and 2017, we derived revenues from Dolphin Films primarily through the domestic and international distribution of our motion picture, *Max Steel*.

The production of the motion picture, *Max Steel*, was completed during 2015 and released in the United States on October 14, 2016. The motion picture did not perform as well as expected domestically, but we secured approximately \$8.2 million in international distribution agreements prior to its release. As part of our domestic distribution arrangement, we still have the ability to derive revenues from the ancillary markets described below, but the amount of revenue derived from such channels is typically commensurate with the performance of the film in the domestic box office.

We earn motion picture revenues through the following:

- **Theatrical** – We earn theatrical revenues from the domestic theatrical release of motion pictures licensed to a U.S. theatrical distributor that has agreements with theatrical exhibitors. The financial terms negotiated with the *Max Steel*'s U.S. theatrical distributor provided that we receive a percentage of the box office results, after related distribution fees.
- **International** – We earn international revenues through license agreements with international distributors to distribute our motion pictures in an agreed upon territory for an agreed upon time. Several of the international distribution agreements related to *Max Steel* were contingent on a domestic wide release that occurred on October 14, 2016.
- **Other** – We earn additional revenues through Dolphin Films' U.S. theatrical distributor which has existing output arrangements for the distribution of productions to home entertainment, video-on-demand, or VOD, pay-per-view, or PPV, electronic-sell-through, or EST, SVOD and free and pay television markets. The revenues expected to be derived from these channels are based on the performance of the motion picture in the domestic box office. During the three months ended March 31, 2018, we derived the majority of revenues related to *Max Steel* from these channels and anticipate that the remaining revenues from these channels will be received during 2018 and thereafter.

Our ability to receive additional revenues from *Max Steel* depends on our ability to repay our loans under our production service agreement and prints and advertising loan agreement from the profits of *Max Steel*. *Max Steel* did not generate sufficient funds to repay either of these loans prior to their respective maturity dates. As a result, if the lenders foreclose on the collateral securing the loans, our subsidiary will lose the copyright for *Max Steel* and, consequently, will no longer receive any revenues from *Max Steel*. In addition, we would impair the entire capitalized production costs and accounts receivable of *Max Steel* included as assets on our balance sheet, which as of March 31, 2018 were \$0.7 million and \$1.0 million (net of an allowance for doubtful accounts of \$0.2 million), respectively. We are not parties to either of the loan agreements and have not guaranteed to the lenders any of the amounts outstanding under these loans, but we provided a \$620,000 backstop guaranty to a third-party guarantor of the prints and advertising loan. For a discussion of the terms of such agreements and the \$620,000 backstop guaranty, see "Liquidity and Capital Resources" below.

### ***Project Development and Related Services***

We have a team that dedicates a portion of its time to sourcing scripts for future developments. The scripts can be for either digital or motion picture productions. We have acquired the rights to certain scripts, one of which we intend to produce in the last quarter of 2018 and release in 2019. We have not yet determined if these projects would be produced for digital or theatrical distribution.

Our pipeline of feature films includes:

- *Youngblood*, an updated version of the 1986 hockey classic;
- *Out of Their League*, a romantic comedy pitting husband versus wife in the cut-throat world of fantasy football; and

- *Ask Me*, a teen comedy in which a high-school student starts a business to help her classmates create elaborate “promposals.”

We have completed development of each of these feature films, which means that we have completed the script and can begin pre-production once financing is obtained. We are planning to fund these projects through loans or additional sales of our Common Stock, securities convertible into our Common Stock, our issuance of debt securities or a combination of such financing alternatives; however, there can be no assurance that we will be successful in raising any necessary capital. There is no assurance that we will be able to obtain the financing necessary to produce these feature films.

## Expenses

Our expenses consist primarily of: (1) direct costs; (2) selling, general and administrative expenses; (3) depreciation and amortization; (4) payroll expenses; and (5) legal and professional fees.

Direct costs include certain cost of services related to our entertainment publicity business, amortization of deferred production costs, impairment of deferred production costs, residuals and other costs associated with production. Residuals represent amounts payable to various unions or “guilds” such as the Screen Actors Guild, Directors Guild of America, and Writers Guild of America, based on the performance of the motion picture and digital productions in certain ancillary markets. Included within direct costs are immaterial impairments for any of our projects. Capitalized production costs are recorded at the lower of their cost, less accumulated amortization and tax incentives, or fair value. If estimated remaining revenue is not sufficient to recover the unamortized capitalized production costs for that title, the unamortized capitalized production costs will be written down to fair value.

Selling, general and administrative expenses include all overhead costs except for payroll, depreciation and amortization and legal and professional fees that are reported as a separate expense item.

Depreciation and amortization includes the depreciation of our property, equipment and leasehold improvements and amortization of intangible assets.

Legal and professional fees include fees paid to our attorneys, fees for investor relations consultants, audit and accounting fees and fees for general business consultants.

Payroll expenses include wages, payroll taxes and employee benefits.

## Other Income and Expenses

For the three months ended March 31, 2018, other income and expenses consisted primarily of: (1) changes in the fair value of warrant liabilities; (2) changes in the fair value of the Put Rights; and (3) interest expense. For the three months ended March 31, 2017, other income and expenses consisted primarily of (1) acquisition costs; (2) changes in the fair value of warrant liabilities; and (3) interest expense.

## RESULTS OF OPERATIONS

### Three months ended March 31, 2018 as compared to three months ended March 31, 2017

#### Revenues

For the three months ended March 31, 2018 and 2017 our revenues were as follows:

	For the three months March 31,	
	2018	2017
<b>Revenues:</b>		
Entertainment publicity	\$ 5,455,733	\$ —
Production and distribution	329,192	532,866
Total revenue	<u>\$ 5,784,925</u>	<u>\$ 532,866</u>

We derived increased revenues from entertainment publicity for the three months ended March 31, 2018, as compared to the same period in the prior year, due to the acquisition of 42West on March 30, 2017.

Revenues from production and distribution decreased by \$0.2 million for the three months ended March 31, 2018 as compared to the same period in the prior year primarily due to the normal revenue cycle of our motion picture *Max Steel*. The majority of the revenues of a motion picture are recognized in the first twelve months following the release of the film. *Max Steel* was released on October 14, 2016, and we have already recognized the revenues from the theatrical release, a majority of home entertainment (i.e. DVD) and from international licensing arrangements. We continue to record revenues, to a lesser extent, from international licensing arrangements and home entertainment and from pay and free TV in the domestic market.

## Expenses

For the three months ended March 31, 2018 and 2017, our operating expenses were as follows:

	For the three months ended March 31,	
	2018	2017
<b>Expenses:</b>		
Direct costs	\$ 571,336	\$ 500,526
Selling, general and administrative	1,032,407	187,774
Depreciation and amortization	371,181	4,635
Legal and professional	459,580	375,269
Payroll	3,449,345	336,354
<b>Total expenses</b>	<b>\$ 5,883,849</b>	<b>\$ 1,404,558</b>

Our operating expenses for the three months ended March 31, 2018, include expenses related to our entertainment publicity business, which were not included in the comparable 2017 period.

Direct costs attributable to entertainment publicity were \$0.3 million for the three months ended March 31, 2018. Direct costs for the content production business decreased by approximately \$0.3 million for the three months ended March 31, 2018 as compared to the same period in the prior year primarily due to a decrease in the amortization of capitalized production costs for *Max Steel*. Capitalized production costs are amortized based on revenues recorded during the period over the estimated ultimate revenues of the film. Because there has been a decrease in the revenues generated by *Max Steel*, as discussed above, amortization of capitalized production costs has also decreased.

Selling, general and administrative expenses attributable to the entertainment publicity business were approximately \$0.9 million for the three months ended March 31, 2018. Selling, general and administrative expenses decreased slightly for the content production business during the three months ended March 31, 2018 as compared to the same period in the prior year, primarily due to the sublease of the LA office in June of 2017.

Depreciation and amortization for the three months ended March 31, 2018 contains (i) depreciation of the assets of the entertainment publicity business and (ii) \$0.3 million of amortization of intangible assets created as a result of the acquisition of 42West on March 30, 2017.

Legal and professional fees for the three months ended March 30, 2018 include \$0.2 million related to the entertainment publicity business. Legal and professional fees related to the content production business decreased by approximately \$0.1 million during the three months ended March 31, 2018 as compared to the same period in prior year primarily due to the termination of the services of several consultants whose services were no longer required.

Payroll expenses for the three months ended March 31, 2018 include \$3.2 million related to the entertainment publicity business. Payroll expenses for the content production business decreased by approximately \$0.1 million for the three months ended March 31, 2018 as compared to the same period in the prior year due to a reduction in employee headcount during the third and fourth quarter of 2017.

## Other Income and Expenses

	For the three months ended	
	March 31,	
	2018	2017
<b>Other Income and expenses:</b>		
Change in fair value of warrant liability		\$
	\$ 168,317	6,823,325
Acquisition costs	—	(537,708)
Change in fair value of put rights	1,083,596	—
Interest expense	(267,426)	(452,137)
<b>Total</b>	<b>\$ 984,487</b>	<b>\$ (5,833,480)</b>

During 2016, certain warrants were issued that required derivative liability classification. We recorded these warrants at their fair value on the date of issuance and record any changes to fair value at each balance sheet date on our condensed consolidated statements of operation. The fair value of the warrant liability decreased by approximately \$0.2 million and \$6.8 million, respectively, for the three months ended March 31, 2018 and 2017, resulting in a gain on the change in fair value.

For the three months ended March 31, 2017, we incurred approximately \$0.5 million of acquisition costs consisting of legal, consulting and auditing costs related to our acquisition of 42West that were classified as acquisition costs.

The fair value of Put Rights related to the 42West acquisition were recorded on our balance sheet on the date of the acquisition. The fair value of the Put Rights is measured at every balance sheet date and any changes are recorded on our consolidated statements of operations. The fair value of the Put Rights decreased by approximately \$1.1 million for the three months ended March 31, 2018.

