

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Dolphin Entertainment, Inc.

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**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 **June 30, 2019**

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 every Interactive Data File required to be submitted 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 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

Non-accelerated filer

Accelerated filer

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.015 par value per share	DLPN	The Nasdaq Capital Market
Warrants to purchase Common Stock, \$0.015 par value per share	DLPNW	The Nasdaq Capital Market

The number of shares of common stock outstanding was 14,311,538 as of August 6, 2019

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	As of June 30, 2019	As of December 31, 2018
ASSETS		
Current		
Cash and cash equivalents	\$ 2,559,367	\$ 5,542,272
Restricted cash	732,920	732,368
Accounts receivable, net of allowance for doubtful accounts of \$274,861 and \$283,022, respectively.	2,479,299	3,173,107
Other current assets	614,301	620,970
Total current assets	<u>6,385,887</u>	<u>10,068,717</u>
Capitalized production costs, net	785,039	724,585
Intangible assets, net of accumulated amortization of \$3,494,560 and \$2,714,785, respectively.	8,086,773	9,395,215
Goodwill	15,996,977	15,922,601
Right-of-use asset	6,529,077	—
Property, equipment and leasehold improvements, net	1,040,021	1,182,520
Investments	220,000	220,000
Deposits and other assets	534,735	475,956
Total Assets	<u>\$ 39,578,509</u>	<u>\$ 37,989,594</u>

(Continued)

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

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

	As of June 30, 2019	As of December 31, 2018
LIABILITIES		
Current		
Accounts payable	\$ 769,974	\$ 944,232
Other current liabilities	6,110,389	7,238,507
Line of credit	1,700,390	1,700,390
Put rights	4,030,280	4,281,595
Accrued compensation	2,625,000	2,625,000
Debt	2,312,461	2,411,828
Loan from related party	1,107,873	1,107,873
Contract liabilities	192,471	522,620
Lease liability	1,408,120	—
Convertible notes payable, net of debt discount	1,988,462	625,000
Notes payable	283,952	479,874
Total current liabilities	22,529,372	21,936,919
Noncurrent		
Put rights	677,911	1,702,472
Convertible notes payable	1,044,232	1,376,924
Notes payable	769,338	612,359
Contingent consideration	460,000	550,000
Lease liability	5,608,045	—
Other noncurrent liabilities	—	1,034,393
Total noncurrent liabilities	8,559,526	5,276,148
Total Liabilities	31,088,898	27,213,067
Commitments and contingencies (Note 19)		
STOCKHOLDERS' EQUITY		
Common stock, \$0.015 par value, 200,000,000 shares authorized, 14,394,562 and 14,123,157, respectively, issued and outstanding at June 30, 2019 and December 31, 2018	215,918	211,849
Preferred Stock, Series C, \$0.001 par value, 50,000 shares authorized, issued and outstanding at June 30, 2019 and December 31, 2018	1,000	1,000
Additional paid in capital	103,571,126	105,092,852
Accumulated deficit	(95,298,433)	(94,529,174)
Total Stockholders' Equity	8,489,611	10,776,527
Total Liabilities and Stockholders' Equity	\$ 39,578,509	\$ 37,989,594

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Revenues:				
Entertainment publicity and marketing	\$ 6,273,983	\$ 5,121,487	\$ 12,523,890	\$ 10,577,220
Content production	—	97,961	78,990	427,153
Total revenues	6,273,983	5,219,448	12,602,880	11,004,373
Expenses:				
Direct costs	1,279,657	295,765	2,467,076	865,199
Selling, general and administrative	1,071,460	585,214	1,859,623	1,381,958
Depreciation and amortization	478,560	375,163	960,203	746,343
Legal and professional	449,060	356,002	832,732	844,488
Payroll	4,197,324	3,538,037	8,510,486	7,196,042
Total expenses	7,476,061	5,150,181	14,630,120	11,034,030
Income (loss) before other income (expenses)	(1,202,078)	69,267	(2,027,240)	(29,657)
Other income (expenses):				
Loss on extinguishment of debt	—	(53,271)	(21,287)	(53,271)
Acquisition costs	—	(34,672)	—	(34,672)
Change in fair value of warrant liability	—	350,115	—	518,432
Change in fair value of put rights	251,350	333,043	1,778,376	1,416,639
Change in fair value of contingent consideration	360,000	—	90,000	—
Interest expense and debt amortization expense	(301,139)	(265,992)	(589,108)	(533,419)
Total other income (expenses)	310,211	329,223	1,257,981	1,313,709
(Loss) income before income taxes	\$ (891,867)	\$ 398,490	\$ (769,259)	\$ 1,284,052
Income taxes	—	(228,016)	—	(280,620)
Net (loss) income	\$ (891,867)	\$ 170,474	\$ (769,259)	\$ 1,003,432
(Loss) income per Share:				
Basic	\$ (0.06)	\$ 0.01	\$ (0.05)	\$ 0.08
Diluted	\$ (0.06)	\$ (0.01)	\$ (0.13)	\$ (0.03)
Weighted average number of shares used in per share calculation				
Basic	15,969,926	12,349,014	15,957,085	12,432,872
Diluted	19,172,087	14,032,001	19,671,124	14,533,224

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 six months ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (769,259)	\$ 1,003,432
Adjustments to reconcile net (loss) income to net cash (used in) operating activities:		
Depreciation and amortization	960,203	746,343
Amortization of capitalized production costs	—	203,560
Amortization of beneficial conversion on debt	72,657	—
Loss on extinguishment of debt	21,287	53,271
Bad debt and recovery of account receivable written off, net	(115,784)	(7,421)
Change in fair value of warrant liability	—	(518,432)
Change in fair value of put rights	(1,778,376)	(1,416,639)
Change in fair value of contingent consideration	(90,000)	—
Change in deferred tax	—	249,276
Change in deferred rent	—	40,172
Changes in operating assets and liabilities:		
Accounts receivable	809,592	866,534
Other current assets	6,669	(90,211)
Capitalized production costs	(60,454)	(12,500)
Deposits and other assets	(58,779)	40,219
Contract liability	(330,149)	—
Accrued compensation	—	125,000
Accounts payable	(174,258)	(363,066)
Lease liability, net	100,574	—
Other current liabilities	346,511	(441,992)
Other noncurrent liabilities	(217,713)	(491,352)
Net Cash (Used in) Operating Activities	(1,277,279)	(13,806)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(37,929)	(49,813)
Net Cash (Used in) Investing Activities	(37,929)	(49,813)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	—	1,700,390
Repayment of the line of credit	—	(750,000)
Proceeds from note payable	1,110,457	—
Proceeds from issuance of detachable warrants	89,543	—
Repayment of notes payable	(38,942)	—
Repayment of debt	(99,367)	(1,038,728)
Sale of common stock and warrants (unit) in Offering	—	81,044
Employee shares withheld for taxes	—	(56,091)
Exercise of put rights	(1,365,500)	—
Repayment to related party	—	(601,001)
Advances from related party	—	(2,515,000)
Acquisition of Viewpoint	(230,076)	—
Acquisition of The Door	(771,500)	—
42West settlement of change of control provision	(361,760)	(20,000)
Net Cash (Used in) Financing Activities	(1,667,145)	(3,199,386)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,982,353)	(3,263,005)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,274,640	5,296,873
CASH, CASH EQUIVALENTS AND RESTRICTED CASH END OF PERIOD	\$ 3,292,287	\$ 2,033,868

(Continued)

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

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

	For the six months ended June 30,	
	2019	2018
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest paid	\$ 151,100	\$ 88,047

SUPPLEMENTAL DISCLOSURES OF NON CASH FLOW INFORMATION:		
Conversion of note payable into shares of common stock	\$ 75,000	\$ 276,425
Issuance of shares of Common Stock related to the acquisitions	\$ 1,000,000	\$ —
Liability for contingent consideration for the acquisitions	\$ 460,000	\$ —
Liability for put rights to the Sellers of 42West	\$ 4,708,191	\$ 4,809,371

Reconciliation of cash, cash equivalents and restricted cash. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statement of cash flows that sum to the total of the same such amounts shown in the statement of cash flows:

	For the six months ended June 30,	
	2019	2018
Cash and cash equivalents	\$ 2,559,367	\$ 2,033,868
Restricted cash	732,920	—
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statement of cash flows	\$ 3,292,287	\$ 2,033,868

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 six months ended June 30, 2019 and 2018

For the six months ended June 30, 2019

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance December 31, 2018	50,000	\$ 1,000	14,123,157	\$ 211,849	\$105,092,852	\$(94,529,174)	\$ 10,776,527
Net income for the three months ended March 31, 2019	—	—	—	—	—	122,608	122,608
Issuance of shares related to acquisition of The Door	—	—	307,692	4,615	82,554	—	87,169
Issuance of shares related to conversion of note payable	—	—	53,191	798	95,489	—	96,287
Shares retired from exercise of puts	—	—	(56,940)	(854)	(1,176,646)	—	(1,177,500)
Balance March 31, 2019	50,000	\$ 1,000	14,427,100	\$ 216,408	\$104,094,249	\$(94,406,566)	\$ 9,905,091
Net loss for the three months ended June 30, 2019	—	—	—	—	—	(891,867)	(891,867)
Value of warrants and beneficial conversion of convertible promissory note	—	—	—	—	166,887	—	166,887
Shares retired from exercise of puts	—	—	(32,538)	(490)	(690,010)	—	(690,500)
Balance June 30, 2019	50,000	\$ 1,000	14,394,562	\$ 215,918	\$103,571,126	\$(95,298,433)	\$ 8,489,611

For the six months ended June 30, 2018

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance December 31, 2017	50,000	\$ 1,000	10,565,789	\$ 158,487	\$ 98,816,550	\$(92,899,680)	\$ 6,076,357
Net income for the three months ended March 31, 2018	—	—	—	—	—	832,958	832,958
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)
Balance March 31, 2018	50,000	\$ 1,000	11,229,144	\$ 168,437	\$ 97,141,970	\$(92,066,722)	\$ 5,244,685
Net income for the three months ended June 30, 2018	—	—	—	—	—	170,474	170,474
Issuance of shares related to conversion of note payable	—	—	85,299	1,279	325,416	—	326,695
Shares retired from exercise of puts	—	—	(223,755)	(3,356)	(446,644)	—	(450,000)
Balance June 30, 2018	50,000	\$ 1,000	11,090,688	\$ 166,360	\$ 97,020,742	\$(91,896,248)	\$ 5,291,854

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
JUNE 30, 2019

NOTE 1 – GENERAL

Dolphin Entertainment, Inc., a Florida corporation (the “Company,” “Dolphin,” “we,” “us” or “our”), is a leading independent entertainment marketing and premium content development company. Through its acquisitions of 42West LLC (“42West”), The Door Marketing Group LLC (“The Door”) and Viewpoint Computer Animation Incorporated (“Viewpoint”), the Company provides expert strategic marketing and publicity services to all of the major film studios, and many of the leading independent and digital content providers, A-list celebrity talent, including actors, directors, producers, celebrity chefs and recording artists. The Company also provides strategic marketing publicity services and creative brand strategies for prime hotel and restaurant groups. The strategic acquisitions of 42West, The Door and Viewpoint bring together premium marketing services with premium content production, creating significant opportunities to serve respective constituents more strategically and to grow and diversify the Company’s business. Dolphin’s content production business is a well-established, leading entertainment producer, committed to distributing premium, best-in-class film and digital entertainment. Dolphin produces original feature film and digital programming primarily aimed at family and young adult markets.

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. (“Dolphin Films”), Cybergeddon Productions, LLC, Dolphin SB Productions LLC, Dolphin Max Steel Holdings, LLC (“Max Steel Holdings”), Dolphin JB Believe Financing, LLC, Dolphin JOAT Productions, LLC, 42West, The Door and Viewpoint.

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 operations 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 in its condensed consolidated financial statements the following VIEs: Max Steel Productions, LLC, and JB Believe, LLC.

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 and six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2019. The condensed consolidated balance sheet at December 31, 2018 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, 2018.

Reclassifications

Reclassifications have been made to our condensed consolidated financial statements for the prior year period to conform to classifications used in 2019.

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, provisions for doubtful accounts and impairment assessments for investment in feature film projects, goodwill and intangible assets. Actual results could differ materially from such estimates.

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, 2018. Significant changes to our accounting policies as a result of adopting ASU No. 2016-02, *Leases (Topic 842)* on January 1, 2019 are discussed below:

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires all assets and liabilities arising from leases to be recognized in our consolidated balance sheets. The Company adopted this new accounting guidance effective January 1, 2019. In July 2018, the FASB added an optional transition method which the Company elected upon adoption of the new standard. This allowed us to recognize and measure leases existing at January 1, 2019 without restating comparative information. In addition, the Company elected to apply the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows us to carry forward the historical lease classification.

The Company determines if an arrangement is a lease at the lease commencement date. In addition to the Company's lease agreements, we review all material new vendor arrangements for potential embedded lease obligations. The asset balance related to operating leases is presented within "right-of-use (ROU) asset" on the Company's consolidated balance sheet. The current and noncurrent balances related to operating leases are presented as "Lease liability", in their respective classifications, on the Company's consolidated balance sheet.

The lease liability is recognized based on the present value of the remaining fixed lease payments discounted using the Company's incremental borrowing rate as of January 1, 2019. The ROU asset is calculated based on the lease liability adjusted for any lease payments paid to the lessor at or before the commencement date (i.e. prepaid rent) and initial direct costs incurred by Dolphin and excluding any lease incentives received from the Lessor.

The lease term for purposes of lease accounting may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option as of the commencement date of the lease. For operating leases, the lease expense is recognized on a straight-line basis over the lease term. The Company accounts for its lease and non-lease components as a single component, and therefore both are included in the calculation of lease liability recognized on the consolidated balance sheets. See Note 18 for further discussion.

The Company did not adopt any other accounting pronouncement during the three and six months ended June 30, 2019.

Recent Accounting Pronouncements

Accounting Guidance not yet adopted

In March 2019, the FASB issued new guidance on film production costs ASU 2019-02, (Entertainment Films- Other Assets – Film Costs (Subtopic 926-20)). The new guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years and may be adopted early. The new guidance aligns the accounting for the production costs of an episodic series with those of a film by removing the content distinction for capitalization. It also addresses presentation, requires new disclosures for produced and licensed content and addresses cash flow classification for license agreements to better reflect the economics of an episodic series. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In October 2018, the FASB issued new guidance on consolidation ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities. The new guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years and should be applied retrospectively with a cumulative effect adjustment to retained earnings at the beginning of the earliest period presented. Early adoption is permitted. The new guidance provides that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In August 2018, the FASB issued new guidance on fair value measurement (ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement). The new guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. The guidance modifies the disclosure requirements on fair value by removing some requirements, modifying others, adding changes in unrealized gains and losses included in other comprehensive income (loss) for recurring Level 3 fair value measurements, and providing the option to disclose certain other quantitative information with respect to significant unobservable inputs in lieu of a weighted average. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In June 2016, the FASB issued new guidance on measurement of credit losses (ASU 2016-13, Measurement of Credit Losses on Financial Instruments) with subsequent amendments issued in November 2018 (ASU 2018-19) and April 2019 (ASU 2019-04). This update changes the accounting for credit losses on loans and held-to-maturity debt securities and requires a current expected credit loss (CECL) approach to determine the allowance for credit losses. It is applicable to trade accounts receivable. The guidance is effective for fiscal years beginning after December 15, 2019 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. Early adoption is permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

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. The Company had net loss of \$891,867 and \$769,259, respectively for the three and six months ended June 30, 2019, and had an accumulated deficit of \$95,298,433 as of June 30, 2019. As of June 30, 2019, the Company had a working capital deficit of \$16,143,485 and therefore does not have adequate capital to fund its obligations as they come due or to maintain or grow its operations. The Company is dependent upon funds from the issuance of debt securities, securities convertible into shares of its common stock, par value \$0.015 per share (“Common Stock”), sales of shares of Common Stock and financial support of certain shareholders. 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 condensed consolidated financial statements, of which these notes form a part, 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 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 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, including one currently in development for which it intends to obtain financing to produce and release following which it expects to earn a producer and overhead fee. There can be no assurances that such production, together with any other productions, will be commenced or released or that fees will be realized in future periods or at all. The Company is currently exploring opportunities to expand the services currently being offered by 42West, The Door and Viewpoint while reducing expenses of their respective operations through synergies with the Company. There can be no assurance that the Company will be successful in expanding such services or reducing expenses. Under the Company's currently effective shelf registration statement on Form S-3, the Company may sell up to \$30,000,000 of equity securities. However, pursuant to applicable SEC rules, the Company's ability to sell securities registered under this shelf registration statement, during any 12-month period, is limited to an amount less than or equal to one-third of the aggregate market value of the its common stock held by non-affiliates; therefore, there is no assurance that the Company will be able to raise capital through the issuance and sale of equity securities under this registration statement, irrespective of whether there is market demand for such securities.

NOTE 3 — MERGERS AND ACQUISITIONS

Viewpoint

On October 31, 2018, (the "Viewpoint Closing Date") the Company acquired all of the issued and outstanding capital stock of Viewpoint, a Massachusetts corporation (the "Viewpoint Purchase"), pursuant to a share purchase agreement (the "Viewpoint Purchase Agreement"), among the Company and the former holders of Viewpoint's outstanding capital stock (the "Viewpoint Shareholders"). Viewpoint is a full-service creative branding and production house that has earned a reputation as one of the top producers of promotional and brand-support videos for a wide variety of leading cable networks, media companies and consumer-product brands.

The total consideration payable to the Viewpoint Shareholders in respect of the Viewpoint Purchase comprises the following: (i) \$500,000 in shares of Common Stock, based on a price per share of Common Stock of \$2.29, (ii) \$1.5 million in cash (as adjusted for certain working capital and closing adjustments and transaction expenses). On the Viewpoint Closing Date, the Company issued to the Viewpoint Shareholders 218,088 shares of Common Stock and paid the Viewpoint Shareholders an aggregate of \$750,000 in cash (the "Initial Consideration"), adjusted for working capital, indebtedness and certain transaction expenses. Pursuant to the Viewpoint Purchase Agreement, the Company paid to the Viewpoint Shareholders an additional \$230,076 cash (\$250,000 less a working capital adjustment) on April 30, 2019 and has agreed to pay \$250,000 on each of October 31, 2019 and April 30, 2020 for a total of \$750,000, less any adjustments for working capital (the "Post Closing Consideration" and, together with the Initial Consideration, the "Viewpoint Purchase Consideration"). The Viewpoint Purchase Agreement contains customary representations, warranties and covenants of the parties thereto. The Common Stock issued as part of the Initial Consideration has not been registered under the Securities Act of 1933, as amended (the "Securities Act").

As a condition to the Viewpoint Purchase, two of the Viewpoint Shareholders, Carlo DiPersio and David Shilale have entered into employment agreements with the Company to continue as employees after the closing of the Viewpoint Purchase. Mr. DiPersio's employment agreement is through December 31, 2020 and the contract defines base compensation and a bonus structure based on Viewpoint achieving certain financial targets. Mr. Shilale's employment agreement is for a period of three years from the Viewpoint Closing Date and the contract defines the base compensation and a commission structure based on Viewpoint achieving certain financial targets. The bonus for Mr. Shilale is determined at the sole discretion of the Company's board of directors and management. Neither agreement provides for guaranteed increases to the base salary. The employment agreements contain provisions for termination and as a result of death or disability and entitles the employee to vacations and to participate in all employee benefit plans offered by the Company.

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The provisional acquisition-date fair value of the consideration transferred totaled \$1,960,165, which consisted of the following:

Common Stock issued at closing (218,088 shares)	\$ 427,452
Cash Consideration paid at closing	750,000
Working capital adjustment, net	32,713
Cash Installment paid on April 30, 2019	250,000
Cash Installment to be paid on October 31, 2019 (included in other current liabilities)	250,000
Cash Installment to be paid on April 30, 2020 (included in other current liabilities)	250,000
	<u>\$ 1,960,165</u>

The Company has engaged an independent third-party valuation expert to determine the fair values of the various forms of consideration transferred, which is not yet complete. The final amount of consideration may potentially change due to any working capital or other closing adjustments, which have not yet been determined.

The fair value of the 218,088 shares of Common Stock issued on the Viewpoint Closing Date was determined based on the closing market price of the Company's Common Stock on the Viewpoint Closing Date of \$1.96 per share.

The following table summarizes the provisional fair values of the assets acquired and liabilities assumed at the Viewpoint Closing Date (as adjusted). Amounts in the table are provisional estimates that may change, as described below.

Cash	\$ 206,950
Accounts receivable	503,906
Other current assets	102,411
Property, equipment and leasehold improvements	183,877
Prepaid expenses	32,067
Intangible assets	450,000
Total identifiable assets acquired	<u>1,479,211</u>
Accrued expenses	(165,284)
Accounts payable	(77,394)
Deferred tax liability	(182,416)
Contract liability	(190,854)
Total liabilities assumed	<u>(615,948)</u>
Net identifiable assets acquired	863,263
Goodwill	1,096,902
Net assets acquired	<u>\$ 1,960,165</u>

Of the provisional fair value of the \$450,000 of acquired identifiable intangible assets, \$220,000 was assigned to customer relationships (5 years useful life) and \$100,000 was assigned to the trade name (5-year useful life), that were recognized at fair value on the acquisition date. The customer relationships will be amortized using an accelerated method, and the trade name will be amortized using the straight-line method. In addition, the Company recognized a favorable lease intangible asset from the Company's Massachusetts office lease in the amount of \$130,000. The favorable lease intangible asset was amortized using the straight-line method over the remaining lease term of 26 months. On January 1, 2019, the Company adopted ASC 842 and reclassified the favorable lease asset recognized at the date of acquisition to right-of-use asset. The unamortized balance of the favorable lease asset on January 1, 2019 was \$120,000.

The provisional fair value of accounts receivable acquired is \$503,906, with the gross contractual amount being \$509,406. The Company expects \$5,500 to be uncollectible.

The provisional fair values of property and equipment and leasehold improvements of \$183,877, and other assets of \$102,411, are based on Viewpoint's carrying values prior to the acquisition, which approximate their provisional fair values.

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The provisional amount of \$1,096,902 of goodwill was assigned to the entertainment publicity and marketing segment. The goodwill recognized is attributable primarily to expectations of continued successful efforts to obtain new customers, buyer specific synergies and the assembled workforce of Viewpoint.

Unaudited Pro Forma Consolidated Statements of Operations

The following represents the Company's unaudited pro forma consolidated operations for the three and six months ended June 30, 2018 as if Viewpoint had been acquired on January 1, 2018 and its results had been included in the consolidated results of the Company for such period:

	For the three months ended June 30, 2018	For the six months ended June 30, 2018
Revenue	\$ 6,262,785	\$14,335,476
Net (loss) income	\$ (107,321)	\$ 1,210,392

The pro forma amounts have been calculated after applying the Company's accounting policies to the financial statements of Viewpoint and adjusting the combined results of the Company and Viewpoint to reflect the amortization that would have been charged assuming the intangible assets had been recorded on January 1, 2018 and applying the Company's effective tax rate to the net income of Viewpoint.

The impact of the Viewpoint Acquisition on the Company's actual results for periods following the acquisition may differ significantly from that reflected in this unaudited pro forma information for a number of reasons. As a result, this unaudited pro forma information is not necessarily indicative of what the combined company's financial condition or results of operations would have been had the acquisition been completed on January 1, 2018, as provided in this pro forma financial information. In addition, the pro forma financial information does not purport to project the future financial condition and results of operations of the combined company.

The following table summarizes the original and revised estimated fair values of the assets acquired and liabilities assumed at the acquisition date of October 31, 2018 and the related measurement period adjustments to the fair values recorded during the six months ended June 30, 2019:

	October 31, 2018 (As initially reported)	Measurement Period Adjustments	June 30, 2019 (As adjusted)
Cash	\$ 206,950	\$ —	\$ 206,950
Accounts receivable	503,906	—	503,906
Other current assets	102,411	—	102,411
Property, equipment and leasehold improvements	183,877	—	183,877
Prepaid expenses	32,067	—	32,067
Intangible assets	450,000	—	450,000
Total identifiable assets acquired	1,479,211	—	1,479,211
Accrued expenses	(165,284)	—	(165,284)
Accounts payable	(77,394)	—	(77,394)
Deferred tax liability	(190,854)	—	(190,854)
Contract liability	(206,636)	24,220	(182,416)
Total liabilities assumed	(640,168)	24,220	(615,948)
Net identifiable assets acquired	839,043	24,220	863,263
Goodwill	1,141,046	(44,144)	1,096,902
Net assets acquired	\$ 1,980,089	\$ (19,924)	\$ 1,960,165

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The above fair values of assets acquired and liabilities assumed are based on the information that was available as of the Viewpoint Closing Date to estimate the fair value of assets acquired and liabilities assumed. As of October 31, 2018, the Company recorded the identifiable net assets acquired of \$839,043 as shown in the table above in its consolidated balance sheet. During the six months ended June 30, 2019, the Company's measurement period adjustments of \$24,220 were made and, accordingly, the Company recognized these adjustments in its June 30, 2019 condensed consolidated balance sheet to reflect the adjusted identifiable net assets acquired of \$863,263 as shown in the table above. The Company also made a provisional working capital adjustment of \$19,924 that was deducted from the second installment paid to the Viewpoint Shareholders on April 30, 2019.

The following is a reconciliation of the initially reported fair value to the adjusted fair value of goodwill:

Goodwill originally reported at October 31, 2018	\$ 1,141,046
Changes to estimated fair values	
Deferred tax liability	(24,220)
Working capital adjustment	(19,924)
Adjusted goodwill reported at June 30, 2019	<u>\$ 1,096,902</u>

The estimated fair value of the deferred tax liability decreased by \$24,220 primarily due to the estimated expected future tax rate applied.

The Door

On July 5, 2018 (the "Closing Date"), the Company, entered into an Agreement and Plan of Merger (the "Merger Agreement"), in respect of its acquisition of The Door. On the Closing Date, The Door merged with and into Merger Sub, with Merger Sub surviving the merger and continuing as a wholly owned subsidiary of the Company. Upon consummation of the Merger, Merger Sub changed its name to The Door Marketing Group, LLC. The Door is an entertainment public relations agency, offering talent publicity, strategic communications and entertainment content marketing primarily in the hospitality sector.

The total consideration payable to the former members of The Door (the "Members") in respect of the Merger comprises the following: (i) \$2.0 million in shares of the Common Stock, based on a price per share of Common Stock of \$3.25, (ii) \$2.0 million in cash (as adjusted for certain working capital and closing adjustments and transaction expenses) and (iii) up to an additional \$7.0 million of contingent consideration in a combination of cash and shares of Common Stock upon the achievement of specified financial performance targets over a four-year period as set forth in the Merger Agreement (the "Contingent Consideration"). On the Closing Date, the Company issued to the Members 307,692 shares of Common Stock and paid the Members an aggregate of \$1.0 million in cash (the "Initial Consideration"). In October of 2018, the Company agreed to advance \$274,500 of the second installment due January 3, 2019 to the Members so they could meet their tax obligations. Pursuant to the Merger Agreement, on January 3, 2019, the Company paid an aggregate of \$725,500 and issued 307,692 shares of Common Stock to the Members (the "Post-Closing Consideration" and, together with the Initial Consideration and the Contingent Consideration, the "Merger Consideration"). The Merger Agreement contains customary representations, warranties and covenants of the parties thereto. The Common Stock issued as Stock Consideration has not been registered under the Securities Act.

Each of the Members has entered into a four-year employment agreement with The Door, pursuant to which each Member has agreed not to transfer any shares of Common Stock received as consideration for the Merger (the "Share Consideration") in the first year following the closing date of the merger, no more than 1/3 of such Share Consideration in the second year and no more than an additional 1/3 of such Share Consideration in the third year.

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On the Closing Date, the Company entered into a registration rights agreement with the Members (the "Registration Rights Agreement"), pursuant to which the Members are entitled to rights with respect to the registration of the Share Consideration under the Securities Act. All fees, costs and expenses of underwritten registrations under the Registration Rights Agreement will be borne by the Company, other than underwriting discounts and commissions. At any time after July 5, 2019, the Company will be required, upon the request of such Members holding at least a majority of the Share Consideration received by the Members, to file up to two registration statements on Form S-3 covering up to 25% of the Share Consideration.

The acquisition-date fair value of the consideration transferred totaled \$5,999,323, which consisted of the following:

Common Stock issued at closing (307,692 shares)	\$1,123,077
Common Stock issued on January 3, 2019 (307,692 shares)	1,123,077
Cash paid to Members' on Closing Date	882,695
Members' transaction costs paid on Closing Date	117,305
Cash paid October 2018	274,500
Cash paid on January 3, 2019	725,500
Contingent Consideration	1,620,000
Working capital adjustment (\$46,000 paid in cash on March 12, 2019. \$87,169 will be issued in shares of stock at a later date)	133,169
	<u>\$5,999,323</u>

The Company has engaged an independent third-party valuation expert to determine the fair values of the various forms of consideration transferred. The fair values of the 307,692 shares of Common Stock issued on the Closing Date and the 307,692 shares of Common Stock issued on January 3, 2019 were determined based on the closing market price of the Company's Common Stock on the Closing Date of \$3.65 per share.

The Contingent Consideration arrangement requires that the Company issue up to 1,538,462 shares of Common Stock and up to \$2 million in cash to the Members on achievement of adjusted net income targets, (as set forth in the Merger Agreement), based on the operations of The Door over the four-year period beginning January 1, 2018. The fair value of the Contingent Consideration at the Closing Date was \$1,620,000. The fair value of the Contingent Consideration was estimated using 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 Closing Date. The key assumptions in applying the Monte Carlo Simulation model are as follows: a risk-free discount rate of between 2.11% and 2.67% based on the U.S government treasury obligation with a term similar to that of the contingent consideration, a discount rate of between 20.0% and 20.5%, and an annual asset volatility estimate of 62.5%. Changes in the fair value on the Contingent Consideration are recorded at each balance sheet date with changes reflected as gains or losses on the condensed consolidated statement of operations. See Note 10 for further discussion on the fair value as of June 30, 2019.

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The following table summarizes the fair values of the assets acquired and liabilities assumed at the Door Closing Date.

Cash	\$ 89,287
Accounts receivable	469,344
Property, equipment and leasehold improvements	105,488
Prepaid expense	31,858
Other assets	30,667
Intangible assets	2,110,000
Total identifiable assets acquired	<u>2,836,644</u>
Accrued expenses	(203,110)
Accounts payable	(1,064)
Unearned income	(15,500)
Other liabilities	(1,913)
Deferred tax liabilities	(593,949)
Total liabilities assumed	<u>(815,536)</u>
Net identifiable assets acquired	<u>2,021,108</u>
Goodwill	3,978,215
Net assets acquired	<u>\$ 5,999,323</u>

Of the calculation of \$2,110,000 of acquired intangible assets, \$1,010,000 was assigned to customer relationships (10-year useful life), \$670,000 was assigned to the trade name (10-year useful life), \$260,000 was assigned to non-competition agreements (2-year useful life) and \$170,000 was assigned to a favorable lease from the New York City location (26 months useful life), that were recognized at fair value on the Closing Date. On January 1, 2019, the Company adopted ASC 842 and reclassified the favorable lease asset recognized at the date of acquisition to right-of-use asset. The unamortized balance of the favorable lease asset on January 1, 2019 was \$130,769.

The fair value of accounts receivable acquired is \$469,344.

The fair values of property and equipment and leasehold improvements of \$105,488, and other assets of \$62,525, are based on The Door's carrying values prior to the Merger, which approximate their fair values.

The amount of \$3,978,215 of goodwill was assigned to the Entertainment publicity and marketing segment. The goodwill recognized is attributable primarily to expectations of continued successful efforts to obtain new customers, buyer specific synergies and the assembled workforce of The Door.

Unaudited Pro Forma Consolidated Statements of Operations

The following presents the Company's pro forma consolidated operations for the three and six months ended June 30, 2018 as if The Door had been acquired on January 1, 2018 and its results had been included in the consolidated results of the Company for such period:

	For the three months ended June 30, 2018	For the six months ended June 30, 2018
Revenue	\$ 6,848,310	\$14,247,354
Net income	\$ 519,443	\$ 1,509,350

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of The Door to reflect (a) the amortization that would have been charged, assuming the intangible assets had been recorded on January 1, 2018 and (b) interest expense from the convertible note payable used to partially pay the consideration for The Door, calculated as if the convertible note payable was outstanding as of January 1, 2018.

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The impact of the acquisition of The Door on the Company's actual results for periods following the acquisition may differ significantly from that reflected in this unaudited pro forma information for a number of reasons. As a result, this unaudited pro forma information is not necessarily indicative of what the combined company's financial condition or results of operations would have been had the acquisition been completed on January 1, 2018, as provided in this pro forma financial information. In addition, the pro forma financial information does not purport to project the future financial condition and results of operations of the combined company.

The following table summarizes the original and revised estimated fair values of the assets acquired and liabilities assumed at the Closing Date and the related measurement period adjustments to the fair values recorded during the six months ended June 30, 2018:

	July 5, 2018 (As initially reported)	Measurement Period Adjustments	June 30, 2019 (As adjusted)
Cash	\$ 89,287	\$ —	\$ 89,287
Accounts receivable	469,344	—	469,344
Property, equipment and leasehold improvements	105,488	—	105,488
Prepaid expenses	31,858	—	31,858
Other assets	30,667	—	30,667
Intangible assets	2,110,000	—	2,110,000
Total identifiable assets acquired	2,836,644	—	2,836,644
Accrued expenses	(203,110)	—	(203,110)
Accounts payable	(1,064)	—	(1,064)
Unearned income	(15,500)	—	(15,500)
Other liabilities	(1,913)	—	(1,913)
Deferred tax liability	(584,378)	(9,571)	(593,949)
Total liabilities assumed	(805,965)	(9,571)	(815,536)
Net identifiable assets acquired	2,030,679	(9,571)	2,021,108
Goodwill	3,835,475	142,740	3,978,215
Net assets acquired	\$ 5,866,154	\$ 133,169	\$ 5,999,323

The above fair values of assets acquired and liabilities assumed are based on the information that was available as of the Closing Date to estimate the fair value of assets acquired and liabilities assumed. As of the Closing Date, the Company recorded the identifiable net assets acquired of \$2,030,679 as shown in the table above in its condensed consolidated balance sheet. The Company has reflected adjustments of \$142,740 made during the Company's measurement period on its June 30, 2019 condensed consolidated balance sheet to reflect the adjusted identifiable net assets acquired of \$2,021,108 as shown in the table above.

The following is a reconciliation of the initially reported fair value to the adjusted fair value of goodwill:

Goodwill originally reported at July 5, 2018	\$ 3,835,475
Changes to estimated fair values	
Working capital adjustment	133,169
Deferred tax liability	9,571
Adjusted goodwill at June 30, 2019	\$ 3,978,215

The estimated fair value of the deferred tax liability increased by \$9,571 primarily due to the estimated expected future tax rate applied.

42West

On March 30, 2017, the Company entered into a purchase agreement (the "42West 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, and strategic communication services. On January 1, 2019, the Company adopted ASC 842 and reclassified the favorable lease asset recognized at the date of acquisition to right-of-use asset. The unamortized balance of the favorable lease asset on January 1, 2019 was \$277,878.

The Company agreed to settle change of control provisions with certain 42West employees and former employees by offering cash payments 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 and (iii) \$361,760 of March 29, 2019 related to the change of control provisions.

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 the obligation, to cause the Company to purchase up to an aggregate of 1,187,087 of their respective shares of Common Stock received as consideration for the Company's acquisition of 42West 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"). During the three and six months ended June 30, 2019, respectively, the sellers exercised Put Rights with respect to an aggregate of 74,891 and 202,602 shares of Common Stock. The Company paid \$65,000 on February 2, 2019, \$35,000 on March 13, 2019, \$300,000 on April 1, 2019, \$75,000 on April 10, 2019, \$50,000 on May 6, 2019, \$350,000 on June 3, 2019 and \$115,500 on June 28, 2019 related to these Put Rights. An additional \$877,500 is due from the exercise of these Put Rights. As of June 30, 2019, the Company had purchased an aggregate of 731,607 shares of Common Stock from the sellers for an aggregate purchase price of \$6,745,500, of which \$175,000 was paid in July of 2019, and \$702,500 is still outstanding.

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. The employees have the right, but not the obligation, to cause the Company to purchase up to an additional 20,246 shares of Common Stock in respect of the Earn Out Consideration.

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

Capitalized Production Costs

Capitalized production costs include the unamortized costs of *Max Steel* and costs of scripts for projects that have not been developed or produced. 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.

Revenues earned from motion pictures were \$0 and \$97,961, for the three ended June 30, 2019 and 2018, respectively, and \$78,990 and \$427,153 for the six months ended June 30, 2019 and 2018, respectively. These revenues were 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 \$53,862 and \$203,560 for the three and six months ended June 30, 2018, related to *Max Steel*. As of each of June 30, 2019, and December 31, 2018, the Company had a balance of \$629,585, recorded as capitalized production costs related to *Max Steel*.

The Company purchased scripts, including one from a related party, for other motion picture or digital productions and recorded \$155,454 and \$95,000 in capitalized production costs associated with these scripts as of June 30, 2019 and December 31, 2018, respectively. The Company intends to produce these projects, but they were not yet in production as of June 30, 2019.

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As of June 30, 2019, and December 31, 2018, the Company had total capitalized production costs of \$785,039 and \$724,585, respectively, net of accumulated amortization, tax incentives and impairment charges, recorded on its condensed consolidated balance sheets.

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.

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. For six months ended June 30, 2019, the Company received \$116,067 from a foreign distributor that had been deemed uncollectible for the year ended December 31, 2018 and recorded it against bad debt expense in its condensed consolidated statement of operations. In addition, the domestic distributor of *Max Steel* reports to the Company on a quarterly basis the sales of the motion picture in the United States. As of June 30, 2019, the Company had \$43,275 in accounts receivable related to the domestic revenues of *Max Steel*. There were no accounts receivable related to the revenues of *Max Steel* at December 31, 2018.