Interest expense decreased by approximately \$0.2 million for the three months ended March 31, 2018 as compared to the same period in the prior year, primarily due to a decrease in the amount of accrued interest for the Production Service Agreement, as payments have been received from the international distribution sales of *Max Steel* and such payments have been applied to the outstanding balance of the Production Service Agreement.

## Net Income

Net income was approximately \$0.8 million or \$0.07 per share based on 12,517,660 weighted average shares outstanding and \$0.07 per diluted share based on 12,786,065 weighted average shares outstanding on a fully diluted basis for the three months ended March 31, 2018. Net income was approximately \$5.0 million or \$0.69 per share based on 7,238,707 weighted average shares outstanding and \$0.10 per share based on 8,652,809 weighted average shares outstanding on a fully diluted basis for the three months ended March 31, 2017. The reduction in net income for three months ended March 31, 2018, as compared to the three months ended March 31, 2017 related to the factors discussed above.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

#### Three months ended March 31, 2018 as compared to three months ended March 31, 2017

For the three months ended March 31, 2018, cash flows from operating activities were insignificant. By comparison during the three months ended March 31, 2017, cash flows provided by operating activities were \$3.7 million. The decrease in cash provided by operating activities is primarily due to (i) collection of receivables from the motion picture *Max Steel* during 2017 and (ii) collection of production tax incentives related to *Max Steel* during 2017 that were both used to pay the debt incurred for the production and P&A expenses for the release of the motion picture.

Cash flows used in investing activities for the three months ended March 31, 2018 were approximately \$0.04 million as compared to \$0.01 million of cash flows provided by investing activities during the three months ended March 31, 2017. Cash flows used in investing activities during the three months ended March 31, 2018 consisted of (i) purchases of fixed assets and (ii) payment to settle amounts due, under a termination agreement, to a former employee of 42West. Cash flows provided by investing activities for the three months ended March 31, 2017 was related to 42West acquisition.

Cash flows used in financing activities for the three months ended March 31, 2018 were approximately \$0.7 million as compared to \$5.1 million of cash flows used in financing activities during the three months ended March 31, 2017. The decrease in cash used in financing activities is primarily due to the repayment of a portion of the debt incurred for the production and P&A expenses for the release of *Max Steel* during the three months ended March 31, 2017. During the three months ended March 31, 2018, cash flows provided by financing activities were primarily from our newly established line of credit with BankUnited, N.A. We used cash flows from financing activities to (i) pay for the put options exercised by the sellers of 42West and (ii) payoff an existing line of credit with City National Bank.

As of March 31, 2018 and 2017, we had cash available for working capital of approximately \$4.5 million and \$0.6 million, respectively, and a working capital deficit of approximately \$13.0 million and \$19.8 million, respectively.

These factors, along with an accumulated deficit of \$92.0 million as of March 31, 2018, raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. In this regard, management is planning to raise any necessary additional funds through loans and additional issuances of our Common Stock, securities convertible into our Common Stock, debt securities or a combination of such financing alternatives. There is no assurance that we will be successful in raising additional capital. Such issuances of additional shares of Common Stock or securities convertible into Common Stock would further dilute the equity interests of our existing shareholders, perhaps substantially. We currently have the rights to several scripts and we intend to obtain financing to produce one of them during 2018 and release it in 2019. We will potentially earn a producer and overhead fee for this production. There can be no assurances that such production will be released or fees will be realized in future periods.

In addition, we have a substantial amount of debt. We do not currently have sufficient assets to repay such debt in full when due, and our available cash flow may not be adequate to maintain our current operations if we are unable to repay, extend or refinance such indebtedness. As of March 31, 2018, our total debt was approximately \$13.1 million and our total stockholders' equity was approximately \$5.2 million. Approximately \$5.1 million of the total debt as of March 31, 2018 represents the fair value of put options in connection with the 42West acquisition, which may or may not be exercised by the sellers. Approximately \$2.9 million of our indebtedness as of March 31, 2018 (\$0.8 million outstanding under the prints and advertising loan agreement plus \$2.1 million outstanding under the production service agreement) was incurred by our Max Steel subsidiary and the variable interest entity consolidated in our financial statements, Max Steel Productions LLC ("Max Steel VIE"). Repayment of these loans was intended to be made from revenues generated by *Max Steel* both within and outside of the United States. *Max Steel* did not generate sufficient funds to repay either of these loans prior to the maturity date. As a result, if the lenders foreclose on the collateral securing the loans, our subsidiary will lose the copyright for *Max Steel* and, consequently, will no longer receive any revenues from *Max Steel*. In addition, we would impair the capitalized production costs and accounts receivable related to the sales of *Max Steel* included as assets on our balance sheet, which as of March 31, 2018 were approximately \$0.7 million and \$1.0 million, net of \$0.2 million allowance for doubtful accounts.

If we are not able to generate sufficient cash to service our current or future indebtedness, we will be forced to take actions such as reducing or delaying digital or film productions, selling assets, restructuring or refinancing our indebtedness or seeking additional debt or equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms or at all and our indebtedness may affect our ability to continue to operate as a going concern.

## Put Rights

In connection with the 42West acquisition, pursuant to Put Agreements, we granted the sellers Put Rights to purchase up to an aggregate of 1,187,094 shares of our common stock that they received as consideration (including shares from the earn out consideration which was achieved for the year ended December 31, 2017) for a purchase price of \$9.22 per share during certain specified exercise periods up until December 2020. During the quarter ended March 31, 2018, we purchased 183,296 shares of our Common Stock from certain of the sellers in accordance with the Put Agreements for an aggregate purchase price of \$1,690,000.

During the quarter ended March 31, 2018, we entered into Put Agreements with three 42West employees with change of control provisions in their employment agreements. We agreed to purchase up to 50% of the shares of Common Stock to be received by the employees in satisfaction of the change of control provision in their employment agreements. During the quarter ended March 31, 2018, we purchased a total of 51,485 shares of Common Stock for an aggregate amount of \$474,681. The employees have put rights to purchase an additional 89,050 shares of Common Stock, including in respect of the earn out consideration. See Note 3—Acquisition of 42West for further discussion of the 42West acquisition and the put agreements we entered into with the sellers and 42West employees.

## Financing Arrangements

### ***Prints and Advertising Loan***

On August 12, 2016, Dolphin Max Steel Holdings, LLC, a wholly owned subsidiary of Dolphin Films, or Max Steel Holdings, entered into a loan and security agreement, or the P&A Loan, providing for a non-revolving credit facility in an aggregate principal amount of up to \$14,500,000 that matured on August 25, 2017. The loan is not guaranteed by any other Dolphin entity and the only asset held by Max Steel Holdings is the copyright for the motion picture, which secures the loan. The proceeds of the credit facility were used to pay a portion of the P&A expenses of the domestic distribution of our feature film, *Max Steel*. To secure Max Steel Holdings' obligations under the P&A Loan, we granted to the lender a security interest in bank account funds totaling \$1,250,000 pledged as collateral. During 2017, we agreed to allow the lender to apply the \$1,250,000 to the loan balance. The loan is partially secured by a \$4,500,000 corporate guaranty from an unaffiliated third party associated with the motion picture, of which we agreed to provide a backstop guaranty of \$620,000. As a condition precedent to closing the loan, Max Steel Holdings delivered to the lender clear chain-of-title to the rights of the motion picture *Max Steel*. The lender has retained a reserve of \$1.5 million for loan fees and interest. Amounts borrowed under the credit facility accrue interest at either (i) a fluctuating per annum rate equal to the 5.5% plus a base rate or (ii) a per annum rate equal to 6.5% plus the LIBOR determined for the applicable interest period, determined by the borrower. During the 2017, the third-party guarantor paid \$4.5 million pursuant to the guarantee of the loan, reducing the outstanding balance by such amount and increasing our accrued expenses by the \$620,000 backstop guaranty related to the third-party guarantee. Repayment of the loan was intended to be made from revenues generated by *Max Steel* in the United States. *Max Steel* did not generate sufficient funds to repay the loan prior to the maturity date. As a result, if the lender forecloses on the collateral securing the loan, Max Steel Holdings will lose the copyright for *Max Steel* and, consequently, will no longer receive any revenues from the domestic distribution of *Max Steel*. In addition, we would impair the entire capitalized production costs of *Max Steel* included as an asset on our balance sheet, which as of March 31, 2018 was \$0.7 million. As of March 31, 2018 and December 31, 2017, we recorded a liability of \$ 866,825 and \$1,900,970, respectively, related to this agreement on our condensed consolidated balance sheets.

### ***Production Service Agreement***

During 2014, the Max Steel VIE, created in connection with the financing and production of Max Steel, entered into a loan agreement in the amount of \$10.4 million to produce *Max Steel*. The loan is partially secured by international distribution agreements made prior to the commencement of principal photography and tax incentives. The agreement contains repayment milestones to be made during the year ended December 31, 2015, that if not met, accrue interest at a default rate of 8.5% per annum above the published base rate of HSBC Private Bank (UK) Limited until the maturity on January 31, 2016 or the release of the movie. As a condition precedent to closing the loan, Max Steel Holdings delivered to the lender clear chain-of-title to the rights of the motion picture *Max Steel*. Due to delays in the release of the film, Max Steel VIE was unable to make some of the scheduled payments and, pursuant to the terms of the agreement, the Max Steel VIE has accrued \$1.5 million of interest at the default rate. The film was released in theaters in the United States on October 14, 2016 and delivery to the international distributors began after the US release. As of each of March 31, 2018 and December 31, 2017, we had an outstanding balance of \$2.1 million related to this debt on our consolidated balance sheets. Repayment of the loan was intended to be made from revenues generated by *Max Steel* outside of the United States. *Max Steel* did not generate sufficient funds to repay the loan prior to the maturity date. As a result, if the lender forecloses on the collateral securing the loan, Max Steel VIE will lose the copyright for *Max Steel* and, consequently, our consolidated financial statements will no longer reflect any revenues from the distribution of *Max Steel* in foreign territories. In addition, we would impair the accounts receivable related to the foreign distribution agreements included as an asset on our balance sheet, which as of March 31, 2018 was approximately \$0.7 million, net of allowance for doubtful accounts.

### ***42West Line of Credit***

42West had a revolving line of credit with City National Bank under a revolving note, which matured on November 1, 2017. City National Bank did not call the outstanding principal of the revolving note but on January 28, 2018, we paid the outstanding balance of \$750,000 and satisfied in full our obligation under the revolving note.

On March 15, 2018, 42West entered into a business loan agreement with BankUnited, N.A. (the "Loan Agreement") for a revolving line of credit. The revolving line of credit matures on March 15, 2020 and bears interest on the outstanding balance at the bank's prime rate plus 0.25% per annum. The maximum amount that can be drawn on the revolving line of credit is \$2,300,000. Amounts outstanding under the note are secured by 42West's current and future inventory, chattel paper, accounts, equipment and general intangibles. On March 28, 2018, we drew \$1,690,000 from the line of credit facility to purchase 183,296 shares of our Common Stock, per the Put Agreements with the sellers.

The Loan Agreement contains customary affirmative covenants, including covenants regarding maintenance of a maximum debt to total net worth ratio of at least 4.0:1.0 and a minimum debt service coverage of 1.40x based on fiscal year-end audit to be calculated as provided in the Loan Agreement. Further, the Loan Agreement contains customary negative covenants, including those that, subject to certain exceptions, restrict the ability of 42West to incur additional indebtedness, grant liens, make loans, investments or certain acquisitions, or enter into certain types of agreements. Upon the occurrence of an event of default, the bank may accelerate the maturity of the loan and declare the unpaid principal balance and accrued but unpaid interest immediately due and payable. In the event of 42West's insolvency, such outstanding amounts will automatically become due and payable. 42West may prepay any amounts outstanding under the Loan Agreement without penalty.

### ***Promissory Notes***

On November 30, 2017, we entered into an unsecured promissory note that matures on January 15, 2019 and received \$200,000. We may prepay this promissory note with no penalty at any time. The promissory note bears interest at a rate of 10% per annum.

On June 14, 2017, we entered into an unsecured promissory note that matures two years after issuance and received \$400,000. We may prepay this promissory note with no penalty after the initial six months. The promissory note bears interest at a rate of 10% per annum. We have a balance of \$400,000 in noncurrent liabilities and accrued interest of \$1,778 related to this promissory note payable as of December 31, 2017.

On July 5, 2012, we entered into an unsecured promissory note in the amount of \$300,000 bearing interest at a rate of 10% per annum and payable on demand.

We have a balance of \$500,000 in current liabilities, a balance of \$400,000 in noncurrent liabilities and accrued interest of \$175,636 in other current liabilities related to these convertible promissory notes payable as of March 31, 2018.

### ***Subscription Agreements***

#### ***2017 Convertible Promissory Notes***

On July 18, July 26, July 27, July 31, August 30, September 6, September 8, and September 22, 2017, we entered into subscription agreements pursuant to which we issued unsecured convertible promissory notes, each with substantially similar terms, for an aggregate principal amount of \$875,000. Each of the convertible promissory notes matures one year from the date of issuance, with the exception of one note in the amount of \$75,000 which matures two years from the date of issuance, and bears interest at a rate of 10% per annum. The principal and any accrued and unpaid interest of the convertible promissory notes are convertible by the respective holders into shares of Common Stock at a price of either (i) the 90-trading day average price per share of Common Stock as of the date the holder submits a notice of conversion or (ii) if an Eligible Offering (as defined in the convertible promissory notes) of Common Stock is made, 95% of the public offering price per share of Common Stock. As of March 31, 2018, we had a balance of \$800,000 in current liabilities and a balance of \$75,000 in noncurrent liabilities related to these convertible promissory notes.

#### ***Payable to Former Member of 42West***

During 2011, 42West entered into an agreement to purchase the interest of one of its members. Pursuant to the agreement, the outstanding purchase price for such interest became payable in connection with our acquisition of the membership interests of 42West. We paid \$300,000 during April 2017 and the \$225,000 on January 5, 2018.

### **Critical Accounting Policies, Judgments and Estimates**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. Generally Accepted Accounting Principles, or "GAAP". The preparation of these consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimate that are reasonably likely to occur, could materially impact the consolidated financial statements. We believe that the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the consolidated financial statements.

### **Capitalized Production Costs**

Capitalized production costs represent the costs incurred to develop and produce a web series or feature films. These costs primarily consist of salaries, equipment and overhead costs, as well as the cost to acquire rights to scripts. Capitalized production costs are stated at the lower of cost, less accumulated amortization and tax credits, if applicable, or fair value. These costs are capitalized in accordance with Financial Accounting Standards Board, or "FASB", Accounting Standards Codification, or "ASC", Topic 926-20-50-2 "Other Assets – Film Costs". Unamortized capitalized production costs are evaluated for impairment each reporting period on a title-by-title basis. If estimated remaining revenue is not sufficient to recover the unamortized capitalized production costs for that title, the unamortized capitalized production costs will be written down to fair value. Any project that is not greenlit for production within three years is written off.

We are responsible for certain contingent compensation, known as participations, paid to certain creative participants such as writers, directors and actors. Generally, these payments are dependent on the performance of the web series and are based on factors such as total revenue as defined per each of the participation agreements. We are also responsible for residuals, which are payments based on revenue generated from secondary markets that are generally paid to third parties pursuant to a collective bargaining, union or guild agreement. These costs are accrued to direct operating expenses as the revenues, as defined in the participation agreements, are achieved and as sales to the secondary markets are made triggering the residual payment.

Due to the inherent uncertainties involved in making such estimates of ultimate revenues and expenses, these estimates are likely to differ to some extent in the future from actual results. Our management regularly reviews and revises when necessary its ultimate revenue and cost estimates, which may result in a change in the rate of amortization of film costs and participations and residuals and/or write-down of all or a portion of the unamortized deferred production costs to its estimated fair value. Our management estimates the ultimate revenue based on existing contract negotiations with domestic distributors and international buyers as well as management's experience with similar productions in the past.

An increase in the estimate of ultimate revenue will generally result in a lower amortization rate and, therefore, less amortization expense of deferred productions costs, while a decrease in the estimate of ultimate revenue will generally result in a higher amortization rate and, therefore, higher amortization expense of capitalized production costs. Our management evaluates unamortized production costs for impairment whenever there is an event that may signal that the fair value of the unamortized production costs are below their carrying value. One example that may trigger this type of analysis is the under-performance in the domestic box office of a feature film. For digital productions, this analysis may occur if we are unable to secure sufficient advertising revenue for our web series. We typically perform an impairment analysis using a discounted cash flow method. Any write-down resulting from an impairment analysis is included in direct costs within our consolidated statements of operations.

### **Revenue Recognition**

On January 1, 2018, we adopted ASU No. 2014-09 – Revenue from Contracts with Customers (Topic 606). Using this newly adopted guidance, we recognize revenue when promised goods or services are transferred to our clients in an amount that reflects the consideration to which we expect to be entitled to in exchange for those goods or services. Revenue from public relations consists of fees from the performance of professional services and billings for direct costs reimbursed by clients. Fees are generally recognized on a straight-line or monthly basis, as the services are consumed by our clients, which approximates the proportional performance on such contracts. Direct costs reimbursed by clients are billed as pass-through revenue with no mark-up.

We have entered into agreements with foreign and a domestic distributor for our motion picture *Max Steel*. These international distribution agreements contain minimum guaranteed payments once the motion picture is delivered and other specifications are met per the agreements. We entered into a domestic distribution agreement with Open Road to distribute the film in the United States using their existing relationships and output agreements with the movie theaters, as well as DVD, SVOD, pay TV, and free TV distributors. These distribution agreements are for the licensing of function intellectual property and, as such, we recognize revenue once the motion picture has been delivered and the license period has begun.

ASC 606 provides guidance on determining whether revenues should be recognized on a gross or net basis (Principal vs Agent). Based on the new guidance of ASC 606, we determined that for the domestic distribution of *Max Steel* we should report revenues on a gross basis because we are primarily responsible for the fulfillment of the completed motion picture and carry the “inventory risk” if the motion picture does not meet the customers specifications. At other times, we may enter into contracts with distributors, on significantly different terms, and will need to evaluate these contracts at that time.

### ***Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Observable inputs are based on market data obtained from sources independent of our company. Unobservable inputs reflect our own assumptions based on the best information available in the circumstances. The fair value hierarchy prioritizes the inputs used to measure fair value into three broad levels, defined as follows:

- Level 1 — Inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date.
- Level 2 — Inputs other than quoted prices included within Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs. Unobservable inputs for the asset or liability that reflect management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability as of the reporting date.

We carry certain derivative financial instruments using inputs classified as “Level 3” in the fair value hierarchy on our balance sheets.

### **Warrants**

When we issue warrants, we evaluate the proper balance sheet classification of the warrant to determine whether the warrant should be classified as equity or as a derivative liability on the consolidated balance sheets. In accordance with ASC 815-40, Derivatives and Hedging-Contracts in the Entity’s Own Equity (ASC 815-40), we classify a warrant as equity so long as it is “indexed to the company’s equity” and several specific conditions for equity classification are met. A warrant is not considered indexed to the company’s equity, in general, when it contains certain types of exercise contingencies or contains certain provisions that may alter either the number of shares issuable under the warrant or the exercise price of the warrant, including, among other things, a provision that could require a reduction to the then current exercise price each time we subsequently issues equity or convertible instruments at a per share price that is less than the current conversion price (also known as a “full ratchet down round provision”). If a warrant is not indexed to the company’s equity, it is classified as a derivative liability which is carried on the consolidated balance sheets at fair value with any changes in its fair value recognized currently in the statements of operations.

We classified the Series G, H, and I warrants issued during 2016 as derivative liabilities, because they contain full-ratchet down round provisions and report the warrants on our consolidated balance sheets at fair value under the caption “warrant liability” and report changes in the fair value of the warrant liability on the consolidated statements of operations under the caption “change in fair value of warrant liability”. Series G, H, and I warrants were measured at March 31, 2018 using inputs classified as “level 3” of the fair value hierarchy. We develop unobservable “level 3” inputs using the best information available in the circumstances, which might include our own data, or when we believe inputs based on external data better reflect the data that market participants would use, we base our inputs on comparison with similar entities. Due to the existence of the full ratchet down round provision, which creates a path-dependent nature of the exercise prices of the warrants, we decided a Monte Carlo Simulation model, which incorporates inputs classified as “level 3” was appropriate for valuing Series G, H and I warrants as of March 31, 2018.