The Company's trade accounts receivables related to its entertainment publicity and marketing segment 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 June 30, 2019 and December 31, 2018, the Company had accounts receivable balances of \$2,436,024 and \$3,173,107, respectively, net of allowance for doubtful accounts of \$274,861 and \$283,022, respectively, related to its entertainment publicity and marketing segment.

Other Current Assets

The Company had a balance of \$614,301 and \$620,970 in other current assets on its condensed consolidated balance sheets as of June 30, 2019 and December 31, 2018, respectively. As of June 30, 2019 and December 31, 2018, these amounts were primarily composed of the following:

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.

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 policies.

Tax Incentives – The Company has access to government programs that are designed to promote video production in the jurisdiction. As of June 30, 2019 and December 31, 2018, the Company had a balance of \$60,000 from these tax incentives.

Income tax receivable – The Company is owed an overpayment from taxes paid to State of New York. As of each of June 30, 2019 and December 31, 2018, the Company had a balance of \$62,776 from income tax receivable.

Capitalized costs – The Company capitalizes certain third-party costs used in the production of its marketing video content. As of June 30, 2019 and December 31, 2018, the Company had a balance of \$3,576 and \$76,313, respectively related to these third-party costs.

NOTE 5 — PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvement consists of:

	June 30, 2019	December 31, 2018
Furniture and fixtures	\$ 720,777	\$ 713,075
Computers and equipment	1,666,104	1,636,391
Leasehold improvements	732,869	732,870
	<u>3,119,750</u>	<u>3,082,336</u>
Less: accumulated depreciation and amortization	(2,079,729)	(1,899,816)
Property, equipment and leasehold improvements, net	<u>\$ 1,040,021</u>	<u>\$ 1,182,520</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 are amortized over the remaining term of the related leases. The Company recorded depreciation and amortization expense of \$89,306 and \$180,428 for the three and six months ended June 30, 2019, respectively.

NOTE 6 — INVESTMENT

At June 30, 2019, investments, at cost, consisted 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 held by 42West into shares of common stock of VRC. The Company’s investment in VRC represents less than a 1% noncontrolling ownership interest in VRC. The Company had a balance of \$220,000 on its condensed consolidated balance sheets as of both June 30, 2019 and December 31, 2018, related to this investment.

NOTE 7 — DEBT

Loan and Security Agreement

During 2016, Max Steel Holdings, a wholly owned subsidiary of Dolphin Films, 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. Repayment of the loan was intended to be made from revenues generated by Max Steel in the United States. The loan was partially secured by a \$4,500,000 corporate guaranty from an unaffiliated third-party associated with the film, of which Dolphin provided a backstop guaranty of \$620,000. The Company also granted the lender a security interest in bank account funds totaling \$1,250,000. Once it was determined that the *Max Steel* would not generate sufficient funds to repay the lender, the unaffiliated party paid the lender the \$4,500,000 to reduce the loan balance and the lender applied the \$1,250,000 of the funds in the Company’s bank account to the reduce the loan balance. The loan is also secured by substantially all of the assets of Max Steel Holdings. As a result, if the lender forecloses on the collateral securing the loan, Max Steel Holding will lose the copyright for Max Steel and, consequently, will no longer receive any revenues from the domestic distribution of Max Steel. In addition, the Company would impair the entire capitalized production costs of Max Steel included as an asset on its balance sheet, which as of June 30, 2019 was \$629,585. 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.

As of June 30, 2019 and December 31, 2018, the Company had outstanding balances of \$699,542 and \$682,842, respectively, related to this agreement recorded on its condensed consolidated balance sheets in the caption debt. On its condensed consolidated statement of operations for the three and six months ended June 30, 2019, the Company recorded interest expense of \$20,549 and \$47,249, respectively, and \$51,884 and \$112,491 for the three and six months ended June 30, 2018, respectively, related to the P&A Loan. For the six months ended June 30, 2018, the Company also recorded \$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 has balances in accrued interest of \$1,698,280 and \$1,624,754, respectively, as of June 30, 2019 and December 31, 2018 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 June 30, 2019, and December 31, 2018, the Company had outstanding balances of \$1,612,919 and \$1,728,986, respectively, in the caption debt related to this Production Service Agreement on its condensed consolidated balance sheets, not including the accrued interest discussed above and included in other current liabilities.

Line of Credit

On March 15, 2018, 42West entered into a business loan agreement with BankUnited, N.A. for a revolving line of credit (the "Loan Agreement"). The Loan Agreement 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 \$2,250,000 with a sublimit of \$750,000 for standby letters of credit. Amounts outstanding under the Loan Agreement 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 under the Loan Agreement to purchase 183,296 shares of Common Stock, pursuant to the Put Agreements. As of June 30, 2019 and December 31, 2018, the outstanding balance on the line of credit was \$1,700,390.

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. As of June 30, 2019, the Company was in compliance with all covenants under the Loan Agreement.

NOTE 8 — NOTES PAYABLE

Convertible Notes

2019 Lincoln Park Note

On May 20, 2019, the Company entered into a securities purchase agreement with Lincoln Park Capital Fund LLC, an Illinois limited liability company ("Lincoln Park"), pursuant to which the Company agreed to issue and sell to Lincoln Park a senior convertible promissory note in an initial principal amount of \$1,100,000 (the "Lincoln Park Note") at a purchase price of \$1,000,000 (representing an original issue discount of approximately 9.09%), together with warrants to purchase up to 137,500 shares of Common Stock (the "Lincoln Park Warrants") at an exercise price of \$2.00 per share. The securities purchase agreement provides for issuance of warrants to purchase 137,500 shares of Common Stock on each of the second, fourth and sixth month anniversaries of the securities purchase agreement if any of the balance remains outstanding on such dates. The Lincoln Park Note is convertible at any time into shares of Common Stock (the "Conversion Shares") at an initial conversion price equal to the lower of (a) \$5.00 per share and (B) the lower of (i) the lowest intraday sale price of the Common Stock on the applicable conversion date and (ii) the average of the three lowest closing sales prices of the Common Stock during the twelve consecutive trading days ending on and including the trading day immediately preceding the conversion date, subject in the case of this clause (B), to a floor of \$1.00 per share. If an event of default under the Lincoln Park Note occurs prior to maturity, the Lincoln Park Note will be convertible into share of Common Stock at a 15% discount to the applicable conversion price. Outstanding principal under the Lincoln Park Note will not accrue interest, except upon an event of default, in which case interest at a default rate of 18% per annum would accrue until such event of default is cured. The Lincoln Park Note matures on May 21, 2021 and can be paid at prior to the maturity date without any penalty.

On May 21, 2019, the date of the issuance of the Lincoln Park Note, the Company's Common Stock had a market value of \$1.37 per share. The Company determined that the Lincoln Park Note contained a beneficial conversion feature by calculating the amount of shares using the conversion rate of the Lincoln Park Note of \$1.18 per share, (after allocating a portion of the convertible debt to the warrants based on the fair value of the warrants) and then calculating the market value of the shares that would be issued at conversion using the market value of the Company's Common Stock on the date of the Lincoln Park Note. The Company recorded a beneficial conversion feature on the Note of \$166,887 that is amortized and recorded as interest expense over the life of the Lincoln Park Note. The original issue discount of \$100,000 is amortized and recorded as interest expense over the life of the Lincoln Park Note. For the three months ended June 30, 2019, the Company recorded \$11,120 of interest expense from the amortization of the original issue discount and beneficial conversion feature. As of June 30, 2019, the Company had a balance of \$844,234, net of \$95,833 of original debt discount and \$159,933 of beneficial conversion feature, related to the Lincoln Park Note in noncurrent liabilities on its condensed consolidated balance sheet.

In connection with the transactions contemplated by the securities purchase agreement, on May 20, 2019, the Company entered into a registration rights agreement with Lincoln Park, pursuant to which the Company agreed to register the Conversion Shares for resale by Lincoln Park under the Securities Act, if during the six-month period commencing on the date of the Registration Rights Agreement, the Company determines to file a resale registration statement with the Securities and Exchange Commission.

2019 Convertible Debt

On March 25, 2019, the Company issued a convertible promissory note agreement to a third-party investor and received \$200,000 to be used for working capital. The convertible promissory note bears interest at a rate of 10% per annum and matures on March 25, 2021. The balance of the convertible promissory note and any accrued interest may be converted into shares of Common Stock at the note holder's option at any time at a purchase price based on the 30-day trailing average closing price of the Common Stock. As of June 30, 2019, the Company had a balance of \$200,000 in noncurrent liabilities related to this convertible promissory note.

2018 Convertible Debt

On July 5, 2018, the Company issued an 8% secured convertible promissory note in the principal amount of \$1.5 million (the "Pinnacle Note") to Pinnacle Family Office Investments, L.P. ("Pinnacle") pursuant to a Securities Purchase Agreement, dated the same date, between the Company and Pinnacle. The Company used the proceeds of the convertible promissory note to finance the Company's acquisition of The Door. The Company's obligations under the Pinnacle Note are secured primarily by a lien on the assets of The Door and Viewpoint.

The Company must pay interest on the principal amount of the Pinnacle Note, at the rate of 8% per annum, in cash on a quarterly basis. The Pinnacle Note matures on January 5, 2020. The Company may prepay the Pinnacle Note in whole, but not in part, at any time prior to maturity; however, if the Company voluntarily prepays the Pinnacle Note, it must (i) pay Pinnacle a prepayment penalty equal to 10% of the prepaid amount and (ii) issue to Pinnacle warrants to purchase 100,000 shares of Common Stock with an exercise price equal to \$3.25 per share. The Pinnacle Note also contains certain customary events of default. The holder may convert the outstanding principal amount of the Pinnacle Note into shares of Common Stock at any time at a price per share equal to \$3.25, subject to adjustment for stock dividends, stock splits, dilutive issuances and subsequent rights offerings. At the Company's election, upon a conversion of the Pinnacle Note, the Company may issue Common Stock in respect of accrued and unpaid interest with respect to the principal amount of the Pinnacle Note not converted by Pinnacle.

On the date of the Pinnacle Note, the Company's Common Stock had a market value of \$3.65. The Company determined that the Note contained a beneficial conversion feature or debt discount by calculating the amount of shares using the conversion rate of the Pinnacle Note of \$3.25 per share, and then calculating the market value of the shares that would be issued at conversion using the market value of the Company's Common Stock on the date of the Pinnacle Note. The Company recorded a debt discount on the Note of \$184,614 that is amortized and recorded as interest expense over the life of the Pinnacle Note.

For the three and six months ended June 30, 2019, the Company paid interest and recorded interest expense of \$30,000 and \$60,000, respectively related to the Pinnacle Note. For the three and six months ended June 30, 2019, the Company recorded \$30,769 and \$61,538 as interest expense related to the amortization of the debt discount. As of June 30, 2019, the Company had a balance of \$1,438,462, net of \$61,538 of debt discount, recorded in current liabilities on its condensed consolidated balance sheet, related to the Pinnacle Note. As of December 31, 2018, the Company had a balance of \$1,376,924, net of \$123,076 of debt discount, recorded in noncurrent liabilities on its consolidated balance sheet, related to the Pinnacle Note.

2017 Convertible Debt

In 2017, the Company entered into subscription agreements pursuant to which it issued unsecured convertible promissory notes, each with substantially similar terms, for an aggregate principal amount of \$625,000. 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. During 2018, the Company and the note holders agreed to extend the maturity date for another year from the original maturity date, with the exception of the \$75,000 note with a two-year maturity date. 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.

On March 21, 2019, the holder of a \$75,000 convertible promissory note elected to convert the note into 53,191 shares of Common Stock on the 90-day trailing trading average price of \$1.41 per share. On March 21, 2019, the closing market price of the Company's common stock was \$1.81. As a result, the Company recorded a loss on extinguishment of debt on its condensed consolidated statement of operations of \$21,276 for the difference between the closing market price and the conversion price of the Common Stock.

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For the three and six months ended June 30, 2019, the Company paid interest on these notes in the aggregate amount of \$17,521 and \$33,146, respectively and recorded interest expense in the amount of \$18,750 and \$34,465, respectively relating to these notes. For the three and six months ended June 30, 2018, the Company paid interest on these notes in the aggregate amount of \$15,625 and \$34,890, respectively and recorded interest expense in the amount of \$21,480 and \$43,355, respectively relating to these notes. As of June 30, 2019 and December 31, 2018, the Company recorded accrued interest of \$6,181 and \$4,861, respectively, relating to the convertible notes payable. As of June 30, 2019 and December 31, 2018, the Company had a balance of \$550,000 and \$625,000, respectively, in current liabilities and a balance of \$200,000 in noncurrent liabilities as of June 30, 2019 on its condensed consolidated balance sheets relating to these convertible notes payable.

Nonconvertible Notes Payable

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 with KCF Investments LLC ("KCF"), an entity controlled by Mr. Stephen L Perrone, an affiliate of the Company. On December 10, 2018, the Company agreed to exchange this note, including accrued interest of \$192,233 for a new unsecured promissory note in the amount of \$492,233 that matures on December 10, 2023. This promissory note bears interest of 10% per annum and can be prepaid without a penalty at any time prior to its maturity. The note requires monthly repayments of principal and interest in the amount of \$10,459 throughout the life of the note.

On November 30, 2017, the Company entered into an unsecured promissory note in the amount of \$200,000 that matures on January 15, 2020. 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, with an initial maturity date of June 14, 2019. On May 1, 2019, the holder of the promissory note agreed to extend the maturity date until June 14, 2021 on the same terms as the original promissory note. The promissory note bears interest of 10% per annum and can be prepaid without a penalty after the initial six months.

During the three and six months ended June 30, 2019, the Company paid interest on its nonconvertible promissory notes in the aggregate amount of \$26,662 and \$53,808, respectively. During the three and six months ended June 30, 2018, the Company paid interest on its nonconvertible promissory notes in the aggregate amount of \$15,000 and \$30,834, respectively. The Company had balances of \$6,038 and \$6,315 as of June 30, 2019 and December 31, 2018, respectively, for accrued interest recorded in other current liabilities in its condensed consolidated balance sheets, relating to these promissory notes. The Company recorded interest expense for the three and six months ended June 30, 2019 of \$26,497 and \$53,532, respectively, and \$22,479 and \$44,877, for the three and six months ending June 30, 2018, respectively, relating to these promissory notes. As of June 30, 2019, the Company had a balance of \$283,952 in current liabilities and \$769,339 in noncurrent liabilities related to these nonconvertible promissory notes. As of December 31, 2018, the Company had balances of \$79,874 in current liabilities and \$1,012,359 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, 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. Under the terms of the DE LLC Note, the CEO may make additional advancements to the Company, as needed, and may be repaid a portion of the loan, which is payable on demand and bears interest at 10% per annum. Included in the balance of the DE LLC Note are certain script costs and other payables totaling \$594,315 that were owed to DE LLC.

For the three and six months ended June 30, 2019, the Company did not repay any principal balance of the DE LLC Note and recorded interest expense of \$27,621 and \$54,938, respectively. For the three and six months ended June 30, 2018, the Company repaid \$470,000 and \$601,001, respectively of principal balance and recorded interest expense of \$33,605 and \$73,535, respectively, relating to the DE LLC Note. As of June 30, 2019 and December 31, 2018, the Company had a principal balance of \$1,107,873 and accrued interest of \$359,826 and \$304,888, respectively, relating to the DE LLC Note on its condensed consolidated balance sheet.

NOTE 10 — FAIR VALUE MEASUREMENTS

Put Rights

In connection with the 42West Acquisition (see Note 3) on March 30, 2017, the Company entered into the Put Agreements, pursuant to which it granted the Put Rights to the sellers. During the six months ended June 30, 2019, the sellers exercised their Put Rights, in accordance with the Put Agreements, for an aggregate amount of 202,602 shares of Common Stock. As a result, the sellers were paid \$65,000 on February 7, 2019, \$35,000 on March 13, 2019, \$300,000 on April 1, 2019, \$75,000 on April 10, 2019, \$50,000 on May 6, 2019, \$350,000 on June 3, 2019 and \$115,500 on June 28, 2019 related to these Put Rights. An additional \$877,500 is due from the exercise of these Put Rights of which \$175,000 was paid in July 2019.

In addition, the Company entered in put agreements with three 42West employees with change of control provision 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. The employees have the right, but not the obligation, to cause the Company to purchase an additional 20,246 shares of Common Stock.

The Company records the fair value of the liability in the condensed 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 carrying amount at fair value of the aggregate liability for the Put Rights recorded on the condensed consolidated balance sheets at June 30, 2019 and December 31, 2018 was \$4,708,191 and \$5,984,067, respectively. Due to the change in the fair value of the Put Rights for the period in which the Put Rights were outstanding for the three and six months June 30, 2019, the Company recorded a gain of \$251,350 and \$1,778,376, respectively, and \$333,043 and \$1,416,639, respectively for the three and six months ended June 30, 2018, on the change in the 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 June 30, 2019 and December 31, 2018.

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

Inputs	As of June 30, 2019	As of December 31, 2018
Equity volatility estimate	42.0% – 44.0%	35.0% – 59.4%
Discount rate based on US Treasury obligations	1.78% – 2.13%	2.45% – 63%

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, 2018 to June 30, 2019:

Ending fair value balance reported in the consolidated balance sheet at December 31, 2018	\$ 5,984,067
Put rights exercised in December 2018 paid in January 2019	(375,000)
Change in fair value (gain) reported in the statements of operations	(1,778,376)
Put rights exercised June 2019 and paid in July 2019	175,000
Put rights exercised March 2019 and not yet paid	702,500
Ending fair value of put rights reported in the condensed consolidated balance sheet at June 30, 2019	<u>\$ 4,708,191</u>

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Contingent Consideration

In connection with the Company's acquisition of The Door (See Note 3), the Members have the potential to earn the Contingent Consideration, comprising up to 1,538,462 shares of Common Stock, based on a purchase price of \$3.25, and up to \$2,000,000 in cash on achievement of adjusted net income targets based on the operations of The Door over the four-year period beginning January 1, 2018.

The Company records the fair value of the liability in the condensed consolidated balance sheets under the caption "Contingent Consideration" and records changes to the liability against earnings or loss under the caption "Changes in fair value of contingent consideration" in the condensed consolidated statements of operations. The fair value of the Contingent Consideration on the date of the acquisition of The Door was \$1,620,000. The carrying amount at fair value of the aggregate liability for the Contingent Consideration recorded on the condensed consolidated balance sheet at June 30, 2019 and December 31, 2018 is \$460,000 and \$550,000, respectively. Due to the change in the fair value of the Contingent Consideration for the period in which the Contingent Consideration was outstanding during the three and six months ended June 30, 2019, the Company recorded a gain on the Contingent Consideration of \$360,000 and \$90,000, respectively, in the condensed consolidated statement of operations.