Key inputs used in the Monte Carlo Simulation model to determine the fair value of the Series G, H and I warrants at March 31, 2018 are as follows:

Inputs	Series G	Series H	Series I
Volatility <sup>(1)</sup>	71.1%	71.1%	63.7%
Expected term (years)	0.83	0.83	1.83
Risk free interest rate	2.06%	2.06%	2.25%
Common stock price	\$ 3.52	\$ 3.52	\$ 3.52
Exercise price	\$ 4.12	\$ 4.12	\$ 4.12

(1) "Level 3" input.

The "level 3" stock volatility assumption represents the range of the volatility curves used in the valuation analysis that we determined market participants would use based on comparison with similar entities. The risk-free interest rate is interpolated where appropriate, and is based on treasury yields. The valuation model also included a "level 3" assumption we developed as to dates of potential future financings by us that may cause a reset of the exercise price of the warrants.

### Put Rights

In connection with the 42West acquisition, we entered into Put Agreements with each of the sellers of 42West granting them the right, but not the obligation, to cause us to purchase up to an aggregate of 1,187,094 of their shares received as consideration for their membership interest of 42West, including the Put Rights on the shares earned from the earn out consideration. Based upon the results of operations of 42West, the sellers earned this additional consideration. In January of 2018, we also entered into put agreements with certain 42West employees granting them the right, but not the obligation, to cause us to purchase up to an aggregate of 140,535 of their shares received in April 2017, to be received (i) in July 2018 and (ii) earned from the earn out consideration. We have agreed to purchase the shares at \$9.22 per share during certain specified exercise periods as set forth in the put agreements, up until December 2020. During the quarter March 31, 2018, we purchased 234,781 shares of Common Stock for an aggregate amount of \$2,164,680 from the sellers and the 42West employees with put options.

We use a Black-Scholes Option Pricing model, which incorporates significant inputs that are not observable in the market, and thus represents a Level 3 measurement as defined in ASC820. The unobservable inputs utilized for measuring the fair value of the Put Rights reflects management's own assumptions that market participants would use in valuing the Put Rights. The Put Rights were initially measured on the date of the put agreements and are subsequently measured at each balance sheet date with changes in the fair value between balance sheet dates, being recorded as a gain or loss in the statement of operations.

### **Income Taxes**

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law, making significant changes to the taxation of U.S. business entities. The Tax Act reduced the U.S. corporate income tax rate from 35% to 21%, imposed a one-time transition tax in connection with the move from a worldwide tax system to a territorial tax system, provided for accelerated deductions for certain U.S. film production costs, imposed limitations on certain tax deductions such as executive compensation in future periods, and included numerous other provisions. We are currently in the process of evaluating the full impact of the Tax Act on our financial statements and have not completed this evaluation. We have reported provisional amounts reflecting our reasonable estimates of the impact of the Tax Act. The estimated impact of the Tax Act is based on a preliminary review of the new law and is subject to revision based upon further analysis and interpretation of the Tax Act.

### **Recent Accounting Pronouncements**

For a discussion of recent accounting pronouncements, see Note 1 to the consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

### **Off-Balance Sheet Arrangements**

As of March 31, 2018 and 2017, we did not have any off-balance sheet arrangements.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q constitute “forward-looking” statements for purposes of federal and state securities laws. These statements concern expectations, beliefs, projections, plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Such forward-looking statements include:

- our expectations regarding the potential benefits and synergies we can derive from our acquisitions;
- our expectations regarding increased movie marketing budgets at several large key clients and the impact of such increased budgets on revenue and profit in 42West’s Entertainment and Targeted Marketing division over the next several years;
- our intention to hire new individuals or teams whose existing books of business and talent rosters can be accretive to revenues and profits of the business and our expectations regarding the impact of such additional hires on the growth of our revenues and profits;
- our beliefs regarding the drivers of growth in 42West’s Strategic Communications division, the timing of such anticipated growth trend and its resulting impact on the overall revenue mix of 42West;
- our intention to selectively pursue complementary acquisitions, our belief that such acquisitions will create synergistic opportunities and increased profits and cash flows, and our expectation regarding the timing of such acquisitions;
- our expectations concerning the timing of production and release of future feature films and digital projects, our intention to obtain financing for such projects and our target demographics;
- our expectation that we will continue to receive revenues from our motion picture, *Max Steel* from (i) international revenues expected to be derived through license agreements with international distributors and (ii) other secondary distribution revenues;
- our intention to use our purchased scripts for future motion picture and digital productions;
- our expectations to raise funds through loans, additional sales of our Common Stock, securities convertible into our Common Stock, debt securities or a combination of financing alternatives;
- our belief that the only recourse to the lenders under the production service agreement and prints and advertising loan is to foreclose on the collateral securing the loans, which consists of the copyright for *Max Steel*;
- our beliefs regarding the outcome of litigation to which we are a party, that arise in the ordinary course of business; and
- our intention to implement improvements to address material weaknesses in internal control over financial reporting.

These forward-looking statements reflect our current views about future events and are subject to risks, uncertainties and assumptions. We wish to caution readers that certain important factors may have affected and could in the future affect our actual results and could cause actual results to differ significantly from those expressed in any forward-looking statement. The most important factors that could prevent us from achieving our goals, and cause the assumptions underlying forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements include, but are not limited to, the following:

- our ability to realize the anticipated benefits of the 42West acquisition, including synergies, expanded interrelated service offerings, growth and increased revenues;
- our beliefs regarding the stability of 42West’s client base;
- our ability to successfully identify and complete acquisitions in line with our growth strategy and anticipated timeline, and to realize the anticipated benefits of those acquisitions;
- our ability to accurately interpret trends and predict future demand in the digital media and film industries;
- our ability to repay our loans under the production service agreement and prints and advertising loan in accordance with the terms of the agreements so that we will be able to continue to receive revenues from *Max Steel*;
- our ability to comply with terms and covenants in our revolving credit line;
- our ability to maintain compliance with Nasdaq listing requirements;
- the ability of the lenders under the production service agreement and prints and advertising loan to successfully assert that we are liable to them for the payment of our subsidiary’s or *Max Steel* VIE’s debt;
- adverse events, trends and changes in the entertainment or entertainment marketing industries that could negatively impact 42West’s operations and ability to generate revenues;
- loss of a significant number of 42West clients;

- the ability of key 42West clients to increase their movie marketing budgets as anticipated;
- our ability to continue to successfully identify and hire new individuals or teams who will provide growth opportunities;
- uncertainty that our strategy of hiring of new individuals or teams will positively impact our revenues and profits;
- lack of demand for strategic communications services by traditional and non-traditional media clients who are expanding their activities in the content production, branding and consumer products sectors;
- unpredictability of the commercial success of our current and future web series and motion pictures;
- economic factors that adversely impact the entertainment industry, as well as advertising, production and distribution revenue in the online and motion picture industries;
- our ability to identify, produce and develop online digital entertainment and motion pictures that meet industry and customer demand;
- competition for talent and other resources within the industry and our ability to enter into agreements with talent under favorable terms;
- our ability to attract and/or retain the highly specialized services of the 42West executives and employees and our CEO;
- availability of financing from our CEO and other investors under favorable terms;
- our ability to adequately address material weaknesses in internal control over financial reporting;
- uncertainties regarding the outcome of pending litigation; and
- the factors included under “Risk factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Any forward-looking statements, which we make in this Form 10-Q, speak only as of the date of such statement, and we undertake no obligation to update such statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

## ITEM 4. CONTROLS AND PROCEDURES

### Management's Report on the Effectiveness of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure.

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2018. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective due to material weaknesses disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on April 9, 2018, which have not been fully remediated as of the date of the filing of this report.

### Remediation of Material Weaknesses in Internal Control over Financial Reporting

In order to remediate the other material weaknesses in internal control over financial reporting, we are in the process of finalizing a remediation plan, under the direction of our Board of Directors, and intend to implement improvements during fiscal year 2018 as follows:

- Our board of directors intends to review the COSO "Internal Control over Financial Reporting - Guidance for Smaller Public Companies" that was published in 2006 including the control environment, risk assessment, control activities, information and communication and monitoring. Based on this framework, the board of directors plans to implement controls as needed assuming a cost benefit relationship. In addition, our board of directors plans to evaluate the key concepts of the updated 2013 COSO "Internal Control – Integrated Framework" as it provides a means to apply internal control to any type of entity.
- We plan to document all significant accounting policies and ensure that the accounting policies are in accordance with GAAP and that internal controls are designed effectively to ensure that the financial information is properly reported.
- We plan to implement a higher standard for document retention and support for all items related to revenue recognition. All revenue arrangements that are entered into by us will be evaluated under the applicable revenue guidance and management should document its position based on the facts and circumstances of each agreement.
- We plan to review our current review and approval processes and implement changes to ensure that all material agreements, accounting reconciliations and journal entries are reviewed and approved on a timely basis and that such review is documented by a member of management separate from the preparer. A documented quarter end close procedure will be established whereby management expects to review and approve reconciliations and journal entries prepared by the outside accountant. Management plans to formally approve new vendors that are added to the master vendor file.
- We plan to hire at least one additional person to ensure proper segregation of duties, reconciliation reviews, and quarter end reviews.