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 by using the following key inputs to the Monte Carlo Simulation Model:

Inputs	As of June 30, 2019	As of December 31, 2018
Risk Free Discount Rate (based on US government treasury obligation with a term similar to that of the Contingent Consideration)	1.73% - 2.09%	2.47% - 2.59%
Annual Asset Volatility Estimate	40.0%	65.0%

For the Contingent Consideration, 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, 2018 to June 30, 2019:

Beginning fair value balance reported on the consolidated balance sheet at December 31, 2018	\$ 550,000
Change in fair value (gain) reported in the statements of operations	(90,000)
Ending fair value balance reported in the condensed consolidated balance sheet at June 30, 2019	<u>\$ 460,000</u>

NOTE 11 — CONTRACT LIABILITIES

The Company receives advance payments from customers for public relations projects or as deposits for promotional or brand-support video projects, that it records as contract liabilities. Once the work is performed or the projects are delivered to the customer, the contract liability is recorded as revenue. The Company had balances of \$192,471 and \$522,620 as of June 30, 2019 and December 31, 2018, respectively, in contract liabilities.

NOTE 12 — 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 on historical cost. A gain or loss may be recognized upon deconsolidation of a VIE depending on the amounts of deconsolidated assets and liabilities compared to the fair value of retained interests and ongoing contractual arrangements.

	Max Steel Productions LLC					JB Believe LLC				
	As of and for the six months ended June 30, 2019	For the three months ended June 30, 2019	As of December 31, 2018	As of and for the six months ended June 30, 2018	As of and for the three months ended June 30, 2018	As of and for the six months ended June 30, 2019	For the three months ended June 30, 2019	As of December 31, 2018	As of and for the six months ended June 30, 2018	As of and for the three months ended June 30, 2018
(in USD)										
Assets	8,052,711	—	7,978,887	8,820,966	—	185,000	—	205,725	—	—
Liabilities	(11,856,455)	—	(11,887,911)	(12,153,196)	—	(6,743,568)	(6,750,573)	(6,741,834)	(6,743,568)	—
Revenues	78,990	—	—	427,153	97,961	—	—	—	—	—
Expenses	26,290	(14,035)	—	(464,418)	(128,691)	(29,464)	(8,223)	—	(290)	—

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 June 30, 2019 and December 31, 2018, and in the condensed consolidated statements of operations and statements of cash flows presented herein for the three and six months ended June 30, 2019 and 2018. These entities were previously under common control and have been accounted for at historical costs for all periods presented.

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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 producer fee of \$892,619. Pursuant to the financing agreements, the lender acquired 100% of the membership interests 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 each of June 30, 2019 and December 31, 2018, the Company had a balance in capitalized production costs of \$629,585. For the year ended December 31, 2018, the Company wrote off accounts receivable of \$618,165, of which it had an allowance for doubtful account of \$227,280 and did not have a balance in accounts receivable related to *Max Steel* as of December 31, 2018. For the six months ended June 30, 2019, the Company collected \$116,067 of receivables that had previously been written off and recorded the receipt against bad debt expense. 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 six months ended June 30, 2019 and 2018, 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 \$116,067 and \$4,582, 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 its liquidity, results of operations and financial condition.

As of June 30, 2019 and December 31, 2018, there were outstanding balances of \$1,612,919 and \$1,728,986, respectively, related to this debt which are included in the caption debt in the condensed consolidated balance sheets.

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 of this entity 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. 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 13 — 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.

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 an amendment to 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. Additionally, on July 6, 2017, the Second Amended and Restated Articles of Incorporation eliminated previous designations of Series A Convertible Preferred Stock and Series B Convertible Preferred Stock, no shares of which are outstanding.

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 the issue. 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 be convertible by the Eligible Class C Preferred Stock Holder only 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 have voting rights only if 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 shares of Common Stock into which the Series C Convertible Preferred Stock may 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.

B. Common Stock

On January 3, 2019, the Company issued 307,692 shares of its Common Stock to the sellers of The Door pursuant to the Merger Agreement. (See Note 3)

On February 7, 2019, one of the sellers of 42West exercised Put Rights for 7,049 shares of Common Stock and was paid an aggregate amount of \$65,000 on February 7, 2019.

On March 11, 2019, one of the sellers of 42West exercised Put Rights for 3,796 shares of Common Stock and was paid an aggregate amount of \$35,000 on March 13, 2019.

On March 12, 2019, one of the sellers of 42West exercised Put Rights for 21,692 shares of Common Stock and was paid an aggregate amount of \$200,000 on April 1, 2019.

On March 20, 2019, one of the sellers of 42West exercised Put Rights for 87,040 shares of Common Stock and was paid an aggregate amount of \$100,000 on April 1, 2019. The remaining \$702,500 is still outstanding.

On March 21, 2019, one of the sellers of 42West exercised Put Rights for 8,134 shares of Common Stock and was paid an aggregate amount of \$75,000 on April 10, 2019.

On March 21, 2019, one of the convertible promissory note holders elected to convert a \$75,000 convertible promissory note into 53,191 shares of common stock at a 90-day trailing trading average stock price of \$1.41 per share of Common Stock.

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On May 6, 2019, one of the sellers of 42West exercised Put Rights for 5,422 shares of Common Stock and was paid \$50,000 on May 6, 2019.

On May 13, May 16 and May 22, 2019, three of the sellers of 42West exercised Put Rights for an aggregate amount of 37,961 shares of Common Stock and were paid \$350,000 on June 3, 2019.

On June 25, 2019, one of the sellers of 42West exercised Put Rights for 12,527 shares of Common Stock and was paid \$115,500 on June 28, 2019.

On June 24, 2019, one of the sellers of 42West exercised Put Rights for 8,134 shares of Common Stock and was paid \$75,000 on July 10, 2019.

On June 30, 2019 one of the sellers of 42West exercised Put Rights for 10,846 shares of Common Stock and was paid \$100,000 on July 17, 2019.

As of June 30, 2019 and December 31, 2018, the Company had 14,394,562 and 14,123,157 shares of Common Stock issued and outstanding, respectively.

NOTE 14 — EARNINGS (LOSS) PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Numerator				
Net(loss) income attributable to Dolphin Entertainment shareholders and numerator for basic earnings per share	\$ (891,867)	\$ 170,474	\$ (769,259)	\$ 1,003,432
Change in fair value of put rights	(251,350)	(333,043)	(1,778,376)	(1,416,639)
Numerator for diluted earnings per share	<u>\$ (1,143,217)</u>	<u>\$ (162,569)</u>	<u>\$ (2,547,635)</u>	<u>\$ (413,207)</u>
Denominator				
Denominator for basic EPS - weighted-average shares	15,969,926	12,349,014	15,957,085	12,432,872
Effect of dilutive securities:				
Put rights	<u>3,202,161</u>	<u>1,682,987</u>	<u>3,714,039</u>	<u>2,100,352</u>
Denominator for diluted EPS - adjusted weighted-average shares	<u>19,172,087</u>	<u>14,032,001</u>	<u>19,671,124</u>	<u>14,533,224</u>
Basic (loss) income per share	\$ (0.06)	\$ 0.01	\$ (0.05)	\$ 0.08
Diluted (loss) per share	\$ (0.06)	\$ (0.01)	\$ (0.13)	\$ (0.03)

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 equity instruments, such as put rights and convertible notes payable were exercised and outstanding Common Stock adjusted accordingly.

In periods when the Put Rights are assumed to have been settled at the beginning of the period in calculating the denominator for diluted (loss) income per share, the related change in the fair value of Put Right liability recognized in the consolidated statements of operations for the period, is added back or subtracted from net income during the period. The denominator for calculating diluted income per share for the three and six months ended June 30, 2019 and 2018 assumes the Put Rights had been settled at the beginning of the period, and therefore, the related income due to the decrease in the fair value of the Put Right liability during the three and six months ended June 30, 2019 and 2018 is subtracted from net income.

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Other potentially dilutive equity instruments such as convertible notes payable, were not included in the calculation diluted (loss) income per share for the three and six months ended June 30, 2019 and 2018 because they were determined to be anti-dilutive.

NOTE 15 — WARRANTS

A summary of warrants outstanding at December 31, 2018 and issued, exercised and expired during the six months ended June 30, 2019 is as follows:

Warrants:	Shares	Weighted Avg. Exercise Price
Balance at December 31, 2018	2,727,253	\$ 3.62
Issued	137,500	2.00
Exercised	—	—
Expired	(1,000,000)	2.29
Balance at June 30, 2019	<u>1,864,753</u>	<u>\$ 4.06</u>

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 June 30, 2019	Original Exercise Price	Exercise price at December 31, 2018	Expiration Date
Warrant "G"	750,000	\$ Expired	\$ 10.00	\$ 2.29	January 31, 2019
Warrant "H"	250,000	\$ Expired	\$ 12.00	\$ 2.29	January 31, 2019
Warrant "I"	250,000	\$ 2.00	\$ 14.00	\$ 2.29	January 31, 2020
	<u>1,250,000</u>				

The Warrants "G", "H" and "I" contain a round down 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. Due to the existence of the round down provision, the Warrants "G", "H" and "I" were carried in the consolidated financial statements as derivative liabilities at fair value. However, on July 1, 2018, the Company adopted ASU 2017-11 that states down round provisions no longer preclude equity classification when assessing whether the instrument is indexed to an entity's own stock. As a result, the Company used the modified retrospective approach and recorded a cumulative effect adjustment to retained earnings to classify the instruments as equity. Warrants "G" and "H" were not exercised and expired on January 31, 2019.

In the Company's 2017 offering of its Common Stock, the Company issued 1,215,000 units, each comprising one share of Common Stock, and one warrant exercisable for one share of Common Stock for \$4.74 per share. In addition to the units issued and sold in this 2017 offering, the Company also issued warrants to the underwriters to purchase up to an aggregate of 85,050 shares of Common Stock at a purchase price of \$4.74 per share. 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. In connection with the exercise of the over-allotment option, the Company issued to the underwriters warrants to purchase an aggregate of 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 recorded the fair value of the warrants in additional paid in capital.

On May 21, 2019, the Company issued warrants to purchase up to 137,500 shares of Common Stock at a purchase price of \$2.00 per share to Lincoln Park related to the Lincoln Park Note (the "Lincoln Park Warrants"). The Lincoln Park Warrants become exercisable on the six-month anniversary and for a period of five years thereafter. If a resale registration statement covering the shares of Common Stock underlying the Lincoln Park Warrants is not effective and available at the time of exercise, the Lincoln Park Warrants may be exercised by means of a "cashless" exercise formula. The Lincoln Park Warrants had a fair value at issuance of \$89,543. The Company determined that the Lincoln Park Warrants should be classified as equity and recorded the fair value of the warrants in additional paid in capital.

NOTE 16 — RELATED PARTY TRANSACTIONS

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. 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. Even though the employment agreement expired and has not been renewed, the Company has an obligation under the agreement to continue to accrue interest on the unpaid balance. As of June 30, 2019 and December 31, 2018, the Company accrued \$2,625,000 of compensation as accrued compensation and has balances of \$1,360,890 and \$1,230,719 respectively, in accrued interest in other current liabilities on its condensed consolidated balance sheets, related to Mr. O'Dowd's employment. The Company recorded interest expense related to the accrued compensation of \$65,445 and \$64,418, respectively, for the three months ended June 30, 2019 and 2018, and \$130,171 and \$126,581 for the six months ended June 30, 2019 and 2018, respectively, on the condensed consolidated statements of operations.

On March 30, 2017, in connection with the acquisition of 42West, the Company and Mr. O'Dowd, as personal guarantor, entered into the Put Agreements with each of the sellers of 42West, pursuant to which the Company granted the Put Rights. 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 37,961 shares of Common Stock at a purchase price of \$9.22 per share for an aggregate purchase price of \$350,000, during the six months ended June 30, 2019.

NOTE 17 — SEGMENT INFORMATION

The Company operates in two reportable segments, Entertainment Publicity and Marketing Segment and Content Production Segment. The Entertainment Publicity and Marketing segment is composed of 42West, The Door and Viewpoint and provides clients with diversified services, including public relations, entertainment and hospitality content marketing and strategic marketing consulting. The Content Production segment is composed of Dolphin Entertainment and Dolphin Films 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 segments and assessing operating segment performance is operating income (loss). Salaries and related expenses include salaries, bonuses, commissions 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.

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In connection with the acquisitions of 42West, The Door, and Viewpoint, the Company assigned \$8,086,773 of intangible assets, net of accumulated amortization of \$3,494,560 and goodwill of \$15,996,977 (after goodwill impairment of \$1,857,000) as of June 30, 2019 to the Entertainment Publicity and Marketing segment. The balances reflected as of June 30, 2018 for Entertainment Publicity and Marketing segment comprise only 42West.

	Three months ended	Six months ended	Three months ended	Six months ended
	June 30, 2019		June 30, 2018	
Revenues:				
EPD	\$ 6,273,983	\$ 12,523,890	\$ 5,121,487	\$ 10,577,220
CPD	—	78,990	97,961	427,153
Total	\$ 6,273,983	\$ 12,602,880	\$ 5,219,448	\$ 11,004,373
Segment Operating Income (Loss):				
EPD	\$ (450,165)	\$ (810,759)	\$ 497,886	\$ 965,702
CPD	(751,913)	(1,216,481)	(428,619)	(995,359)
Total	(1,202,078)	(2,027,240)	69,267	(29,657)
Interest expense	(301,139)	(589,108)	(265,992)	(533,419)
Other income (expense)	611,350	1,847,089	595,215	1,847,128
Income (loss) before income taxes	\$ (891,867)	\$ (769,259)	\$ 398,490	\$ 1,284,052
			As of June 30,	
			2019	2018
Total assets:				
EPD			\$36,811,890	\$25,410,350
CPD			2,766,619	3,227,077
Total			\$39,578,509	\$28,637,427

NOTE 18 — LEASES

Viewpoint is obligated under an operating lease agreement for office space in Newton, Massachusetts, expiring in March 2021. The lease is secured by a certificate of deposit held by the Company in the amount of \$55,014 and included in restricted cash as of June 30, 2019 and December 31, 2018. The lease provides for increases in rent for real estate taxes and operating expenses, and contains a renewal option for an additional five years.

The Door occupies space in New York. An entity wholly owned by the former Members of The Door is obligated under an operating lease agreement for the office space expiring in August 2020. The Company made payments of \$108,785 to the affiliate during the six months ended June 30, 2019 related to this lease. The lease is secured by a cash security deposit of approximately \$29,000.

The Door is obligated under an operating lease agreement for office space in Chicago, Illinois, at a fixed rate of \$2,200 per month, expiring in May 2020. The lease is secured by a cash deposit of approximately \$1,500.

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 in the amount of \$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 in the amount of \$50,000 at June 30, 2019. 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 has not and does not expect to execute such option.

The Company is obligated under an operating lease agreement for office space in Miami, Florida. The lease is secured by a cash security deposit of \$8,433. The original term of the lease expired October 31, 2016 and the Company extended the lease until September 30, 2019 with substantially the same terms as the original lease.

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The Company is obligated under an operating lease for office space in Los Angeles, California until July 31, 2019. 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 lease is secured by a cash security deposit in the amount of \$32,337. 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 with lease payment as follows: (i) \$14,892 per month for the first twelve months, with the first two months of rent abated and (ii) \$15,338 per month for the remainder of the sublease. The subtenant vacated the premises on July 31, 2019 and the Company's obligations under the sublease and master lease agreements have been satisfied.

The amortizable life of the right of use asset is limited by the expected lease term. Although certain leases include options to extend the Company did not include these in the right of use asset or lease liability calculations because it is not reasonably certain that the options will be executed.

	January 1, 2019	June 30, 2019
Assets		
Right of use asset	\$ 7,547,769	\$ 6,529,077
Liabilities		
Current		
Lease liability	\$ 1,394,479	\$ 1,408,122
Noncurrent		
Lease liability	\$ 6,298,437	\$ 5,608,043
Total lease liability	\$ 7,692,916	\$ 7,016,165

The table below shows the lease income and expenses recorded in the consolidated statement of operations incurred during the three and six months ended June 30, 2019.

		Three months ended June 30, 2019	Six months ended June 30, 2019
Lease costs	Classification		
Operating lease costs	Selling, general and administrative expenses	\$ 542,325	\$ 1,121,729
Operating lease costs	Direct costs	60,861	121,722
Sublease income	Selling, general and administrative expenses	(47,522)	(94,738)
Net lease costs		<u>\$ 555,664</u>	<u>\$ 1,148,713</u>

Maturities of lease liabilities were as follows:

2019 (excluding six months ended June 30, 2019)	\$ 961,081
2020	1,892,725
2021	1,550,344
2022	926,500
2023	927,564
Thereafter	2,860,001
Total lease payments	<u>\$ 9,118,215</u>
Less: Imputed interest	<u>(2,102,050)</u>
Present value of lease liabilities	<u>\$ 7,016,165</u>

The Company used its incremental borrowing rate on January 1, 2019, deemed to be 8%, to calculate the present value of the lease liabilities and right of use asset. The weighted average remaining lease term for our operating leases was six years at June 30, 2019.

On February 19, 2019, the Company entered into an agreement to lease 3,024 square feet of office space in Coral Gables, Florida. The lease is for a period of 62 months from the commencement date, at a monthly lease rate of \$9,954 with annual increases of 3%. The rent payments are abated for the first four months of the lease after the commencement date. Per the lease agreement, the commencement date is defined as the earlier of (i) date on which landlord delivers to the tenant possession of the premises with the work (as defined in the lease) substantially completed and (ii) the date of which the tenant begins occupying the premises for the conduct of business. The lease allows for a tenant improvement allowance to build out the space and any cost of the improvements over the tenant allowance are the Company's responsibility. The landlord is responsible for the construction of the improvements. The Company evaluated the provisions of the lease and determined that (i) it does not have the right to obtain the partially constructed underlying asset during the construction, (ii) the lessor does not have an enforceable right to payment for its performance to date (iii) the asset has an alternative use to the lessor and (iv) the Company does not own the land or the property improvements being constructed. As such this lease was not included in the right of use asset or lease liabilities on the Company's consolidated balance sheet as of June 30, 2019.

The Company adopted ASU 2016-02 with respect to leases effective January 1, 2019. In July 2018, the FASB added an optional transition method which the Company elected upon adoption of the new standard. This allowed us to recognize and measure leases existing at January 1, 2019 without restating comparative information.

NOTE 19 — 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 June 30, 2019, the Company had not received any other notifications related to this action.

Incentive Compensation Plan

On June 29, 2017, the shareholders of the Company approved the Dolphin Digital Media, Inc. 2017 Equity Incentive Plan (the "2017 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. During the six months ended June 30, 2019, the Company did not issue any Awards under the 2017 Plan.

Employee Benefit Plan

The Company has a 401(K) profit sharing plan that covers substantially all of its employees. The Company matches 100% of the first 3% contributed by the employee and then 50% up to a maximum of 4% contributed by the employee. The contribution is also limited by annual maximum amount determined by the Internal Revenue Service. The Company's contributions were \$51,777 and \$149,220 during the three and six months ended June 30, 2019. Contributions to the 42West 401(K) plan that was in existence during the six months ended June 30, 2019, are at the discretion of management. The Company's contributions were \$44,030, for the six months ended June 30, 2019. 42West adopted the Company's plan during the quarter ended June 30, 2019.

Employment Contracts

As a condition to the Viewpoint Purchase, two of the Viewpoint Shareholders, Carlo DiPersio and David Shilale entered into employment agreements with the Company to continue as employees after the closing of the Viewpoint Purchase. Mr. DiPersio's employment agreement is through December 31, 2020 and the contract defines base compensation and a bonus structure based on Viewpoint achieving certain financial targets. Mr. Shilale's employment agreement is for a period of three years from the Viewpoint Closing Date and the contract defines the base compensation and a commission structure based on Viewpoint achieving certain financial targets. The bonus for Mr. Shilale is determined at the sole discretion of the Company's board of directors and management. Neither agreement provides for guaranteed increases to the base salary. The employment agreements contain provisions for termination and as a result of death or disability and entitles the employee to vacations and to participate in all employee benefit plans offered by the Company.

Each of the Members has entered into a four-year employment agreement with The Door, pursuant to which each Member has agreed not to transfer any shares of Common Stock received as consideration for the Merger (the "Share Consideration") in the first year following the closing date of the merger, no more than 1/3 of such Share Consideration in the second year and no more than an additional 1/3 of such Share Consideration in the third year.

During the year ended December 31, 2017, 42West renewed two senior level management employment agreements each with a three-year term. The contracts define each individual's base compensation along with salary increases. The employment agreements contain provisions for termination and as a result of death or disability and entitles each of the employees to bonuses, commissions, vacations and to participate in all employee benefit plans offered by the Company. A third senior management level employee with an employment contract with similar terms as described above, left 42West during the six months ended June 30, 2019.

As a condition to the closing of the acquisition of 42West each of the three principal sellers entered into employment agreements (the "Employment Agreements") with the Company and have agreed to 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 contain provisions for termination and as a result of death or disability. During the term of the Employment Agreement, these persons are entitled to participate in all employee benefit plans, practices and programs maintained by the Company as well as 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 such person has agreed to certain transfer restrictions with respect to the shares of Common Stock received in connection with the acquisition of 42West.

On April 5, 2018, the principal sellers of 42West 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 closing 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. No cash bonuses were paid during the six months ended June 30, 2019 to the principal sellers of 42West.

Letter of Credit

Pursuant to the lease agreements of the 42West New York and Los Angeles office locations, the Company is required to issue letters of credit to secure the leases. On July 24, 2018, the Company renewed the letter of credit issued by City National Bank for the 42West office space in New York. The letter of credit is for \$677,354 and originally expired on August 1, 2018. This letter of credit renews automatically annually unless City National Bank notifies the landlord 60-days prior to the expiration of the bank's election not to renew the letter of credit. The Company granted City National Bank a security interest in bank account funds totaling \$677,354 pledged as collateral for the letter of credit. On June 29, 2018, the Company issued a letter of credit through Bank United, in the amount of \$50,000, reducing the borrowing capacity under the Loan Agreement by that amount. The letters of credit commit the issuer to pay specified amounts to the holder of the letter of credit under certain conditions. If this were to occur, the Company would be required to reimburse the issuer of the letter of credit. The Company was not aware of any material claims relating to its outstanding letters of credit as of June 30, 2019.

Motion Picture Industry Pension Accrual

Until April 2, 2019, 42West was 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 conducted an audit of 42West's books and records for the period June 7, 2011 through August 20, 2016 in connection with the contribution obligations to the Plans. During 2018, 42West came to an agreement with the Plans to pay \$314,256 over a twelve-month period. During the three and six months ended June 30, 2019, it paid an aggregate amount of \$83,764 and \$167,527, respectively, to the Plans related to this agreement. The remaining balance of \$27,921 is recorded in other current liabilities on the condensed consolidated balance sheet as of June 30, 2019. As of December 31, 2018, the Company had accrued \$174,651 in its consolidated balance sheet related to the audit.

NOTE 20 – SUBSEQUENT EVENTS

On July 10, 2019, the Company paid \$75,000 to one of the sellers of 42West for a Put Right that was exercised on June 24, 2019.

On July 9, 2019, the Company issued a convertible promissory note agreement to a third-party investor and received \$150,000. The convertible promissory note bears interest at a rate of 10% per annum and matures on July 9, 2021. The balance of the convertible promissory note and any accrued interest may be converted at the note holder's option at any time at a purchase price based on the 30-day average closing market price per share of the Common Stock

On July 17, 2019, the Company paid \$100,000 to one of the sellers of 42West for a Put Right that was exercised on June 28, 2019.

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JUNE 30, 2019

On July 23, 2019, pursuant to the terms of the securities purchase agreement with Lincoln Park, the Company issued Series B Warrants that entitle the holder to purchase up to 137,500 shares of Common Stock at \$2.00 per share. The initial exercise date of the Series B Warrants is January 23, 2020 and can be exercised thereafter for a period of five years.

On August 12, 2019, the Compensation Committee of the Company's Board of Directors unanimously approved a salary increase of \$50,000 each to the Company's Chief Executive Officer and Chief Financial Officer effective January 1, 2019.

In connection with the Put Agreement with 42West co-CEO Leslee Dart, on August 12, 2019, the Company entered into an amendment, waiver and exchange agreement (the "Dart Exchange Agreement") pursuant to which Ms. Dart waived her Put Right with respect to 76,194 shares of Common Stock in exchange for a convertible note (the "Dart Convertible Note") in the aggregate principal amount of \$702,500, issued on the date of the Dart Exchange Agreement.

The Dart Convertible Note is convertible at any time into shares of Common Stock (the "Conversion Shares") at a conversion price (the "Conversion Price") equal to the quotient obtained by dividing (i) the principal and interest being converted by (ii) the average closing price per share of Common Stock, as reported by the Nasdaq Stock Market (or such other exchange or quotation system on which the Common Stock is then traded) for the 30-trading days immediately prior to, but not including the date on which the holder delivers the notice of conversion. The Conversion Price subject to adjustments for stock splits, reclassifications and certain other transactions involving the Company or its securities. The Dart Convertible Note bears an interest rate of ten percent per annum. The Dart Convertible Note matures on August 12, 2020 unless earlier converted or redeemed. The Company may, at its option, prepay all or any portion of the outstanding balance under the Dart Convertible Note without penalty or premium.

The Dart Convertible Note provides for customary events of default, which include (subject in certain cases to customary grace and cure periods), among others, the following: nonpayment of principal or interest; failure to maintain corporate existence; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs and is continuing under the Dart Convertible Note, the holder may declare the principal of, and accrued interest on, the Dart Convertible Note due and payable. In the case of certain events of bankruptcy or insolvency, all amounts outstanding under the Dart Convertible Note, together with accrued and unpaid interest thereon, would automatically become due and payable. The Dart Convertible Note was issued to the holder in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act, based upon the representation made by the holder that she is an "accredited investor" and that she is acquiring the Dart Convertible Note solely for the purposes of investment and not with a present view to, or for sale in connection with, any distribution or resale thereof. In addition, there was no general advertisement conducted by the Company in connection with the issuance of the Dart Convertible Note.

In connection with the Put Agreement with Allan Mayer, a member of the Company's board of directors and 42West co-CEO, on August 12, 2019, the Company entered into an amendment, waiver and exchange agreement (the "Mayer Exchange Agreement") pursuant to which Mr. Mayer waived his Put Right with respect to 44,740 shares of Common Stock in exchange for 385,514 shares of the Company's Common Stock (the "Mayer Common Stock") issued on the date of the Mayer Exchange Agreement. The Mayer Common Stock was issued to the holder in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act, based upon the representation made by the holder that he is an "accredited investor" and that he is acquiring the Mayer Common Stock solely for the purposes of investment and not with a present view to, or for sale in connection with, any distribution or resale thereof. In addition, there was no general advertisement conducted by the Company in connection with the issuance of the Mayer Common Stock.

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 trades on The Nasdaq Capital Market under the symbol "DLPN".

Through our subsidiaries, 42West and The Door, we provide expert strategic marketing and publicity services to many of the top brands, both individual and corporate, in the entertainment and hospitality industries. The Door and 42West are both recognized global leaders in the PR services for the industries they serve. Our recent acquisition of Viewpoint has added full-service creative branding and production capabilities to our marketing group. Dolphin's legacy content production business, founded by Emmy-nominated Chief Executive Officer, Bill O'Dowd, has produced multiple feature films and award-winning digital series, primarily aimed at family and young adult markets.

We currently operate in two reportable segments: our entertainment publicity and marketing segment and our content production segment. The entertainment publicity and marketing segment is composed of 42West, The Door and Viewpoint and provides clients with diversified services, including public relations, entertainment content marketing, strategic communications, social media marketing, creative branding and the production of marketing video content. The content production segment is composed of Dolphin Films and Dolphin Digital Studios, which produce and distribute 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. By way of example, both 42West and The Door have identified the ability to create content for clients as a "must have" for public relations campaigns in today's environment, which relies so heavily on video clips to drive social media awareness and engagement. Thus, we believe that our acquisition of Viewpoint provides a critical competitive advantage in the acquisition of new clients in the entertainment and lifestyle marketing space, and has the potential to fuel topline revenue growth by driving increases in average revenue per client with the cross-selling of video content creation services. We have identified potential acquisition targets and are in various stages of discussion with such targets. We believe that our existing portfolio of public relations and marketing companies will continue to attract future acquisitions. We believe that our "marketing super group" is unique in the industry, as a collection of best-in-class service providers across a variety of entertainment and lifestyle verticals. We further believe that new acquisitions in this space would improve our portfolio's breadth and depth of services and, therefore, we would be able to offer an even more compelling opportunity for other industry leaders to join, and enjoy the benefits of cross-selling to a wide variety of existing and potential clients. Thus, we believe we can continue to grow both revenues and profits through future acquisitions into our entertainment publicity and marketing segment. We intend to complete additional acquisitions during 2019, but there is no assurance that we will be successful in doing so, whether in 2019 or at all.

Going Concern

In the audit opinion for our financial statements as of and for the year ended December 31, 2018, 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, 2018 and our working capital deficit. 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 additional sales of our Common Stock, securities convertible into our Common Stock, debt securities, as well as available bank and non-bank financing, 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.

Revenues

For the three and six months ended June 30, 2019 and 2018, we derived the majority of our revenues from our entertainment publicity and marketing segment. The entertainment publicity and marketing segment generates its revenues from providing public relations services for celebrities, entertainment and targeted content marketing for film and television series, strategic communications services for corporations and public relations, marketing services and brand strategies for hotels and restaurants. For the six months ended June 30, 2019, revenue from content production segment was derived primarily from the domestic distribution of *Max Steel*. For the three and six months ended June 30, 2018, the content production segment revenues were derived from the domestic and international distribution of *Max Steel*. Revenue by percentage of aggregate revenue for our two segments for the three and six months ended June 30, 2019 and 2018 is set forth below:

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Revenues:				
Entertainment publicity and marketing	100.0%	98.1%	99.4%	96.1%
Content production	0.0%	1.9%	0.6%	3.9%
Total revenue	100.0%	100.0%	100.0%	100.0%

Entertainment Publicity and Marketing

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 currently have a stable client base, and we have continued to grow organically through referrals and actively soliciting new business as well as through acquisition of new businesses within the same industry. We earn revenues primarily from the following sources: (i) celebrity talent services; (ii) content marketing services under multiyear master service agreements in exchange for fixed project-based fees; (iii) individual engagements for entertainment content marketing services for durations of generally between three and six months; (iv) strategic communications services; (v) engagements for marketing of special events such as food and wine festivals and (vi) content productions of marketing materials on a project contract basis. For these revenue streams, we collect fees through either fixed fee monthly retainer agreements or project-based fees.

We earn entertainment publicity and marketing 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, celebrity chefs and Grammy nominated recording artists. Our services in this area include ongoing strategic counsel, media relations, studio and/or network liaison work, and event and tour support.
- **Entertainment Marketing and Brand Strategy**– 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, food and wine festivals, awards campaigns, event publicity and red-carpet management. As part of our services we offer marketing and publicity services tailored to reach diverse audiences. We also provide marketing direction targeted to the ideal consumer through a creative public relations and creative brand strategy for hotel and restaurant groups. Our clients for this type of service include major studios, independent producers for whom we create targeted multicultural marketing campaigns and leading hotel and restaurant groups.

We expect that increased digital streaming marketing budgets at several large key clients will drive growth of revenue and profit in 42West's Entertainment 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 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 PR sectors. We expect that this growth trend will continue for the next three to five years. We also help studios and filmmakers deal with controversial movies, as well as high-profile individuals address sensitive situations.

- Creative Branding and Production – We offer clients creative branding and production services from concept creation to final delivery. Our services include brand strategy, concept and creative development, design and art direction, script and copywriting, live action production and photography, digital development, video editing and composite, animation, audio mixing and engineering, project management and technical support. We expect that our ability to offer these services to our existing clients in the entertainment and hospitality industries will be accretive to our revenue.

Content Production

Dolphin Films

For the six months ended June 30, 2019, we derived revenues from Dolphin Films primarily through the domestic distribution of our motion picture, *Max Steel*. For the three and six months ended June 30, 2018, we derived revenues from the domestic and international distribution of *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, although 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* U.S. theatrical distributor provides 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. For the six months ended June 30, 2019 and 2018, the majority of revenues from *Max Steel* were derived from these channels.

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 the applicable maturity dates. As a result, if the lenders foreclose on the collateral securing the loans, our subsidiary and the Max Steel VIE 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 of *Max Steel* included as an asset on our balance sheet, which as of June 30, 2019, was \$0.6 million. We are not parties to either of these loan agreements and have not guaranteed to the lenders any of the amounts outstanding under these loans, but we have provided a \$620,000 backstop to the guarantor of the prints and advertising loan. For a discussion of the terms of such agreements and the \$620,000 backstop, 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 development. The scripts can be for either digital or motion picture productions. We have acquired the rights to certain scripts that we intend to produce and release in the future, subject to obtaining financing. 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, sales of our Common Stock, securities convertible into our Common Stock, debt securities or a combination of such financing alternatives; however, there is no assurance that we will be able to obtain the financing necessary to produce any of these feature films.

Expenses

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

Direct costs include certain cost of services, as well as certain production costs, related to our entertainment publicity and marketing business. Direct costs also include amortization of deferred production costs, impairment of deferred production costs, residuals and other costs associated with our content production business. 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 include 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 June 30, 2019 other income and expenses consisted of: (1) changes in fair value of put rights; (2) changes in fair value of contingent consideration and (3) interest expense and debt amortization expense. For the six months ended June 30, 2019, other income and expenses included all of the same line items detailed above and a loss on extinguishment of debt. For the three and six months ended June 30, 2018 other income and expenses consisted of (1) changes in the fair value of warrant liabilities; (2) changes in the fair value of the put rights; (3) acquisition costs; (4) loss on extinguishment of debt and (5) interest expense and debt amortization expense.

RESULTS OF OPERATIONS

Three and six months ended June 30, 2019 as compared to three and six months ended June 30, 2018

Revenues

For the three and six months ended June 30, 2019 and 2018 our revenues were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Revenues:				
Entertainment publicity and marketing segment	\$ 6,273,983	\$ 5,121,487	\$12,523,890	\$10,577,220
Content production segment	—	97,961	78,990	427,153
Total revenue	<u>\$ 6,273,983</u>	<u>\$ 5,219,448</u>	<u>\$12,602,880</u>	<u>\$11,004,373</u>

Revenues from entertainment publicity and marketing increased by approximately \$1.2 million and \$2.0 million, respectively, for the three and six months ended June 30, 2019, as compared to the same period in the prior year. The increase was due primarily to the addition of revenues of *The Door* and *Viewpoint* which we acquired on July 5, 2018 and October 31, 2018, respectively, partially offset by the decrease in revenues of *42West* caused by the departure of several publicists in June of 2018.

Revenues from content production decreased by approximately \$0.1 million and \$0.3 million for the three and six months ended June 30, 2019, as compared to the same period in prior year. The decrease was primarily due to the normal revenue life 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 significantly lesser extent, from home entertainment, and from pay and free TV in the domestic market.

On September 4, 2018, our domestic distributor, Open Road, filed for Chapter 11 bankruptcy protection. The assets of Open Road were sold on December 21, 2018 to Raven Capital, with the final transaction closing in February 2019. We expect that our domestic distribution agreements for *Max Steel* and *Believe*, which were purchased in the sale of the assets of Open Road, will continue on the same terms as agreed upon with Open Road.

Expenses

For the three and six months ended June 30, 2019 and 2018, our expenses were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Expenses:				
Direct costs	\$ 1,279,657	\$ 295,765	\$ 2,467,076	\$ 865,199
Selling, general and administrative	1,071,460	585,214	1,859,623	1,381,958
Depreciation and amortization	478,560	375,163	960,203	746,343
Legal and professional	449,060	356,002	832,732	844,488
Payroll	4,197,324	3,538,037	8,510,486	7,196,042
Total expenses	<u>\$ 7,476,061</u>	<u>\$ 5,150,181</u>	<u>\$ 14,630,120</u>	<u>\$ 11,034,030</u>

Direct costs increased by approximately \$1.0 million and \$1.6 million, respectively, for the three and six months ended June 30, 2019, as compared to the three and six months ended June 30, 2018. Direct costs related to the entertainment publicity and marketing segment were approximately \$1.3 million and \$2.4 million, respectively, for the three and six months ended June 30, 2019 as compared to \$0.2 million and \$0.5 million, respectively, for the three and six months ended June 30, 2018. The increase was primarily due to the direct costs associated with the addition of operations of The Door and Viewpoint. Entertainment publicity and marketing direct costs for the three and six months ended June 30, 2018 was composed of only the direct costs for 42West.

Direct costs related to the content production segment were immaterial for the three and six months ended June 30, 2019 and approximately \$0.1 million and \$0.3 million, respectively, for the three and six months ended June 30, 2018. Direct costs for the content production segment consist primarily of (i) amortization of capitalized production costs; (ii) residual payments made to the guilds and (iii) distributor costs to produce DVD's. Capitalized production costs are amortized based on revenues recorded during the period over the estimated ultimate revenues of the film. As a result, because revenues from content production decreased for the three and six months ended June 30, 2019, as compared to the same periods in prior year, direct costs also decreased.

Selling, general and administrative expenses increased by approximately \$0.5 million for each of the three and six months ended June 30, 2019, as compared to the three and six months ended June 30, 2018. The increase was primarily due to the selling, general and administrative costs associated with the addition of operations of The Door and Viewpoint included in the balances for the three and six months ended June 30, 2019. Since the acquisitions of The Door and Viewpoint took place after June 30, 2018, selling, general and administrative expenses for the three and six months ended June 30, 2018 did not include any balances for these entities. We reclassified approximately \$0.1 million and \$0.2 million of computer consulting related expenses from selling, general and administrative expenses to legal and professional fees for the three and six months ended June 30, 2018, respectively, to conform with the presentation of these costs for the three and six months ended June 30, 2019.

Depreciation and amortization increased by approximately \$0.1 million and \$0.2 million for the three months and six months ended June 30, 2019, as compared to the three and six months ended June 30, 2018. For the three and six months ended June 30, 2019, the amortization expense included the amortization of intangible assets obtained through the acquisitions of 42West, The Door and Viewpoint. By contrast, the amortization expense for the three and six months ended June 30, 2018 comprised only the amortization of the intangible assets obtained with the acquisition of 42West.