### Changes in Internal Control over Financial Reporting

During our last fiscal quarter there were no changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect such internal controls over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors associated with our business, which are contained in Item 1A, “Risk Factors,” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on April 9, 2018.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### Company Purchases of Equity Securities

The following table presents information related to our repurchases of our shares of Common Stock during the quarter ended March 31, 2018:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
1/1/2018 – 1/31/2018	—	—	—	—
2/1/2018 – 2/28/2018	—	—	—	—
3/1/2018 – 3/31/2018	252,366	\$ 8.80	—	—
<b>Total</b>	<b>252,366</b>	<b>\$ 8.80</b>	<b>—</b>	<b>—</b>

(1) Pursuant to the terms and subject to the conditions set forth in the put agreements, the sellers and certain 42West employees exercised their put rights for an aggregate of 234,781 shares of Common Stock for an aggregate amount of \$2,164,680. See Note 3—Acquisition of 42West for further discussion of the put agreements. This amount also includes shares owned and tendered by employees to satisfy payroll and the required withholding taxes related to equity awards.

Our policy governing transactions in Dolphin Entertainment securities by our directors, officers and employees permits our directors, officers and certain other persons to enter into trading plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. Allan Mayer, an employee and director on our Board of Directors, entered into a new trading plan in the second quarter of 2018 in accordance with Rule 10b5-1 and our policy governing transactions in our securities. We undertake no obligation to update or revise the information provided herein, including for revision or termination of an established trading plan.

### ITEM 6. EXHIBITS

Exhibit No.	Description
10.1	<a href="#">Business Loan Agreement, dated as of March 15, 2018, by and between 42West, LLC and BankUnited, N.A.</a>
10.2	<a href="#">Promissory Note, dated as of March 15, 2018, in favor of BankUnited, N.A.</a>
10.3	<a href="#">Commercial Security Agreement, dated as of March 15, 2018, by and between 42West, LLC and BankUnited, N.A.</a>
31.1	<a href="#">Certification of Chief Executive Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1	<a href="#">Certification of Chief Executive Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2	<a href="#">Certification of Chief Financial Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized May 15, 2018.

**Dolphin Entertainment, Inc.**

By: /s/ William O'Dowd IV  
Name: William O'Dowd IV  
Chief Executive Officer

By: /s/ Mirta A Negrini  
Name: Mirta A Negrini  
Chief Financial Officer

## BUSINESS LOAN AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$2,300,000.00	03-15-2018	03-15-2020	53263	330 / 0023		9845	
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

**Borrower:** 42West, LLC  
600 3rd Avenue, 23rd Floor  
NY, NY 10016

**Lender:** BankUnited, N.A.  
Business Banking  
7815 NW 148 Street  
MC: 2-CREAD  
Miami Lakes, FL 33016

**THIS BUSINESS LOAN AGREEMENT** dated March 15, 2018, is made and executed between 42West, LLC ("Borrower") and BankUnited, N.A. ("Lender") on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans or other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement. Borrower understands and agrees that: (A) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement; (B) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (C) all such Loans shall be and remain subject to the terms and conditions of this Agreement.

**TERM.** This Agreement shall be effective as of March 15, 2018, and shall continue in full force and effect until such time as all of Borrower's Loans in favor of Lender have been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until such time as the parties may agree in writing to terminate this Agreement.

**ADVANCE AUTHORITY.** The following person or persons are authorized to request advances and authorize payments under the line of credit until Lender receives from Borrower, at Lender's address shown above, written notice of revocation of such authority: **William O'Dowd, President/CEO of Dolphin Entertainment, Inc., Manager of 42West, LLC.**

**CONDITIONS PRECEDENT TO EACH ADVANCE.** Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

**Loan Documents.** Borrower shall provide to Lender the following documents for the Loan: (1) the Note; (2) Security Agreements granting to Lender security interests in the Collateral; (3) financing statements and all other documents perfecting Lender's Security Interests; (4) evidence of insurance as required below; (5) subordinations; (6) together with all such Related Documents as Lender may require for the Loan; all in form and substance satisfactory to Lender and Lender's counsel.

**Borrower's Authorization.** Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents. In addition, Borrower shall have provided such other resolutions, authorizations, documents and instruments as Lender or its counsel, may require.

**Payment of Fees and Expenses.** Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

**Representations and Warranties.** The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

**No Event of Default.** There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement or under any Related Document.

**REPRESENTATIONS AND WARRANTIES.** Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

**Organization.** Borrower is a limited liability company which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the State of Delaware. Borrower is duly authorized to transact business in the State of Florida and all other states in which Borrower is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which Borrower is doing business. Specifically, Borrower is, and at all times shall be, duly qualified as a foreign limited liability company in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition.

Borrower has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. Borrower maintains an office at 600 3rd Avenue, 23rd Floor, NY, NY 10016. Unless Borrower has designated otherwise in writing, the principal office is the office at which Borrower keeps its books and records including its records concerning the Collateral. Borrower will notify Lender prior to any change in the location of Borrower's state of organization or any change in Borrower's name. Borrower shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to Borrower and Borrower's business activities.

**Assumed Business Names.** Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business: None.

**Authorization.** Borrower's execution, delivery, and performance of this Agreement and all the Related Documents have been duly authorized by all necessary action by Borrower and do not conflict with, result in a violation of, or constitute a default under (1) any provision of (a) Borrower's articles of organization or membership agreements, or (b) any agreement or other instrument binding upon Borrower or (2) any law, governmental regulation, court decree, or order applicable to Borrower or to Borrower's properties.

**Financial Information.** Each of Borrower's financial statements supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

**Legal Effect.** This Agreement constitutes, and any instrument or agreement Borrower is required to give under this Agreement when delivered will constitute legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

**Properties.** Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used or filed a financing statement under any other name for at least the last five (5) years.

**Hazardous Substances.** Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (1) During the period of Borrower's ownership of the Collateral, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance by any person on, under, about or from any of the Collateral. (2) Borrower has no knowledge of, or reason to believe that there has been (a) any breach or violation of any Environmental Laws; (b) any use, generation, manufacture, storage, treatment, disposal, release or threatened release of

any Hazardous Substance on, under, about or from the Collateral by any prior owners or occupants of any of the Collateral; or (c) any actual or threatened litigation or claims of any kind by any person relating to such matters. (3) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the Collateral shall use, generate, manufacture, store, treat, dispose of or release any Hazardous Substance on, under, about or from any of the Collateral; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation all Environmental Laws. Borrower authorizes Lender and its agents to enter upon the Collateral to make such inspections and tests as Lender may deem appropriate to determine compliance of the Collateral with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Collateral for hazardous waste and Hazardous Substances. Borrower hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the Collateral. The provisions of this section of the Agreement, including the obligation to indemnify and defend, shall survive the payment of the Indebtedness and the termination, expiration or satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Collateral, whether by foreclosure or otherwise.

**Litigation and Claims.** No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

**Taxes.** To the best of Borrower's knowledge, all of Borrower's tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower In good faith in the ordinary course of business and for which adequate reserves have been provided.

**Lien Priority.** Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

**Binding Effect.** This Agreement, the Note, all Security Agreements (if any), and all Related Documents are binding upon the signers thereof, as well as upon their successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

**AFFIRMATIVE COVENANTS.** Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

**Notices of Claims and Litigation.** Promptly inform Lender in writing of (1) all material adverse changes in Borrower's financial condition, and (2) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

**Financial Records.** Maintain its books and records in accordance with GAAP, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

**Financial Statements.** Furnish Lender with the following:

**Additional Requirements.** 42West, LLC submit annual financial statements, including consolidated and consolidating information, if applicable, within 30 days of completion or no later than 05/31 of every year. Borrower shall provide Audited financial statements. 42West, LLC to submit current year-to-date financial statement by 05/15/18, 08/15/18, 11/15/18 of every year.

42 West, LLC to submit current accounts receivable aging (reflecting same date as interim statement provided) by 05/15, 08/15, 11/15 of every year.

42West, LLC to submit current accounts payable aging (reflecting same date as interim statement provided) by 05/15, 08/15, 11/15 of every year

Maximum Debt/TNW covenant of 4:1.0 to be calculated based on Business Tax Returns as "Total Debt less Subordinated Debt" DIVIDED BY: "Net Worth less Intangible Assets less Affiliated/Related Receivables plus Subordinated Debt".

Minimum Debt Service coverage of 1.40 x based on fiscal year-end audit to be calculated as follows: Net Income + Interest Expense Depreciation + Amortization — Non-Operating Income Divided by: Annual Debt Service Requirements (Principal and Interest) on all debt outstanding at time of calculation

Annual 30 day clean-up or technical clean-up. Technical clean-up defined as a 30 consecutive day period, where the aggregate obligors' deposits at BankUnited consistently exceeds the corresponding balances on the subject revolving line of credit.

All financial reports required to be provided under this Agreement shall be prepared in accordance with GAAP, applied on a consistent basis, and certified by Borrower as being true and correct.

**Additional Information.** Furnish such additional information and statements, as Lender may request from time to time.

**Financial Covenants and Ratios.** Comply with the following covenants and ratios:

**Additional Requirements.** Borrower to maintain their primary banking relationship with BankUnited.

Loan to be on automatic debit from a BankUnited account.

The borrower to pay all out of pocket costs associated with the closing of this transaction, including but not limited to, legal, appraisal, and audit costs.

No material change in ownership of Borrower at any time during the term of the loan without consent of BankUnited.

Borrower(s) and guarantor(s) will provide BankUnited with additional financial statements at Bank's request within 10 days.

No additional indebtedness in excess of \$100M without BankUnited's written consent.

Full Subordination of any current and future shareholders debt to all outstanding loans to BankUnited for the term of the loan.

Liability insurance to be issued by an A- rated carrier i/a/o \$1,000,000 per occurrence with a general aggregate limit of \$2,000,000. The insurance certificate is to list BankUnited as a certificate holder. Certificate is also to list the Borrowers name as well as the subject property address

Except as provided above, all computations made to determine compliance with the requirements contained in this paragraph shall be made in accordance with generally accepted accounting principles, applied on a consistent basis, and certified by Borrower as being true and correct.

**Insurance.** Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least thirty (30) days prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such lender's loss payable or other endorsements as Lender may require.

**Insurance Reports.** Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following; (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the properties insured; (5) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (6) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

**Subordination.** Prior to disbursement of any Loan proceeds, deliver to Lender a subordination agreement on Lender's forms, executed by Borrower's creditor named below, subordinating all of Borrower's indebtedness to such creditor, or such lesser amount as may be agreed to by Lender in writing, and any security interests in collateral securing that indebtedness to the Loans and security interests of Lender.