Legal and professional fees increased by approximately \$0.1 million for the three months ended June 30, 2019, as compared to the three months ended June 30, 2018. The increase is primarily due to the legal and professional fees of The Door and Viewpoint and legal fees related to the Lincoln Park Note. Legal and professional fees remained substantially the same for the six months ended June 30, 2019, as compared to the same period in prior years, in spite of including the legal and professional fees for The Door and Viewpoint. This is primarily attributable to an overall decrease in the use of consultants in both the entertainment publicity and marketing segment and the content production segment.

Payroll expenses increased by approximately \$0.7 million and \$1.3 million for the three and six months ended June 30, 2019, as compared to the three and six months ended June 30, 2018. The increase is primarily due to the addition of payroll for The Door and Viewpoint in the entertainment and publicity segment offset by a decrease in the payroll expense of 42West related to the departures of certain senior publicists in mid-2018.

Other Income and Expenses

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Other Income and expenses:				
Extinguishment of debt	\$ —	\$ (53,271)	\$ (21,287)	\$ (53,271)
Acquisition costs	—	(34,672)	—	(34,672)
Change in fair value of warrant liability	—	350,115	—	518,432
Change in fair value of put rights	251,350	333,043	1,778,376	1,416,639
Change in fair value of contingent consideration	360,000	—	90,000	—
Interest expense and debt amortization expense	(301,139)	(265,992)	(589,108)	(533,419)
Total	\$ 310,211	\$ 329,223	\$ 1,257,981	\$ 1,313,709

During the six months ended June 30, 2019, a holder of a convertible promissory note elected to convert the principal on the promissory note thereunder into 53,191 shares of our Common Stock pursuant to the terms of the promissory note, at a conversion price of \$1.41 per share. On the date of the conversion, the market price of our Common Stock was \$1.81 per share, resulting in a loss on extinguishment of debt of \$0.02 million.

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 \$0.3 million and \$1.8 million for the three and six months ended June 30, 2019, respectively, and by \$0.3 million and \$1.4 million for the three and six months ended June 30, 2018, respectively.

The fair value of contingent consideration related to our acquisition of The Door was recorded at fair value on our balance sheet on the acquisition date. The fair value of the related contingent consideration is measured at every balance sheet date and any changes recorded on our consolidated statements of operations. For the three and six months ended June 30, 2019, the fair value of the contingent consideration decreased by approximately \$0.4 million and \$0.1 million, respectively.

Interest expense and debt amortization expense increased by approximately \$0.03 million and \$0.05 million for the three and six months ended June 30, 2019, as compared to the same periods in the prior year, primarily due to 2018 convertible note payable.

Net Income

Net loss was approximately \$(0.9) million or \$(0.06) per share based on 15,969,926 weighted average shares outstanding for basic earnings per share and \$(0.06) per share based on 19,172,087 weighted average shares on a fully diluted basis for the three months ended June 30, 2019 and net loss was approximately \$(0.8) million or \$ (0.05) per share based on 15,957,085 weighted average shares outstanding and \$(0.13) per share based on 19,671,124 weighted average shares outstanding on a fully diluted basis for the six months ended June 30, 2019. Net income was approximately \$0.2 million or \$0.01 per share based on 12,349,014 weighted average shares outstanding and \$(0.01) per share based on 14,032,001 weighted average shares outstanding on a fully diluted basis for the three months ended June 30, 2018 and net income was approximately \$1.0 million or \$0.08 per share based on 12,432,872 weighted average shares outstanding and \$(0.03) per share based on 14,533,224 weighted average shares outstanding on a fully diluted basis for the six months ended June 30, 2018. The reduction in net income for the three and six months ended June 30, 2019 as compared to the three and six months ended June 30, 2018, is related to the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Six months ended June 30, 2019 as compared to six months ended June 30, 2018

Cash flows used in operating activities for the six months ended June 30, 2019 were approximately \$1.3 million compared to immaterial cash flows used in operating activities for the six months ended June 30, 2018. The increase in cash used in operating activities for the six months ended June 30, 2019 as compared to the six months ended June 30, 2018 is primarily due to lower cash flows from operations before changes in operating assets and liabilities of approximately \$2.1 million. This decrease in cash flows used for operations before changes in operating assets and liabilities was partially offset by an increase in cash flows from other current liabilities, other current assets and accounts payable.

Cash flows used in investing activities were for purchases of fixed assets and were substantially the same as compared to the same period in prior year.

Cash flows used in financing activities for six months ended June 30, 2019 were approximately \$1.7 million as compared to \$3.2 million of cash flows used in financing activities during the six months ended June 30, 2018. Cash flows used in financing activities for the six months ended June 30, 2019 consisted primarily of (i) \$0.1 million of net repayment of debt related to Max Steel; (ii) \$1.4 million used to purchase our Common Stock pursuant to Put Rights that were exercised; (iii) second installment of the consideration paid for Viewpoint; (iv) second installment of the consideration for The Door and (v) final installment in the consideration paid to employees of 42West to settle change of control provisions in their employment contracts. The cash used in financing activities as described above was offset by \$1.2 million received from the issuance of convertible promissory notes. By contrast cash flows used in financing activities during the six months ended June 30, 2018 consisted primarily of \$1.7 million in proceeds from our line of credit with Bank United offset by (i) \$0.8 million used to repay our line of credit with City National; (ii) \$1.0 million used to repay the debt related to Max Steel; (iii) \$2.5 million used to purchase our Common Stock pursuant to Put Rights that were exercised and (iv) \$0.6 million used to repay advances from our CEO.

As of June 30, 2019 and 2018, we had cash available for working capital of approximately \$2.6 million, not including \$0.7 million pledged as collateral for the standby letter of credit for the New York office and security deposit in the Newton MA office, and \$2.0 million, respectively, and a working capital deficit of approximately \$16.1 million and \$13.6 million, respectively.

These factors, along with an accumulated deficit of \$95.3 million as of June 30, 2019, raise substantial doubt about our ability to continue as a going concern. The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q 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 additional issuances of our Common Stock, securities convertible into our 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 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 which we currently intend to obtain financing to produce and release. 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 June 30, 2019, our total debt was approximately \$13.9 million and our total stockholders' equity was approximately \$8.5 million. Approximately \$4.7 million of the total debt as of June 30, 2019 represents the fair value of Put Rights in connection with the 42West acquisition, which may or may not be exercised by the sellers. Approximately \$2.3 million of our indebtedness as of June 30, 2019 (\$0.7 million outstanding under the prints and advertising loan agreement plus \$1.6 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 June 30, 2019 were approximately \$0.6 million and \$0.04 million, respectively.

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 affect 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 require us to purchase up to an aggregate of 1,187,087 shares of 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 six months ended June 30, 2019, we purchased 202,602 shares of our Common Stock from certain of the sellers in accordance with the Put Agreements. An aggregate purchase price of \$990,500 was paid during the six months ended June 30, 2019, \$175,000 was paid in July 2019 and another \$702,500 remains unpaid.

In March of 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. The employees have put rights to require us to purchase an additional 20,246 shares of Common Stock, including in respect of the earn out consideration. None of these put rights were exercised during the six months ended June 30, 2019. See Note 3—Mergers and Acquisitions 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*. 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. As of June 30, 2019, we recorded a balance of \$0.7 million, including accrued interest of \$0.06 million, 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. 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. During the six months ended June 30, 2019, Max Steel Holdings collected approximately \$0.1 million from an accounts receivable that had previously been written off and recorded this amount on our consolidated statement of operations. We had a balance of \$1.6 million related to this agreement in the caption debt and \$1.7 million of accrued interest in other current liabilities on our condensed consolidated balance sheet as of June 30, 2019.

42West Line of Credit

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 Loan Agreement 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 under the Loan Agreement is \$2,250,000 with a sublimit of \$750,000 for standby letters of credit. Amounts outstanding under the Loan Agreement are secured by 42West's current and future inventory, chattel paper, accounts, equipment and general intangibles. As of June 30, 2019, we recorded a balance of \$1.7 million related to this Loan Agreement.

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. As of June 30, 2019, we were in compliance with all covenants under the Loan Agreement.

Promissory Notes

Nonconvertible Notes

On July 5, 2012, we issued an unsecured promissory note in the amount of \$300,000 bearing interest at a rate of 10% per annum and payable on demand to KCF Investments LLC, an entity controlled by Mr. Stephen L Perrone, an affiliate of Dolphin. The proceeds from this note were used for working capital. On December 10, 2018, we agreed to exchange this promissory note, including accrued interest of \$192,233, for a new unsecured promissory note in the amount of \$492,233 that matures on December 10, 2023. The promissory note bears interest at a rate of 10% per annum and provides for monthly repayments of principal and interest in the amount of \$10,459 beginning January 15, 2019. The promissory note may be repaid at any time prior to maturity without a penalty. During the six months ended June 30, 2019, we repaid \$0.04 million of the principal of this note.

On November 30, 2017, we entered into an unsecured promissory note that matures on January 15, 2020 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. On May 1, 2019, the holder of the note agreed to extend the maturity date of the unsecured promissory note until June 14, 2021. The promissory note bears interest at a rate of 10% per annum.

We have a balance of \$283,952 in current liabilities and \$769,339 in noncurrent liabilities related to the foregoing nonconvertible notes in our balance sheet as of June 30, 2019.

Convertible Notes

2019 Lincoln Park Note

On May 20, 2019, we entered into a securities purchase agreement with Lincoln Park Capital Fund LLC and issued a convertible promissory note with a principal amount of \$1.1 million at a purchase price of \$1.0 million together with warrants to purchase up to 137,500 shares of our common stock at an exercise price of \$2.00 per share. The securities purchase agreement provides for issuance of warrants to purchase up to 137,500 shares of our common stock on each of the second, fourth and sixth month anniversaries of the securities purchase agreement if the principal balance has not been paid on such dates. The convertible promissory note has an original issue discount of \$100,000 and does not bear interest unless there is an event of default. The convertible promissory note may be converted at any time into shares of our common stock at an initial conversion price equal to the lower of (A) \$5.00 per share and (B) the lower of (i) the lowest intraday sales price of our common stock on the applicable conversion date and (ii) the average of the three lowest closing sales prices of our common stock during the twelve consecutive trading days including the trading day immediately preceding the conversion date. The convertible promissory note matures on May 21, 2021. As of June 30, 2019, we had a balance of \$0.8 million, net of \$0.1 million original issue discount and \$0.2 million of a beneficial conversion feature, on our condensed consolidated balance sheet.

On May 20, 2019, in connection with the securities purchase agreement with Lincoln Park discussed above, we entered into a Registration Rights Agreement with Lincoln Park pursuant to which we agreed to register any shares converted into our Common Stock pursuant to the terms of the convertible promissory note with Lincoln Park, if during the six-month period commencing on the date of the Registration Rights Agreement, we determine to file a resale registration statement with the Securities and Exchange Commission.

2019 Convertible Debt

On July 9, 2019, we issued a convertible promissory note agreement to a third-party investor and received \$150,000. The convertible promissory note bears interest at a rate of 10% per annum and matures on July 9, 2021. The balance of the convertible promissory note and any accrued interest may be converted at the note holder's option at any time at a purchase price based on the 30-day average closing market price per share of the Common Stock.

On March 25, 2019, we issued a convertible promissory note agreement to a third-party investor and received \$200,000. The convertible promissory note bears interest at a rate of 10% per annum and matures on March 25, 2021. The balance of the convertible promissory note and any accrued interest may be converted at the note holder's option at any time at a purchase price based on the 30-day average closing market price per share of the Common Stock.

2018 Convertible Debt

On July 5, 2018, we issued an 8% secured convertible promissory note in the principal amount of \$1.5 million pursuant to a securities purchase agreement with Pinnacle Family Office L.P., dated the same date. Interest on the convertible promissory note is payable on a quarterly basis and the convertible promissory note matures on January 5, 2020. We may prepay the convertible promissory note in whole, but not in part, at any time prior to maturity; however, if we voluntarily prepay the convertible promissory note we must (i) pay the holder of the convertible promissory note a prepayment penalty equal to 10% of the prepaid amount and (ii) issue to the holder of the convertible promissory note warrants to purchase 100,000 shares of our common stock with an exercise price equal to \$2.29 per share. The convertible promissory note also contains certain customary events of default. The holder may convert the outstanding principal amount of the convertible promissory note into shares of our common stock at any time at a price per share equal to \$2.29, subject to adjustment for stock dividends, stock splits, dilutive issuances and subsequent rights offerings. As of June 30, 2019, we have a balance of \$1.4 million, net of a debt discount of \$0.1 million, on our condensed consolidated balance sheet and recorded \$0.06 million of interest expense on our condensed consolidated statement of operations for the six months ended June 30, 2019.

In 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 \$550,000. The convertible promissory notes mature during the third quarter of 2019 and each 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 day average closing market 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 June 30, 2019, we had a balance of \$550,000 in current liabilities related to these convertible promissory notes.

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. 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.

Leases

On January 1, 2019, we adopted ASU 2016-02, Leases (Topic 842), which requires all assets and liabilities arising from leases to be recognized in our consolidated balance sheets. The Company adopted this new accounting guidance effective January 1, 2019. In July 2018, the FASB added an optional transition method which we elected upon adoption of the new standard. This allowed us to recognize and measure leases existing at January 1, 2019 without restating comparative information. In addition, we elected to apply the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows us to carry forward the historical lease classification.

We determine if an arrangement is a lease at the lease commencement date. In addition to our lease agreements, we review all material new vendor arrangements for potential embedded lease obligations. The asset balance related to operating leases is presented within "right-of-use (ROU) asset" on our consolidated balance sheet. The current and noncurrent balances related to operating leases are presented as "Lease liability", in their respective classifications, on our consolidated balance sheet.

The lease liability is recognized based on the present value of the remaining fixed lease payments discounted using our incremental borrowing rate as of January 1, 2019. The ROU asset is calculated based on the lease liability adjusted for any lease payments paid to the lessor at or before the commencement date (i.e. prepaid rent) and initial direct costs incurred by us and excluding any lease incentives received from the Lessor. For operating leases, the lease expense is recognized on a straight-line basis over the lease term. The Company accounts for its lease and non-lease components as a single component, and therefore both are included in the calculation of lease liability recognized on the consolidated balance sheets.

Revenue Recognition

On January 1, 2018, we adopted ASU No. 2014-09 – Revenue from Contracts with Customers (Topic 606). Applying 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.

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 1,187,087 of their shares received as consideration for their membership interests in 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 March 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 140,697 of their shares of Common Stock received in April 2017 and July 2018 and those to be received 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, through specified dates in December 2020. During the six months ended June 30, 2019, we purchased 202,602 shares of Common Stock and paid an aggregate amount of \$990,500 to the sellers of 42West, with \$877,500 still payable and included in the current portion of put rights on our condensed consolidated balance sheet. \$175,000 was paid in July 2019. As of June 30, 2019, there were 475,726 Put Rights outstanding to be exercised.

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.

Contingent Consideration

On July 5, 2018, as part of the merger agreement with the Members of The Door, we agreed to pay up to 1,538,462 shares of Common Stock at a purchase price of \$3.25 and up to \$2.0 million in cash if certain adjusted net income targets were met over a four-year period. If the adjusted net income targets are achieved, the contingent consideration is first paid in shares of Common Stock and the last \$2 million of contingent consideration earned is paid in cash.

To value the contingent consideration, we used a Monte Carlo Simulation Model, which incorporates significant inputs that are not observable in the market, and thus represents Level 3 measurement as defined in ASC820. 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. The contingent consideration was initially measured as of the date of the merger (July 5, 2018) and is 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.

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.

We determined the fair value by using the following key inputs to the Monte Carlo Simulation Model:

Inputs	As of	
	June 30, 2019	December 31, 2018
Risk Free Discount Rate (based on US government treasury obligation with a term similar to that of the Contingent Consideration)	1.73% - 2.09%	2.47% - 2.59%
Annual Asset Volatility Estimate	40.0%	65%

For the Contingent Consideration, 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, 2018 to June 30, 2019:

Beginning fair value balance on December 31, 2018	\$ 550,000
Change in fair value (gain) reported in the statements of operations	(90,000)
Ending fair value balance on June 30, 2019	<u>\$ 460,000</u>

Recent Accounting Pronouncements

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

Off-Balance Sheet Arrangements

As of June 30, 2019 and 2018, we did not have any material off-balance sheet arrangements.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies, as well as statements, other than historical facts, that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future. These statements are often characterized by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential," "goal" or "continue" or the negative of these terms or other similar expressions.

Forward-looking statements are based on assumptions and assessments made in light of our experience and perception of historical trends, current conditions, expected and future developments and other factors believed to be appropriate. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties, many of which are outside of our control. You should not place undue reliance on these forward-looking statements, which reflect our views only as of the date of this Quarterly Report on Form 10-Q, and we undertake no obligation to update these forward-looking statements in the future, except as required by applicable law.

Risks that could cause actual results to differ materially from those indicated by the forward-looking statements include those described as "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as updated by our subsequently filed Quarterly Reports on Forms 10-Q and Current Reports on Forms 8-K.

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 improve 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 June 30, 2019. 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, 2018, filed with the SEC on April 15, 2019, which have not been 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 material weaknesses in internal control over financial reporting, we intend to implement improvements during fiscal year 2019, under the direction of our board of directors, 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.
- Perform a comprehensive review of current procedures to ensure compliance with our newly documented accounting policies and procedures;
- We are in the process of enhancing our controls over segregation of duties.

Changes in Internal Control over Financial Reporting

During our last fiscal quarter, there has otherwise been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A, “Risk Factors,” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on April 15, 2019.

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 June 30, 2019:

Period	Total Number of Shares Purchased ⁽¹⁾	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
4/1/2019 – 4/30/2019	—	\$ —	—	—
5/1/2019 – 5/31/2019	43,383	9.22	—	—
6/1/2019 – 6/30/2019	31,507	9.22	—	—
Total	74,890	\$ 9.22	—	—

(1) Pursuant to the terms and subject to the conditions set forth in the Put Agreements, the sellers exercised their Put Rights for an aggregate of 74,890 shares of Common Stock and were paid an aggregate amount of \$690,500. See Note 3—Mergers and Acquisitions to our unaudited condensed consolidated financial statements contained elsewhere in this Quarterly Report on Form 10-Q for further discussion of the Put Agreements.

On July 9, 2019, we issued a convertible promissory note agreement to a third-party investor and received \$150,000. The convertible promissory note bears interest at a rate of 10% per annum and matures on July 9, 2021. The balance of the convertible promissory note and any accrued interest may be converted at the note holder’s option at any time at a purchase price based on the 30-day average closing market price per share of the Common Stock.

On March 25, 2019, we issued a convertible promissory note agreement to a third-party investor and received \$200,000. The convertible promissory note bears interest at a rate of 10% per annum and matures on March 25, 2021. The balance of the convertible promissory note and any accrued interest may be converted at the note holder’s option at any time at a purchase price based on the 30-day average closing market price per share of the Common Stock.

On July 23, 2019, pursuant to the terms of the securities purchase agreement with Lincoln Park, we issued Series B Warrants that entitle the holder to purchase up to 137,500 shares of Common Stock at \$2.00 per share. The initial exercise date of the Series B Warrants is January 23, 2020 and can be exercised thereafter for a period of five years.

The securities referred to above were issued by the Company in reliance upon the exemption from registration provided by Section 4(a)2 of the Securities Act.

ITEM 5. OTHER INFORMATION

Item 5.02 - Compensatory Arrangements of Certain Officers

On August 12, 2019, the Compensation Committee of the Board of Directors of the Company approved an increase of \$50,000 annually for each of the Chief Executive Officer and Chief Financial Officer. The increase is effective January 1, 2019.

Item 1.01 - Entry into a Material Definitive Agreement

Item 2.03 - Creation of a Direct Financial Obligation under an Off-Balance Sheet Arrangement of a Registrant

Item 3.02 - Unregistered Sales of Equity Securities

In connection with the Put Agreement with 42West co-CEO Leslee Dart, on August 12, 2019, the Company entered into an amendment, waiver and exchange agreement (the "Dart Exchange Agreement") pursuant to which Ms. Dart waived her Put Right with respect to 76,194 shares of Common Stock in exchange for a convertible note (the "Dart Convertible Note") in the aggregate principal amount of \$702,500, issued on the date of the Dart Exchange Agreement.

The Dart Convertible Note is convertible at any time into shares of Common Stock (the "Conversion Shares") at a conversion price (the "Conversion Price") equal to the quotient obtained by dividing (i) the principal and interest being converted by (ii) the average closing price per share of Common Stock, as reported by the Nasdaq Stock Market (or such other exchange or quotation system on which the Common Stock is then traded) for the 30-trading days immediately prior to, but not including the date on which the holder delivers the notice of conversion. The Conversion Price subject to adjustments for stock splits, reclassifications and certain other transactions involving the Company or its securities. The Dart Convertible Note bears an interest rate of ten percent per annum. The Dart Convertible Note matures on August 12, 2020 unless earlier converted or redeemed. The Company may, at its option, prepay all or any portion of the outstanding balance under the Dart Convertible Note without penalty or premium.

The Dart Convertible Note provides for customary events of default, which include (subject in certain cases to customary grace and cure periods), among others, the following: nonpayment of principal or interest; failure to maintain corporate existence; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs and is continuing under the Dart Convertible Note, the holder may declare the principal of, and accrued interest on, the Dart Convertible Note due and payable. In the case of certain events of bankruptcy or insolvency, all amounts outstanding under the Dart Convertible Note, together with accrued and unpaid interest thereon, would automatically become due and payable. The Dart Convertible Note was issued to the holder in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act, based upon the representation made by the holder that she is an "accredited investor" and that she is acquiring the Dart Convertible Note solely for the purposes of investment and not with a present view to, or for sale in connection with, any distribution or resale thereof. In addition, there was no general advertisement conducted by the Company in connection with the issuance of the Dart Convertible Note.

In connection with the Put Agreement with Allan Mayer, a member of the Company's board of directors and 42West co-CEO, on August 12, 2019, the Company entered into an amendment, waiver and exchange agreement (the "Mayer Exchange Agreement") pursuant to which Mr. Mayer waived his Put Right with respect to 44,740 shares of Common Stock in exchange for 385,514 shares of the Company's Common Stock (the "Mayer Common Stock") issued on the date of the Mayer Exchange Agreement. The Mayer Common Stock was issued to the holder in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act, based upon the representation made by the holder that he is an "accredited investor" and that he is acquiring the Mayer Common Stock solely for the purposes of investment and not with a present view to, or for sale in connection with, any distribution or resale thereof. In addition, there was no general advertisement conducted by the Company in connection with the issuance of the Mayer Common Stock.

The foregoing description of the Dart Convertible Note, the Dart Exchange Agreement and the Mayer Exchange Agreement is only a summary and is qualified in its entirety by reference to the full text of the Dart Convertible Note, the Dart Exchange Agreement and the Mayer Exchange Agreement, which are filed as Exhibit 4.3, Exhibit 10.3 and 10.4, respectively, to this Quarterly Report on Form 10-Q and incorporated herein by reference.

ITEM 6. EXHIBITS

Exhibit No.	Description
4.1	Dolphin Entertainment, Inc. Senior Convertible Note, filed as Exhibit 4.1 to the Company's Current Report of Form 8-K filed with the SEC on May 22, 2019 and incorporated by reference herein.
4.2	Form of Warrant issued to Lincoln Park Capital Fund, LLC, filed as Exhibit 4.2 to the Company's Current Report of Form 8-K filed with the SEC on May 22, 2019 and incorporated by reference herein.
4.3	Convertible Note, dated as of August 12, 2019 (Leslee Dart)
10.1	Securities Purchase Agreement, dated as of May 20, 2019, by and between the Company and Lincoln Park Capital Fund, LLC, filed as Exhibit 10.1 to the Company's Current Report of Form 8-K filed with the SEC on May 22, 2019 and incorporated by reference herein.
10.2	Registration Rights Agreement, dated as of May 20, 2019, by and between the Company and Lincoln Park Capital Fund, LLC, filed as Exhibit 10.2 to the Company's Current Report of Form 8-K filed with the SEC on May 22, 2019 and incorporated by reference herein.
10.3	Amendment, Waiver and Exchange Agreement, dated as of August 12, 2019 by and between the Company, William O'Dowd, IV, 42West LLC and Leslee Dart
10.4	Amendment, Waiver and Exchange Agreement, dated as of August 12, 2019 by and between the Company, William O'Dowd, IV, 42West LLC and Allan Mayer
31.1	Certification of Chief Executive Officer of the Company pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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 August 13, 2019.

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

CONVERTIBLE NOTE

NEITHER THIS CONVERTIBLE NOTE NOR THE SHARES ISSUABLE UPON ANY CONVERSION OF THIS NOTE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THEY MAY NOT BE OFFERED, SOLD, PLEDGED, HYPOTHECATED, ASSIGNED OR TRANSFERRED EXCEPT (I) PURSUANT TO A REGISTRATION STATEMENT UNDER THE SECURITIES ACT WHICH HAS BECOME EFFECTIVE AND IS CURRENT WITH RESPECT TO THESE SECURITIES, OR (II) PURSUANT TO A SPECIFIC EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, BUT ONLY UPON THE HOLDER HEREOF FIRST HAVING OBTAINED THE WRITTEN OPINION OF COUNSEL TO THE ISSUER, OR OTHER COUNSEL, REASONABLY ACCEPTABLE TO THE ISSUER, THAT THE PROPOSED DISPOSITION IS CONSISTENT WITH ALL APPLICABLE PROVISIONS OF THE SECURITIES ACT AS WELL AS ANY APPLICABLE "BLUE SKY" OR OTHER SIMILAR SECURITIES LAW.

DOLPHIN ENTERTAINMENT, INC.
CONVERTIBLE NOTE
(this "Note")

Principal Amount: US \$702,500

Original Issue Date: August 12, 2019

FOR VALUE RECEIVED, Dolphin Entertainment, Inc., a Florida corporation (the "Company"), promises to pay to Leslee Dart (the "Holder"), in lawful money of the United States of America, the principal amount of Seven Hundred and Two Thousand, Five Hundred Dollars (\$702,500), and to pay interest on the unpaid principal amount hereof (as determined in accordance with Section 3 hereof) at the rate of ten percent (10%) per annum.

1. Issuance. This Note has been issued in connection with that certain Amendment, Waiver and Exchange Agreement, dated as of the date hereof (the "Original Issue Date"), by and among the Company, the Holder and the other parties thereto (the "Exchange Agreement"). Unless otherwise defined herein, all capitalized terms used in this Note have the respective meanings set forth in the Exchange Agreement.

2. Term; Maturity Date. This Note shall be for a term commencing on the Original Issue Date and ending on the date that is the first anniversary of the Original Issue Date, (the "Maturity Date"), unless earlier converted pursuant to the provisions of Section 5 hereof.

3. Interest.

(a) Rate of Interest. This Note shall bear interest on the unpaid principal amount hereof from the Original Issue Date until such principal amount is repaid in full (or sooner converted), at the rate of ten percent (10%) per annum. Interest on this Note shall accrue on the unpaid and outstanding principal amount hereunder from the most recent date to which

interest has been paid or, if no interest has been paid, from the date of issuance, until the principal hereunder, and accrued and unpaid interest thereon, shall have been paid in full.

(b) Payment of Interest. Interest be payable: (i) upon any prepayment as provided under Section 4(b), and (ii) on the Maturity Date.

(c) Computation of Interest. All computations of the interest rate hereunder shall be made on the basis of a 365/6-day year and the actual number of days elapsed.

4. Payments and Prepayments. The Company covenants and agrees that, so long as this Note is outstanding and unpaid:

(a) Payment of Principal Amount and Interest The unpaid principal amount, plus accrued but unpaid interest thereon, shall be due and payable on the Maturity Date, in cash in immediately available funds.

(b) Optional Prepayment. The unpaid principal amount may be prepaid in whole or in part at any time, with three (3) calendar days' prior written notice to the Holder, without penalty or premium before the Maturity Date; provided, that all accrued and unpaid interest on the portion of the principal amount so prepaid shall, as of the date of prepayment, also be paid in full.

SECTION 6. (a) Documentary Stamps. The Company will pay for and affix all documentary stamps required by the laws of the State of Florida and will also pay all documentary stamp and other intangible taxes incurred as a result thereof.

5. Conversion.

(a) Optional Conversion of the Note.

The Holder shall have the right, at any time following the Original Issue Date and prior to the Maturity Date (subject to the earlier prepayment of all or any portion of the principal amount of this Note, together with accrued interests thereon, in accordance with Section 4(b)) to convert all or a portion of the principal of this Note and the accrued interest thereon into shares of Common Stock, subject to adjustment as contemplated by Section 5(b), in a number of shares of Common Stock equal to the quotient obtained by dividing (i) the principal and interest being converted by (ii) the average closing price per share of Common Stock, as reported by the Nasdaq Stock Market (or such other exchange or quotation system on which the Common Stock is then traded) for the 30-trading days immediately prior to, but not including the date on which the Holder delivers the Notice of Conversion (the "Calculation Period", and such quotient, the "Conversion Price").

If the Holder desires to convert all or any portion of this Note, then the Holder shall provide written notice to the Company of her option to convert the Note into Common Stock, which notice shall be substantially in the form of the Notice of Conversion attached hereto as Exhibit A (the "Notice of Conversion").

The Company shall not be required to convert any securities, and no surrender of securities shall be effective for that purpose, while the stock transfer books of the Company for the Common Stock are closed for any purposes (but not for any period in excess of 15 days), but the surrender of securities for conversion during any period while such books are so closed shall become effective for conversion immediately upon the reopening of such books, as if the conversion had been made on the date such books were reopened, and with the application of the Conversion Price in effect at the date such books were reopened. In addition to the foregoing, the Company shall not be required to convert any Note pursuant to any optional conversion pursuant to this Section 5(a), nor shall any conversion pursuant to this Section 5(a) be effective, unless and until the Holder provides a duly and validly executed Notice of Conversion.

(b) Adjustment to the Conversion Price.

In case, during an applicable Calculation Period, (i) the outstanding shares of the Common Stock shall be subdivided into a greater number of shares, (ii) a dividend or other distribution in Common Stock shall be paid in respect of Common Stock, (iii) the outstanding shares of Common Stock shall be combined into a smaller number of shares thereof, or (iv) any shares of the Company's capital stock are issued by reclassification of the Common Stock (including any reclassification upon a consolidation or merger in which the Company is the continuing corporation), the price of the Common Stock for each trading day in such Calculation Period prior to the effectiveness of such subdivision, combination or reclassification or prior to the record date of such dividend or distribution shall be proportionately adjusted to equal the product obtained by multiplying such price by a fraction, the numerator of which is the number of outstanding shares of Common Stock (on a fully diluted basis) prior to such combination, subdivision, reclassification or dividend, and the denominator of which is that number of outstanding shares of Common Stock (on a fully diluted basis) after giving effect to such combination, subdivision, reclassification or dividend.

In the case of (i) any reclassification or change of the Common Stock, (ii) a consolidation, merger or combination involving the Company or (iii) a sale or conveyance to another corporation of the property and assets of the Company as an entirety or substantially as an entirety, in each case as result of which holders of Common Stock shall be entitled to receive stock, other securities, or other property or assets (including cash) with respect to or in exchange for such Common Stock, the holders of the securities then outstanding will be entitled thereafter to convert such securities into the kind and amount of shares of stock, other securities or other property or assets which they would have owned or been entitled to receive upon such reclassification, change, consolidation, merger, combination, sale or conveyance had such securities been converted into Common Stock immediately prior to such reclassification, change, consolidation, merger, combination, sale or conveyance.

(c) Effect of Conversion. Upon the issuance of any Common Stock in accordance with this Section 5, such shares shall be deemed to be duly authorized, validly issued, fully paid and non-assessable.

(d) Notices of Record Date. In the event (i) the Company fixes a record date to determine the holders of Common Stock who are entitled to receive any dividend or other distribution, or (ii) there occurs any capital reorganization of the Company, any reclassification

or recapitalization of the Common Stock of the Company, any merger or consolidation of the Company, or any voluntary or involuntary dissolution, liquidation or winding up of the Company, the Company shall provide to the Holder at least five (5) days prior to the record date specified therein, a notice specifying (a) the date of such record date for the purpose of such dividend or distribution and a description of such dividend or distribution, (b) the date on which any such reorganization, reclassification, consolidation, merger, dissolution, liquidation or winding up is expected to become effective, and (c) the time, if any, that is to be fixed, as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock or other securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, dissolution, liquidation or winding up.

(e) Reservation of Stock Issuable Upon Conversion. The Company shall at all times reserve and keep available out of its authorized but unissued Common Stock, solely for the purpose of effecting the conversion of the Note (taking into account the adjustments required by this Section 5), such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of the outstanding principal amount of this Note, together with accrued and unpaid interest thereon; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all this Note, then the Company will, as soon as is reasonably practicable, take all such action as may be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

6. Events of Default; Remedies.

(a) Default. The occurrence of any one or more of the following events shall constitute an event of default (each an "Event of Default") hereunder:

(i) if the Company fails to make payment of any amount of principal and interest or Common Stock payable with respect to the Note, or if the Company violates any of the agreements, promises, covenants, terms and conditions of the Note and such non-payment or violation remains uncured for ten (10) business days after the earlier of (i) the date of the applicable Notice of Event of Default (as defined below) and (ii) the date that a Responsible Officer (as defined below) acquires knowledge of any such violation.

(ii) if the Company fails to maintain its corporate existence and such failure remains uncured for ten (10) business days after earlier of (i) the date of the applicable Notice of Event of Default or (ii) the date that a Responsible Officer acquires knowledge of any such failure;

(iii) if there shall be filed by or against the Company any petition for any relief under the bankruptcy laws of the United States now or hereafter in effect or any proceeding shall be commenced with respect to the Company under any insolvency, readjustment of debt, reorganization, dissolution, liquidation or similar law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity); provided that in the case of any involuntary filing or the commencement of any involuntary proceeding

against the Company such proceeding or petition shall have continued undismissed and unvacated for at least 60 days;

(iv) if any proceeding, procedure or remedy supplementary to or in enforcement of a final non-appealable judgment (other than any judgment that would not have a material adverse effect on the Company or any significant subsidiary, taken as a whole) shall be commenced against, or with respect to any material property of, the Company; or

(v) if any petition or application to any court or tribunal, at law or in equity, shall be filed by or against the Company for the appointment of any receiver or trustee for the Company or any material part of the property of the Company, provided that in the case of any involuntary filing against the Company, such proceeding or appointment shall have continued undismissed and unvacated for at least 60 days.

(b) Notice of Event of Default. Upon the Chief Executive Officer, the President or the Chief Financial Officer (or principal accounting officer) (each a "Responsible Officer") of the Company acquiring knowledge of the existence of an Event of Default, the Company shall send to the Holder a written notice ("Notice of Event of Default") specifying the nature and period of existence of any Event of Default and what action the Company is taking or proposes to take with respect thereto.

(c) Remedies Upon Default. If any Event of Default shall occur for any reason, then and in any such event, in addition to all rights and remedies of the Holder under applicable law or otherwise, all such rights and remedies being cumulative, not exclusive and enforceable alternatively, successively and concurrently, the Holder may, at its option, declare any or all amounts owing under this Note, to be due and payable, whereupon the then unpaid balance hereof, together with all accrued and unpaid interest thereon, shall forthwith become due and payable, together with interest accruing thereafter at the then applicable interest rate stated above until the indebtedness evidenced by this Note is paid in full, plus the costs and expenses of collection hereof, including, but not limited to, attorney's fees and legal expenses, provided that all amounts payable under this Note shall become immediately due and payable without notice or demand upon the occurrence of any Event of Default described in Section 6(iii) or (v).

(d) The Company's Waivers. The Company (i) waives diligence, demand, presentment, protest and notice of any kind, (ii) agrees that it will not be necessary for the Holder to first institute suit in order to enforce payment of this Note and (iii) consents to any one or more extensions or postponements of time of payment, release, surrender or forbearance or other indulgence, without notice or consent.

7. Other Provisions Relating to Rights of the Holder

(a) Rights of the Holder. This Note shall not entitle the Holder to any of the rights of a shareholder of the Company with respect to the Conversion Shares, including, without limitation, the right to vote, to receive dividends and other distributions, or to receive any notice of, or to attend, meetings of shareholders or any other proceedings of the

Company. This Section 7(a) shall not affect the rights of the Holder in its capacity as a shareholder of the Company upon conversion of this Note and issuance to the Holder of shares of Common Stock pursuant to the terms hereof.

(b) Lost, Stolen, Mutilated or Destroyed Note. If this Note shall be mutilated, lost, stolen, or destroyed, the Company shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated Note, or in lieu of or in substitution for a lost, stolen, or destroyed Note, a new Note for the principal amount of this Note so mutilated, lost, stolen, or destroyed but only upon receipt of evidence (which may consist of a signed affidavit of the Holder), of such loss, theft, or destruction of such Note, and of the ownership thereof, and indemnity, if requested, all reasonably satisfactory to the Company.

8. Other Matters

(a) Binding Effect; Assignment. The provisions of this Note shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

(b) Further Actions. At any time and from time to time, the Company and the Holder agree, without further consideration, to take such actions and to execute and deliver such documents as the other may reasonably request to consummate the transactions contemplated in this Note.

(c) Modification; Waiver. This Note and the Amendment to the Put Agreement to which it is attached sets forth the entire understanding of the Company and the Holder with respect to the subject matter hereof and supersedes all existing agreements between them concerning such subject matter. This Note may be amended, modified, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the Company and the Holder. Any waiver by the Company or the Holder of a breach of any provision of this Note shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Note. The failure of the Company or the Holder to insist upon strict adherence to any term of this Note on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Note. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof or hereof, nor shall any waiver on the part of any party of any right, power or privilege hereunder preclude any other or further exercise hereof or the exercise of any other right, power or privilege hereunder. Any waiver must be in writing. The rights and remedies provided herein are cumulative and are not exclusive of any rights or remedies which any party may otherwise have at law or in equity.

(d) Notices. All notices, requests, demands or other communications to the respective parties hereto shall be in writing addressed to the respective parties in accordance with Section 5 of the Put Agreement.