**Name of Creditor**

**Dolphin Entertainment, Inc.**

**Other Agreements.** Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

**Loan Proceeds.** Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

**Taxes, Charges and Liens.** Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (1) the legality of the same shall be contested in good faith by appropriate proceedings, and (2) Borrower shall have established on Borrower's books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP.

**Performance.** Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

**Operations.** Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner.

**Environmental Studies.** Promptly conduct and complete, at Borrower's expense, all such investigations, studies, samplings and testings as may be requested by Lender or any governmental authority relative to any substance, or any waste or by-product of any substance defined as toxic or a hazardous substance under applicable federal, state, or local law, rule, regulation, order or directive, at or affecting any property or any facility owned, leased or used by Borrower.

**Compliance with Governmental Requirements.** Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's properties, businesses and operations, and to the use or occupancy of the Collateral, including without limitation, the Americans With Disabilities Act. Borrower may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Borrower has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Collateral are not jeopardized. Lender may require Borrower to post adequate security or a surety bond, reasonably satisfactory to Lender, to protect Lender's interest.

**Inspection.** Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

**Compliance Certificates.** Unless waived in writing by Lender, provide Lender at least annually, with a certificate executed by Borrower's chief financial officer, or other officer or person acceptable to Lender, certifying that the representations and warranties set forth in this Agreement are true and correct as of the date of the certificate and further certifying that, as of the date of the certificate, no Event of Default exists under this Agreement.

**Environmental Compliance and Reports.** Borrower shall comply in all respects with any and all Environmental Laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on Borrower's part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

**Additional Assurances.** Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, assignments, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

**RECOVERY OF ADDITIONAL COSTS.** If the imposition of or any change in any law, rule, regulation, guideline, or generally accepted accounting principle, or the interpretation or application of any thereof by any court, administrative or governmental authority, or standard-setting organization (including any request or policy not having the force of law) shall impose, modify or make applicable any taxes (except federal, state or local income or franchise taxes imposed on Lender), reserve requirements, capital adequacy requirements or other obligations which

would (A) increase the cost to Lender for extending or maintaining the credit facilities to which this Agreement relates, (B) reduce the amounts payable to Lender under this Agreement or the Related Documents, or (C) reduce the rate of return on Lender's capital as a consequence of Lender's obligations with respect to the credit facilities to which this Agreement relates, then Borrower agrees to pay Lender such additional amounts as will compensate Lender therefor, within five (5) days after Lender's written demand for such payment, which demand shall be accompanied by an explanation of such imposition or charge and a calculation in reasonable detail of the additional amounts payable by Borrower, which explanation and calculations shall be conclusive in the absence of manifest error.

**LENDER'S EXPENDITURES.** If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Borrower fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Borrower's failure to discharge or pay when due any amounts Borrower is required to discharge or pay under this Agreement or any Related Documents, Lender on Borrower's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on any Collateral and paying all costs for insuring, maintaining and preserving any Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Borrower. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity.

**NEGATIVE COVENANTS.** Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

**Indebtedness and Liens.** (1) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases, (2) sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets (except as allowed as Permitted Liens), or (3) sell with recourse any of Borrower's accounts, except to Lender.

**Loans, Acquisitions and Guaranties.** (1) Loan, invest in or advance money or assets to any other person, enterprise or entity, (2) purchase, create or acquire any interest in any other enterprise or entity, or (3) incur any obligation as surety or guarantor other than in the ordinary course of business.

**Agreements.** Enter into any agreement containing any provisions which would be violated or breached by the performance of Borrower's obligations under this Agreement or in connection herewith.

**CESSATION OF ADVANCES.** If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (A) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (B) Borrower or any Guarantor dies, becomes incompetent or becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (C) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (D) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender; or (E) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

**RIGHT OF SETOFF.** To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Indebtedness

against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

**DEFAULT.** Each of the following shall constitute an Event of Default under this Agreement:

**Payment Default.** Borrower fails to make any payment when due under the Loan.

**Other Defaults.** Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

**Default in Favor of Third Parties.** Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's or any Grantor's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

**False Statements.** Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

**Death or Insolvency.** The dissolution of Borrower (regardless of whether election to continue is made), any member withdraws from Borrower, or any other termination of Borrower's existence as a going business or the death of any member, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

**Defective Collateralization.** This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

**Creditor or Forfeiture Proceedings.** Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the Loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

**Events Affecting Guarantor.** Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

**Adverse Change.** A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Loan is impaired.

**Insecurity.** Lender in good faith believes itself insecure.

**EFFECT OF AN EVENT OF DEFAULT.** If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make further Loan Advances or disbursements), and, at Lender's option, all Indebtedness immediately will become due and

payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

**FINANCIAL PROVISION.** The bank has the right to request current financial statements on the borrower(s) and guarantor(s) at any time during the term of the loan, and borrower will provide requested statements within 10 business days.

**CONTINUITY OF OPERATIONS.** Borrower covenants and agrees with Lender that while this agreement is in effect, Borrower shall not, without the prior written consent of Lender: (1) Engage in any business activities substantially different than those in which Borrower is presently engaged, or (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business.

**MISCELLANEOUS PROVISIONS.** The following miscellaneous provisions are a part of this Agreement:

**Amendments.** This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

**Attorneys' Fees; Expenses.** Borrower agrees to pay upon demand all of Lender's costs and expenses, including Lender's reasonable attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Borrower shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's reasonable attorneys' fees and legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also shall pay all court costs and such additional fees as may be directed by the court.

**Caption Headings.** Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

**Consent to Loan Participation.** Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loan to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy Borrower may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that It may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loan irrespective of the failure or insolvency of any holder of any interest in the Loan.

Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

**Governing Law.** This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Florida without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the State of Florida.

**No Waiver by Lender.** Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any of Borrower's or any Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

**Notices.** Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address. Unless otherwise provided or required by law, if there is more than one Borrower, any notice given by Lender to any Borrower is deemed to be notice given to all Borrowers.

**Severability.** If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

**Subsidiaries and Affiliates of Borrower.** To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used in this Agreement shall include all of Borrower's subsidiaries and affiliates. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any of Borrower's subsidiaries or affiliates.

**Successors and Assigns.** All covenants and agreements by or on behalf of Borrower contained in this Agreement or any Related Documents shall bind Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not, however, have the right to assign Borrower's rights under this Agreement or any Interest therein, without the prior written consent of Lender.

**Survival of Representations and Warranties.** Borrower understands and agrees that in extending Loan Advances, Lender is relying on all representations, warranties, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement or the Related Documents. Borrower further agrees that regardless of any investigation made by Lender, all such representations, warranties and covenants will survive the extension of Loan Advances and delivery to Lender of the Related Documents, shall be continuing in nature, shall be deemed made and redated by Borrower at the time each Loan Advance is made, and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

**Time is of the Essence.** Time is of the essence in the performance of this Agreement.

**Waive Jury.** All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

**DEFINITIONS.** The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America, Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement:

**Advance.** The word "Advance" means a disbursement of Loan funds made, or to be made, to Borrower or on Borrower's behalf on a line of credit or multiple advance basis under the terms and conditions of this Agreement.

**Agreement.** The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

**Borrower.** The word "Borrower" means 42West, LLC and includes all co-signers and co-makers signing the Note and all their successors and assigns.

**Collateral.** The word "Collateral" means all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, collateral mortgage, deed of trust, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

**Environmental Laws.** The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

**Event of Default.** The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

**GAAP.** The word "GAAP" means generally accepted accounting principles.

**Grantor.** The word "Grantor" means each and all of the persons or entities granting a Security Interest in any Collateral for the Loan, including without limitation all Borrowers granting such a Security Interest.

**Guarantor.** The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Loan.

**Guaranty.** The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

**Hazardous Substances.** The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous

Substances” also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

**Indebtedness.** The word “Indebtedness” means the Indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or under any of the Related Documents.

**Lender.** The word “Lender” means BankUnited, N.A., its successors and assigns.

**Loan.** The word “Loan” means any and all loans and financial accommodations from Lender to Borrower whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

**Note.** The word “Note” means the Note dated March 15, 2018 and executed by 42West, LLC in the principal amount of \$2,300,000.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

**Permitted Liens.** The words “Permitted Liens” mean (1) liens and security interests securing Indebtedness owed by Borrower to Lender; (2) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (3) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (4) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled “Indebtedness and Liens”; (5) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (6) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower’s assets.

**Related Documents.** The words “Related Documents” mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan.

**Security Agreement.** The words “Security Agreement” mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

**Security Interest.** The words “Security Interest” mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor’s lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.

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BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT AND BORROWER AGREES TO ITS TERMS. THIS BUSINESS LOAN AGREEMENT IS DATED MARCH 15, 2018.

BORROWER:

42West, LLC

DOLPHIN ENTERTAINMENT, INC., Member of 42West, LLC

By: /s/ William O'Dowd  
William O'Dowd, President/CEO of Dolphin  
Entertainment, Inc

LENDER:

BANKUNITED, N.A.

By: /s/ Michael McWhirter  
Authorized Signer

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## PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$2,300,000.00	03-15-2018	03-15-2020	53263	330 / 0023		9845	
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

**Borrower:** 42West, LLC  
600 3rd Avenue, 23rd Floor  
NY, NY 10016

**Lender:** BankUnited, N.A.  
Business Banking  
7815 NW 148 Street  
MC: 2-CREAD  
Miami Lakes, FL 33016

Principal Amount: \$2,300,000.00

Date of Note: March 15, 2018

**PROMISE TO PAY.** 42West, LLC ("Borrower") promises to pay to BankUnited, N.A. ("Lender"), or order, in lawful money of the United States of America, the principal amount of Two Million Three Hundred Thousand & 00/100 Dollars (\$2,300,000.00) or so much as may be outstanding, together with interest on the unpaid outstanding principal balance of each advance. Interest shall be calculated from the date of each advance until repayment of each advance.

**PAYMENT.** Borrower will pay this loan in one payment of all outstanding principal plus all accrued unpaid interest on March 15, 2020. In addition, Borrower will pay regular monthly payments of all accrued unpaid interest due as of each payment date, beginning April 15, 2018, with all subsequent interest payments to be due on the same day of each month after that. Unless otherwise agreed or required by applicable law, payments will be applied to Interest, Principal, Escrow, Late Fees, Other Fees, Insurance, and other Collection Cost. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

**VARIABLE INTEREST RATE.** The interest rate on this Note is subject to change from time to time based on changes in an index which is Lender's Prime Rate (the "Index"). This is the rate Lender charges, or would charge, on 90-day unsecured loans to the most creditworthy corporate customers. This rate may or may not be the lowest rate available from Lender at any given time. Lender will tell Borrower the current Index rate upon Borrower's request. The interest rate change will not occur more often than each day. Borrower understands that Lender may make loans based on other rates as well. **The Index currently is 4.500% per annum.** Interest on the unpaid principal balance of this Note will be calculated as described in the "INTEREST CALCULATION METHOD" paragraph using a rate of 0.250 percentage points over the Index, resulting in an initial rate of 4.750% per annum based on a year of 360 days. NOTICE: Under no circumstances will the effective rate of interest on this Note be more than the maximum rate allowed by applicable law.

**INTEREST CALCULATION METHOD.** Interest on this Note is computed on a 365/360 basis; that is, by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method.

**PREPAYMENT.** Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, early payments will reduce the principal balance due. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. **All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: BankUnited, Operation Center, 7815 NW 148th Street Miami Lakes, FL 33016.**

**LATE CHARGE.** If a payment is 10 days or more late, Borrower will be charged **5.000% of the unpaid portion of the regularly scheduled payment or \$20.00, whichever is greater.**

**INTEREST AFTER DEFAULT.** Upon default, including failure to pay upon final maturity, the interest rate on this Note shall be increased to 25.000% per annum based on a year of 360 days. However, in no event will the interest rate exceed the maximum interest rate limitations under applicable law.

**DEFAULT.** Each of the following shall constitute an event of default ("Event of Default") under this Note:

**Payment Default.** Borrower fails to make any payment when due under this Note.

**Other Defaults.** Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

**Default In Favor of Third Parties.** Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this Note or perform Borrower's obligations under this Note or any of the related documents.

**False Statements.** Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

**Death or Insolvency.** The dissolution of Borrower (regardless of whether election to continue is made), any member withdraws from Borrower, or any other termination of Borrower's existence as a going business or the death of any member, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

**Creditor or Forfeiture Proceedings.** Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

**Events Affecting Guarantor.** Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

**Adverse Change.** A material adverse change occurs in Borrowers financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

**Insecurity.** Lender in good faith believes itself insecure.

**LENDER'S RIGHTS.** Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

**ATTORNEYS' FEES; EXPENSES.** Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender the amount of these costs and expenses, which includes, subject to any limits under applicable law, Lender's reasonable attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (Including efforts to

modify or vacate any automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

**JURY WAIVER.** Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

**GOVERNING LAW.** This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Florida without regard to its conflicts of law provisions. This Note has been accepted by Lender in the State of Florida.

**RIGHT OF SETOFF.** To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account), This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

**LINE OF CREDIT.** This Note evidences a revolving line of credit. Advances under this Note may be requested only in writing by Borrower or as provided in this paragraph, All communications, instructions, or directions by telephone or otherwise to Lender are to be directed to Lender's office shown above. The following person or persons are authorized to request advances and authorize payments under the line of credit until Lender receives from Borrower, at Lender's address shown above, written notice of revocation of such authority: **William O'Dowd, President/CEO of Dolphin Entertainment, Inc., Manager of 42West, LLC.** Borrower agrees to be liable for all sums either: (A) advanced in accordance with the instructions of an authorized person or (B) credited to any of Borrower's accounts with Lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs.

**COMPLIANCE AGREEMENT.** For and in consideration of the Lender funding the closing of its loan and to ensure the accuracy of the settlement statements, deeds, mortgages, notes, security agreement and other documents of closing in this transaction, the undersigned agree to cooperate, adjust, initial, re-execute and re-deliver any and all closing documents if deemed necessary or desirable in the reasonable discretion of Lender or Lender's Attorney.

**DEPOSITORY RELATIONSHIP.** Borrower to maintain primary operating accounts at BankUnited.

**CANCELLATION.** Either Borrower or Bank may cancel the Line of Credit at any time for any reason by written notice to the other. If the Line of Credit is canceled, Borrower must still pay the Bank the amount owed. In the event of cancellation, Borrower may no longer obtain advances against the Line of Credit. After the Line of Credit is cancelled, whether or not an Event of Default has occurred, Borrower may pay the amount due hereunder by making thirty-six monthly payments each consisting of 1/36th of the outstanding principal balance at the time of cancellation plus interest at the Bank's Prime Rate plus 3% per annum, adjusted as and when the Bank's Prime Rate changes on the unpaid balance, but in no even less than the Floor Rate as established in this Agreement. The monthly payments may not be equal in amount.

**SUCCESSOR INTERESTS.** The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

**GENERAL PROVISIONS.** If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Borrower does not agree or intend to pay, and Lender does not agree or intend to contract for, charge, collect, take, reserve or receive (collectively referred to herein as "charge or collect"), any amount in the nature of interest or in the nature of a fee for this loan, which would in any way or event (including demand, prepayment, or acceleration) cause Lender to charge or collect more for this loan than the maximum Lender would be permitted to charge or collect by federal law or the law of the State of Florida (as applicable). Any such excess interest or unauthorized fee shall, instead of anything stated to the contrary, be applied first to reduce the principal balance of this loan, and when the principal has been paid in full, be refunded to Borrower. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who

signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security Interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

**PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE.**

**BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.**

**BORROWER:**

**42WEST, LLC**

**DOLPHIN ENTERTAINMENT, INC., Member of 42West, LLC**

**By: /s/ William O'Dowd**

**William O'Dowd, President/CEO of Dolphin  
Entertainment, Inc**

## COMMERCIAL SECURITY AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$2,300,000.00	03-15-2018	03-15-2020	53263	330 / 0023		9845	
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

<b>Grantor:</b>	<b>42West, LLC</b> 600 3rd Avenue, 23rd Floor NY, NY 10016	<b>Lender:</b>	<b>BankUnited, N.A.</b> Business Banking 7815 NW 148 Street MC: 2-CREAD Miami Lakes, FL 33016
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**THIS COMMERCIAL SECURITY AGREEMENT dated March 15, 2018, is made and executed between 42West, LLC ("Grantor") and BankUnited, N.A. ("Lender").**

**GRANT OF SECURITY INTEREST.** For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the Indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

**COLLATERAL DESCRIPTION.** The word "Collateral" as used in this Agreement means the following described property, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located, in which Grantor is giving to Lender a security interest for the payment of the Indebtedness and performance of all other obligations under the Note and this Agreement:

**All Inventory, Chattel Paper, Accounts, Equipment and General Intangibles**

In addition, the word "Collateral" also includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

- (A) All accessions, attachments, accessories, tools, parts, supplies, replacements of and additions to any of the collateral described herein, whether added now or later.
- (B) All products and produce of any of the property described in this Collateral section.
- (C) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, consignment or other disposition of any of the property described in this Collateral section.
- (D) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section, and sums due from a third party who has damaged or destroyed the Collateral or from that party's insurer, whether due to judgment, settlement or other process.
- (E) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

**RIGHT OF SETOFF.** To the extent permitted by applicable law, Lender reserves a right of setoff in all Grantor's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Grantor holds jointly with someone else and all accounts Grantor may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law.

Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Indebtedness against any and all such

accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

**GRANTOR'S REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE COLLATERAL.** With respect to the Collateral, Grantor represents and promises to Lender that:

**Perfection of Security Interest.** Grantor agrees to take whatever actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper and instruments if not delivered to Lender for possession by Lender. **This is a continuing Security Agreement and will continue In effect even though all or any part of the Indebtedness is paid in full and even though for a period of time Grantor may not be Indebted to Lender.**

**Notices to Lender.** Grantor will promptly notify Lender in writing at Lender's address shown above (or such other addresses as Lender may designate from time to time) prior to any (1) change in Grantor's name; (2) change in Grantor's assumed business name(s); (3) change in the management or in the members or managers of the limited liability company Grantor; (4) change in the authorized signer(s); (5) change in Grantor's principal office address; (6) change in Grantor's state of organization; (7) conversion of Grantor to a new or different type of business entity; or (8) change in any other aspect of Grantor that directly or indirectly relates to any agreements between Grantor and Lender. No change in Grantor's name or state of organization will take effect until after Lender has received notice.

**No Violation.** The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its membership agreement does not prohibit any term or condition of this Agreement.

**Enforceability of Collateral.** To the extent the Collateral consists of accounts, chattel paper, or general intangibles, as defined by the Uniform Commercial Code, the Collateral is enforceable in accordance with its terms, is genuine, and fully complies with all applicable laws and regulations concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or previously shipped or delivered pursuant to a contract of sale, or for services previously performed by Grantor with or for the account debtor, So long as this Agreement remains in effect, Grantor shall not, without Lender's prior written consent, compromise, settle, adjust, or extend payment under or with regard to any such Accounts. There shall be no setoffs or counterclaims against any of the Collateral, and no agreement shall have been made under which any deductions or discounts may be claimed concerning the Collateral except those disclosed to Lender in writing.

**Location of the Collateral.** Except in the ordinary course of Grantor's business, Grantor agrees to keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts or general intangibles, the records concerning the Collateral) at Grantor's address shown above or at such other locations as are acceptable to Lender. Upon Lender's request, Grantor will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantors operations, including without limitation the following: (1) all real property Grantor owns or is purchasing; (2) all real property Grantor is renting or leasing; (3) all storage facilities Grantor owns, rents, leases, or uses; and (4) all other properties where Collateral is or may be located.

**Removal of the Collateral.** Except in the ordinary course of Grantors business, including the sales of inventory, Grantor shall not remove the Collateral from its existing location without Lender's prior written consent. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of Florida, without Lenders prior written consent. Grantor shall, whenever requested, advise Lender of the exact location of the Collateral.

**Transactions Involving Collateral.** Except for inventory sold or accounts collected in the ordinary course of Grantor's business, or as otherwise provided for in this Agreement, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. While Grantor is not in default under this Agreement, Grantor may sell Inventory, but only in the ordinary course of its business and only to buyers who qualify as a buyer in the ordinary course of business. A sale in the ordinary course of Grantor's business does not include a transfer in partial or total satisfaction of a debt or any bulk sale. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

**Title.** Grantor represents and warrants to Lender that Grantor holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

**Repairs and Maintenance.** Grantor agrees to keep and maintain, and to cause others to keep and maintain, the Collateral in good order, repair and condition at all times while this Agreement remains in effect. Grantor further agrees to pay when due all claims for work done on, or services rendered or material furnished in connection with the Collateral so that no lien or encumbrance may ever attach to or be filed against the Collateral.

**Inspection of Collateral.** Lender and Lender's designated representatives and agents shall have the right at all reasonable times to examine and inspect the Collateral wherever located.

**Taxes, Assessments and Liens.** Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the Indebtedness, or upon any of the other Related Documents.

Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, reasonable attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral.

Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings. Grantor further agrees to furnish Lender with evidence that such taxes, assessments, and governmental and other charges have been paid in full and in a timely manner. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized.

**Compliance with Governmental Requirements.** Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral, including all laws or regulations relating to the undue erosion of highly-erodible land or relating to the conversion of wetlands for the production of an agricultural product or commodity. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

**Hazardous Substances.** Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used in violation of any Environmental Laws or for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release

of any Hazardous Substance. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for Hazardous Substances. Grantor hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any Environmental Laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to Indemnify and defend shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

**Maintenance of Casualty Insurance.** Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least thirty (30) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if Lender so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

**Application of Insurance Proceeds.** Grantor shall promptly notify Lender of any loss or damage to the Collateral, whether or not such casualty or loss is covered by insurance. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

**Insurance Reserves.** Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

**Insurance Reports.** Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the property insured; (5) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (6) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

**Financing Statements.** Grantor authorizes Lender to file a UCC financing statement, or alternatively, a copy of this Agreement to perfect Lender's security interest. At Lender's request, Grantor additionally agrees to sign all other documents that are necessary to perfect, protect, and continue Lender's security interest in

the Property. Grantor will pay all filing fees, title transfer fees, and other fees and costs involved unless prohibited by law or unless Lender is required by law to pay such fees and costs. Grantor irrevocably appoints Lender to execute documents necessary to transfer title if there is a default. Lender may file a copy of this Agreement as a financing statement.

**GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS.** Until default and except as otherwise provided below with respect to accounts, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the Indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

**LENDER'S EXPENDITURES.** If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Grantor fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Grantor's failure to discharge or pay when due any amounts Grantor is required to discharge or pay under this Agreement or any Related Documents, Lender on Grantor's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on the Collateral and paying all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity. The Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon Default.

**DEFAULT.** Each of the following shall constitute an Event of Default under this Agreement:

**Payment Default.** Grantor fails to make any payment when due under the Indebtedness.

**Other Defaults.** Grantor fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Grantor.

**Default In Favor of Third Parties.** Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Grantor's property or ability to perform Grantor's obligations under this Agreement or any of the Related Documents.

**False Statements.** Any warranty, representation or statement made or furnished to Lender by Grantor or on Grantor's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

**Defective Collateralization.** This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

**Insolvency.** The dissolution of Grantor (regardless of whether election to continue is made), any member withdraws from the limited liability company, or any other termination of Grantor's existence as a going business or the death of any member, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

**Creditor or Forfeiture Proceedings.** Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against any collateral securing the Indebtedness. This includes a garnishment of any of Grantor's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

**Events Affecting Guarantor.** Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the Indebtedness or guarantor, endorser, surety, or accommodation party dies or becomes incompetent or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

**Adverse Change.** A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

**Insecurity.** Lender in good faith believes itself insecure.

**RIGHTS AND REMEDIES ON DEFAULT.** If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the Florida Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

**Accelerate Indebtedness.** Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice of any kind to Grantor.

**Assemble Collateral.** Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

**Sell the Collateral.** Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in Lender's own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor, and other persons as required by law, reasonable notice of the time and place of any public sale, or the time after which any private sale or any other disposition of the Collateral is to be made. However, no notice need be provided to any person who, after Event of Default occurs, enters into and authenticates an agreement waiving that person's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

**Appoint Receiver.** In the event of a suit being instituted to foreclose this Agreement, Lender shall be entitled to apply at any time pending such foreclosure suit to the court having jurisdiction thereof for the appointment of a receiver of any or all of the Collateral, and of all rents, incomes, profits, issues and revenues thereof, from whatsoever source. The parties agree that the court shall forthwith appoint such receiver with the usual powers and duties of receivers in like cases. Such appointment shall be made by the court as a matter of strict right to Lender and without notice to Grantor, and without reference to the adequacy or inadequacy of the value of the Collateral, or to Grantor's solvency or any other party defendant to such suit. Grantor hereby specifically waives the right to object to the appointment of a receiver and agrees that such appointment shall be made as an admitted equity and as a matter of absolute right to Lender, and consents to the appointment of any officer or employee of Lender as receiver. Lender shall have the right to have a receiver appointed to take possession of all or any part of the Collateral, with the power to protect and preserve the Collateral, to operate the Collateral preceding foreclosure or sale, and to collect the rents from the Collateral and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lender's right to the appointment of a receiver shall exist whether or not the apparent value of the Collateral exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver.

**Collect Revenues, Apply Accounts.** Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in Lender's discretion transfer any Collateral into Lender's own name or that of Lender's nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

**Obtain Deficiency.** If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

**Other Rights and Remedies.** Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

**Election of Remedies.** Except as may be prohibited by applicable law, all of Lender's rights and remedies, whether evidenced by this Agreement, the Related Documents, or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and exercise its remedies.

**MISCELLANEOUS PROVISIONS.** The following miscellaneous provisions are a part of this Agreement:

**Amendments.** This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

**Attorneys' Fees; Expenses.** Grantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's reasonable attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's reasonable attorneys' fees and legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

**Caption Headings.** Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

**Governing Law.** This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of Florida without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the State of Florida.

**No Waiver by Lender.** Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

**Notices.** Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Grantor agrees to keep Lender informed at all times of Grantor's current address. Unless otherwise provided or required by law, if there is more than one Grantor, any notice given by Lender to any Grantor is deemed to be notice given to all Grantors.

**Power of Attorney.** Grantor hereby appoints Lender as Grantor's irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect, amend, or to continue the security interest granted in this Agreement or to demand termination of filings of other secured parties. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral.

**Severability.** If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

**Successors and Assigns.** Subject to any limitations stated in this Agreement on transfer of Grantor's interest, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns. If ownership of the Collateral becomes vested in a person other than Grantor, Lender, without notice to Grantor,

may deal with Grantor's successors with reference to this Agreement and the Indebtedness by way of forbearance or extension without releasing Grantor from the obligations of this Agreement or liability under the Indebtedness.

**Survival of Representations and Warranties.** All representations, warranties, and agreements made by Grantor in this Agreement shall survive the execution and delivery of this Agreement, shall be continuing in nature, and shall remain in full force and effect until such time as Grantor's Indebtedness shall be paid in full.

**Time is of the Essence.** Time is of the essence in the performance of this Agreement.

**Waive Jury.** All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

**DEFINITIONS.** The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code:

**Agreement.** The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

**Borrower.** The word "Borrower" means 42West, LLC and includes all co-signers and co-makers signing the Note and all their successors and assigns.

**Collateral.** The word "Collateral" means all of Grantor's right, title and interest in and to all the Collateral as described in the Collateral Description section of this Agreement.

**Default.** The word "Default" means the Default set forth in this Agreement in the section titled "Default".

**Environmental Laws.** The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

**Event of Default.** The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

**Grantor.** The word "Grantor" means 42West, LLC.

**Guaranty.** The word "Guaranty" means the guaranty from guarantor, endorser, surety, or accommodation party to Lender, including without limitation a guaranty of all or part of the Note.

**Hazardous Substances.** The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

**Indebtedness.** The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents.

**Lender.** The word "Lender" means BankUnited, N.A., its successors and assigns.

**Note.** The word "Note" means the Note dated March 15, 2018 and executed by 42West, LLC in the principal amount of \$2,300,000.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

**Property.** The word "Property" means all of Grantor's right, title and Interest in and to all the Property as described in the "Collateral Description" section of this Agreement.

**Related Documents.** The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

**GRANTOR HAS READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT AND AGREES TO ITS TERMS. THIS AGREEMENT IS DATED MARCH 15, 2018.**

**GRANTOR:**

42West, LLC

DOLPHIN ENTERTAINMENT, INC., Member of 42West, LLC

By: /s/William O'Dowd

William O'Dowd, President/CEO of Dolphin  
Entertainment, Inc

**LENDER:**

BANKUNITED, N.A.

X/s/Michael McWhirter

Authorized Signer

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**CHIEF EXECUTIVE OFFICER  
CERTIFICATION PURSUANT TO SECTION 302**

I, William O'Dowd IV, Chief Executive Officer of Dolphin Entertainment Inc. (the "Registrant"), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Registrant;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report.
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 15, 2018

/s/ William O'Dowd IV  
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William O'Dowd IV  
Chief Executive Officer

**PRINCIPAL FINANCIAL OFFICER  
CERTIFICATION PURSUANT TO SECTION 302**

I, Mirta A Negrini, Chief Financial Officer of Dolphin Entertainment Inc. (the "Registrant"), certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Registrant;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report.
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:
  - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 15, 2018

/s/ Mirta A Negrini

Mirta A Negrini  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report of Dolphin Entertainment, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William O'Dowd IV, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2018

By: /s/ William O'Dowd IV  
William O'Dowd IV  
Chief Executive Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report of Dolphin Entertainment, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mirta A Negrini, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2018

By: /s/ Mirta A Negrini  
Mirta A Negrini  
Chief Financial Officer