(e) Severability. If any provision of this Note is invalid, illegal, or unenforceable, the balance of this Note shall remain in effect, and if any provision is inapplicable

to any person or circumstance, it shall nevertheless remain applicable to all other persons and circumstances. The rate of interest on this Note is subject to any limitations imposed by applicable usury laws.

(f) Headings. The headings in this Note are solely for convenience of reference and shall be given no effect in the construction or interpretation of this Note.

(g) Governing Law. This Note and any disputes or claims arising out of or in connection with its subject matter shall be governed by and construed in accordance with the laws of the State of New York without regard to the rules of conflict of laws of such state that would cause the laws of another jurisdiction to apply. The parties hereto acknowledge and agree that venue and jurisdiction for any claim, suit or controversy related to or arising out of this Agreement shall be as set forth in the Put Agreement. THE PARTIES HEREBY WAIVE THE RIGHT TO JURY TRIAL OF ANY MATTERS ARISING OUT OF THIS AGREEMENT OR THE CONDUCT OF THE RELATIONSHIP BETWEEN THEM.

9. Guaranty.

(a) Each of Guarantor hereby unconditionally, absolutely, continuingly and irrevocably guarantees to the Holder the full, complete and timely payment and performance by the Company of each and every obligation, covenant or agreement, and all of the liabilities, of the Company arising under or in connection with the Exchange Agreement and the Note. In furtherance of the foregoing, each Guarantor agrees that if the Company shall fail to pay in full or perform when due any of such the Company's obligations hereunder or thereunder, each Guarantor shall promptly pay and perform the same, at the place and in the manner specified herein, as if it was the principal obligor.

(b) Each Guarantor's obligations under this Note are principal obligations and are not ancillary or collateral to any other right or obligation under this Note. Each Guarantor's obligations under this Section 9 are (i) a continuing guaranty and shall remain in full force and effect until the satisfaction in full of all obligations, covenants and agreements of the Company under this Note and (ii) a primary guaranty of both payment and performance. Each Guarantor's obligation under this Section 9 shall continue notwithstanding any assignment hereunder.

(c) Each Guarantor hereby waives any and all defenses specifically available to a guarantor, other than performance in full by the Company or a Guarantor. Each Guarantor's liabilities shall in no way be impaired, affected, reduced or released by reason of (a) the failure or delay by the Holder or any other person or entity in pursuing any remedies or recourse against the Company provided for in this Note or the Exchange Agreement; or (b) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all the assets of the Company or the marshaling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors or readjustment of, or other similar proceedings or any other inability to pay or perform affecting, the Company or any of its assets.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Note to be executed on its behalf by its duly authorized officer.

DOLPHIN ENTERTAINMENT, INC.

By: /s/William O'Dowd, IV

Name: William O'Dowd, IV

Title: Chief Executive Officer

42WEST, LLC, with respect to Section 9

By: /s/ William O'Dowd, IV

Name: William O'Dowd, IV

Title:

/s/William O'Dowd, IV

William O'Dowd IV, with respect to Section 9

Agreed and accepted by the Holder:

/s/ Leslee Dart

Leslie Dart

**FORM
NOTICE OF CONVERSION
OF CONVERTIBLE NOTE**

[Insert Date]

- a. Dolphin Entertainment, Inc.
- b. 2151 Le Jeune Rd, Suite 150
- c. Coral Gables, Florida 33134
- d. Attn: William O'Dowd IV, Chief Executive Officer
- e.
- f. Re: Notice of Conversion of Note
- g.
- h. Ladies and Gentlemen:
- i.

Reference is made to that certain Convertible Note (the "Note") issued by Dolphin Entertainment, Inc., a Florida corporation (the "Company") with an original principal amount of \$702,500 payable by the Company to the order of the undersigned holder (the "Holder"). All capitalized terms used herein, but not otherwise defined herein, have the respective meanings ascribed to them in the Note.

Pursuant to Section 5(a) of the Note, the undersigned hereby irrevocably instructs the Company, by this notice, to convert \$_____, of the principal of the Note and all accrued interest thereon into _____ shares of Common Stock, in accordance with the terms and conditions set forth in the Note, as of the date set forth above.

Please issue the certificate representing the shares of Common Stock into which the Note has been converted in the name of the undersigned and deliver such certificate by overnight courier to the undersigned at:



The undersigned hereby acknowledges that such certificate will not be delivered to the undersigned until the original Note has been received by the Company.

Very truly yours,

If held by an Individual:

Name: _____
Date: _____
E-mail: _____

If held by an Entity:

Name of Entity: _____
By: _____
Name: _____
Title: _____
Date: _____
E-mail: _____

AMENDMENT, WAIVER AND EXCHANGE AGREEMENT

This Amendment, Waiver and Exchange Agreement is dated as of August 12, 2019 (this "Agreement") by and among Dolphin Entertainment, Inc., a Florida corporation (the "Company"), Leslee Dart (the "Holder"), William O'Dowd IV ("O'Dowd") and 42West, LLC, a Delaware limited liability company ("42West", and together with O'Dowd, the "Guarantors").

WHEREAS, Holder is a party to a certain Put Agreement, dated as of March 30, 2017, together with the Company, O'Dowd and 42West (the "Put Agreement"), pursuant to which, among other things, Holder may require that the Company purchase for cash certain shares of the Company's common stock, par value \$0.015 per share ("Common Stock"), in each case at the times and subject to those limitations contained in the Put Agreement;

WHEREAS, capitalized terms used herein and not defined herein have the respective meanings ascribed thereto in the Put Agreement;

WHEREAS, Holder timely exercised her put rights in accordance with the terms of the Put Agreement to require the Company to purchase for cash the 76,194 shares of Common Stock set forth on Exhibit A (the "Exchanged Shares");

WHEREAS, in accordance with the terms hereof, the Company, Holder, O'Dowd and 42West desire to amend certain provisions of the Put Agreement to reflect that, in lieu of the Holder exchanging the Exchanged Shares for cash, the Holder has agreed to exchange the Exchanged Shares for a convertible promissory note issued by the Company, in the form attached hereto as Exhibit B (the "Convertible Note"), in the aggregate principal amount specified on Exhibit A (the "Exchange"); and

WHEREAS, the Guarantors agree to unconditionally and irrevocably guarantee to the Holder, the full, complete and timely payment and performance by the Company of the obligations and liabilities of the Company under the Convertible Note pursuant to the terms and conditions thereof.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I.**THE EXCHANGE**

1.1 Exchange. Subject to the terms and conditions contained herein, on the date hereof, Holder shall sell, convey, transfer, assign and deliver to the Company, free and clear of all liens, charges and encumbrances of any kind (collectively, "Encumbrances"), the Exchanged Shares. In consideration of the transfer to the Company of the Exchanged Shares by Holder, the

Company shall issue to Holder the Convertible Note in the aggregate principal amount set across from Holder's name or Exhibit A and in the form attached hereto as Exhibit B.

1.2 Closing; Deliverables. The closing of the Exchange (the "Closing") shall take place at the Company's offices in Miami, Florida on the date hereof or by delivery of documents required to be delivered hereby by facsimile or other electronic transmission, including by email attachment. At Closing, (A) the Company shall deliver to Holder the Convertible Note, duly executed by the Company, issued in Holder's name, and (B) Holder shall deliver to the Company such instruments of transfer or other documentation and agreements evidencing the Exchange and delivery to the Company of the Exchanged Shares, in each case as the Company may reasonably request.

1.3 Exercise of Put Rights. The Company and Holder acknowledge and agree that (i) the Put Rights for the Maximum Amounts (as set forth on Annex A of the Put Agreement) for the Exercise Periods corresponding to Numbers 12, 14, 15, 17 and 18 identified on Exhibit A have been timely exercised in full in accordance with the terms of the Put Agreement, and (ii) that, in lieu of payment for the Exchanged Shares with respect to such Put Rights in accordance with the terms of the Put Agreement, the Holder has agreed to accept payment with respect to such Exchanged Shares pursuant to the terms of the Convertible Note attached hereto as Exhibit B.

ARTICLE II. AMENDMENT AND WAIVERS

2.1 Amendment of Put Agreement. The Put Agreement is hereby amended in accordance with Section 10 thereof to include a new Section 15, which shall read in its entirety as follows:

"15. Amendment by Exchange Agreement. This Agreement has been amended and waived to the extent set forth in that certain Amendment, Waiver and Exchange Agreement, dated as of August 12, 2019, by and between the Company, O'Dowd, 42 West and Holder (the "Exchange Agreement"). The Exchange Agreement is hereby incorporated by reference in this Agreement and made a part hereof."

2.2 No Other Amendment. Except as amended as set forth in Section 2.1, the Put Agreement remains unmodified and in full force and effect in all respects.

2.3 Waiver. In exchange for the Convertible Note, Holder hereby waives any claim for breach of, or default under, the Put Agreement by the Company for failure to deliver payment for the Exchanged Shares on any applicable Put Right Closing Date.

ARTICLE III. ADDITIONAL AGREEMENTS

The Company and Holder shall cooperate and use their respective commercially reasonable efforts to take or cause to be taken all actions, and do or cause to be done all things,

necessary, proper or advisable under this Agreement and applicable laws and regulations to consummate and make effective the Exchange as soon as practicable.

ARTICLE IV.

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Holder as of the date hereof as follows:

4.1 Authorization of Agreements, etc. The execution and delivery by the Company of this Agreement, the performance by the Company of its obligations hereunder, and the issuance, sale and delivery of the Convertible Note, including the shares of Common Stock issuable upon exercise thereof (the "Conversion Shares" and, together with the Convertible Note, the "Securities") have been duly authorized by all requisite corporate action and will not result in any violation of, be in conflict with, or constitute a default under, with or without the passage of time or the giving of notice: (a) any provision of the Company's Articles of Incorporation, as amended, or Bylaws, as amended; (b) any provision of any judgment, decree or order to which the Company is a party or by which it is bound; (c) any material contract or agreement to which the Company is a party or by which it is bound (as defined in Item 601(b)(10) of Regulation S-K under the Securities Exchange Act of 1934, as amended (the "Exchange Act")); or (d) any statute, rule or governmental regulation applicable to the Company, except for such violations, conflicts or defaults as would not individually or in the aggregate have a material adverse effect on the Company.

4.2 Valid Issuance of Common Stock. The Conversion Shares have been duly authorized and, when issued, sold and delivered upon any conversion of the Convertible Note, will be validly issued, fully paid and nonassessable and will be free and clear of Encumbrances except for (i) restrictions on transfer under applicable Federal and state securities laws and (ii) Encumbrances created by Holder.

4.3 Validity. This Agreement has been duly executed and delivered by the Company and constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

4.4 Brokers and Finders. Neither the Company nor any of its subsidiaries, officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the Exchange.

REPRESENTATIONS AND WARRANTIES OF HOLDER

Holder represents and warrants to the Company as of the date hereof as follows:

5.1 Authorization of Agreements, etc. Holder has full right, power, authority and capacity to enter into this Agreement and to consummate the Exchange, and the execution and delivery by Holder of this Agreement and the performance by Holder of her obligations hereunder will not result in any violation of, be in conflict with, or constitute a default under, with or without the passage of time or the giving of notice: (a) any provision of any judgment, decree or order to which Holder is a party or by which it is bound; (b) any material contract or agreement to which Holder is a party or by which it is bound; or (c) any statute, rule or governmental regulation applicable to Holder.

5.2 Validity. This Agreement has been duly executed and delivered by Holder and constitutes the legal, valid and binding obligation of Holder, enforceable against Holder in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

5.3 Investment Representations.

(a) At the time Holder was offered the Securities, she was, and at the date hereof she is, and on each date on which she receives the Securities will be, an "accredited investor" as defined by Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act");

(b) Holder is knowledgeable, sophisticated and experienced in financial and business matters and has sufficient knowledge and experience in investing in companies similar to the Company so as to be able to evaluate the risks and merits of her investment in the Securities and is able financially to bear the economic risks of her investment in the Securities;

(c) The Securities being purchased by Holder hereunder are being acquired for Holder's own account solely for the purpose of investment and not with a present view to, or for sale in connection with, any distribution or resale thereof. Holder does not have any agreement or understanding, directly or indirectly, with any person to distribute any of the Securities;

(d) Holder understands and acknowledges that:

(i) the Conversion Shares have not been registered under the Securities Act or any state securities laws and are being offered and sold in reliance upon specific exemptions from the registration requirements of the Securities Act and state securities laws, and the Company is relying upon the truth and accuracy of, and Holder's compliance with, the representations, warranties, covenants, agreements, acknowledgments and understandings of

Holder contained in this Agreement in order to determine the availability of such exemptions and the eligibility of Holder to acquire the Securities;

(ii) the Securities must be held by Holder indefinitely unless a subsequent disposition thereof is registered under the Securities Act or is exempt from such registration; and

(iii) the Securities will bear a legend substantially in the form set forth in Section 6.1, and the Company will make a notation on its transfer books to such effect;

(e) Holder is not acquiring the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement. Holder further acknowledges that he, she or it, or his, her or its affiliate, has a pre-existing relationship with the Company, such as a holder of currently outstanding securities of the Company;

(f) Holder acknowledges that the Company has made available to Holder all documents and information that Holder has requested relating to an investment in the Securities, and Holder has been afforded: (i) the opportunity to discuss this investment with, to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Securities and the merits and risks of investing in the Securities; (ii) access to information about the Company and its subsidiaries and their respective financial condition, results of operations, business, properties, management and prospectus sufficient to enable it to evaluate its investment; and (iii) the opportunity to obtain such additional information that the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to the Securities; and

(g) Holder has, in connection with its decision to acquire the Securities, relied solely upon the representations and warranties of the Company contained in this Agreement.

5.4 Risk of Loss. Holder understands that its investment in the Securities involves a significant degree of risk, including a risk of total loss of Holder's investment, and Holder has full cognizance of and understands all of the risk factors related to its purchase of the Securities, including, but not limited to, those set forth in the Annual, Quarterly and Current Reports filed by the Company with the Securities and Exchange Commission. Holder understands that no representation is being made as to the future value of the Securities.

5.5 Brokers and Finders. Holder has not employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the Exchange.

MISCELLANEOUS

6.1 Transfer Restrictions. Holder acknowledges and understands that (i) the Securities may only be disposed of in compliance with state and federal securities laws and (ii) in connection with any transfer of the Securities, other than pursuant to an effective registration statement or pursuant to an available exemption from the registration requirements of the Securities Act (including sales made in accordance with Rule 144) to the Company or to an affiliate of Holder, the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act.

6.2 Legend. Each instrument that represents any Securities shall have conspicuously endorsed thereon a legend in substantially the following form:

This Securities evidenced by this instrument have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. Such securities may not be offered or transferred by sale, assignment, pledge or otherwise unless (a) a registration statement for the resale of such securities under the Securities Act is currently effective or (b) the Company has received an opinion of counsel, which opinion is satisfactory to the Company, to the effect that such registration is not required under the Securities Act or relevant state securities laws.

6.3 Brokerage. Each party hereto will indemnify and hold harmless the other against and in respect of any claim for brokerage or other commissions relative to this Agreement or to the Exchange, based in any way on agreements, arrangements or understandings made or claimed to have been made by such party with any third party.

6.4 Assignment; Parties in Interest. All representations, covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto whether so expressed or not. No party may assign all or any portion of such party's rights or obligations under this Agreement without the prior written consent of, in the case of an assignment by Holder, the Company, and in the case of an assignment by the Company, the Holder. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other person or entity.

6.5 Notices. All notices, requests, consents, demands, and other communications under this Agreement shall be given in accordance with Section 5 of the Put Agreement.

6.6 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York for all purposes and in all respects, without regard to the conflict of law provisions of such state that would cause the laws of another jurisdiction to apply. The parties hereto acknowledge and agree that venue and jurisdiction for any claim, suit or controversy related to or arising out of this Agreement shall be as set forth in Section 12 of the Put Agreement. THE PARTIES HEREBY WAIVE THE RIGHT TO JURY TRIAL OF ANY MATTERS ARISING OUT OF THIS AGREEMENT OR THE CONDUCT OF THE RELATIONSHIP BETWEEN THEM.

6.7 Entire Agreement. This Agreement and the Put Agreement constitutes the sole and entire agreement of the parties with respect to the subject matter hereof.

6.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimile or other electronically scanned and transmitted signatures, including by email attachment, shall be deemed originals for all purposes of this Agreement.

6.9 Amendments and Waivers. This Agreement may be amended or modified, and provisions hereof may be waived, only by a written instrument executed, in the case of an amendment, by the Company and Holder and, in the case of a waiver, by the party against whom enforcement is sought.

6.10 Severability. If any provision of this Agreement shall be declared void or unenforceable by any judicial or administrative authority, the validity of any other provision and of the entire Agreement shall not be affected thereby.

6.11 Construction. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party. The recitals set forth immediately following the preamble to this Agreement are incorporated herein and made a part hereof. Section references refer to sections of this Agreement unless otherwise specifically stated.

6.12 Representations. Holder agrees that, except for the representations and warranties contained in Article IV, the Company makes no other representations or warranties, and the Company hereby disclaims any other representations or warranties made by itself or any of its directors, officers employees, investment bankers, financial advisors, attorneys, accountants, agents and other representatives (collectively, "Representatives"), with respect to the execution and delivery of this Agreement, notwithstanding the delivery or disclosure to any other party or any other party's Representatives of any document or other information with respect to any one or more of the foregoing. Without limiting the generality of the foregoing, and notwithstanding any otherwise express representations and warranties made by the Company in this Agreement, Holder agrees that none of the Company, its subsidiaries or any of their respective Representatives makes or has made any representation or warranty with respect to (i) any projections, forecasts, estimates, plans or budgets or future revenues, expenses or expenditures, future results of operations (or any component thereof), future cash flows (or any component

thereof) or future financial condition (or any component thereof) of the Company or any of its subsidiaries or the future business, operations or affairs of the Company or any of its subsidiaries heretofore or hereafter delivered to or made available to it, or (ii) any other information, statements or documents heretofore or hereafter delivered to or made available to it with respect to the Company or any of its subsidiaries or the business, operations or affairs of the Company or any of its subsidiaries, except to the extent and as expressly covered by a representation and warranty made in this Agreement.

[signature page follows]

IN WITNESS WHEREOF, the undersigned has caused this Agreement to be executed by their duly authorized representatives as of the date and year first above written.

Dolphin Entertainment, Inc.

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

42West, LLC

By: s/ William O'Dowd IV
Name: William O'Dowd IV
Title: Authorized signatory

/s/ William O'Dowd IV
William O'Dowd IV

/s/ Leslee Dart
Leslee Dart

[Signature Page to Amendment and Exchange Agreement]

Exhibit A

Holder	Number (as identified in Annex A to Put Agreement)	Exercise Periods	Shares	Aggregate Principal Amount of Convertible Note
Leslee Dart	12	June 20, 2018-June 30, 2018	12,202	
Leslee Dart	14	September 20, 2018 – September 30, 2018	5,423	
Leslee Dart	15	December 10, 2018 – December 20, 2018	12,202	
Leslee Dart	17	March 11, 2019 – March 21, 2019	34,165	
Leslee Dart	18	March 11, 2019 – March 21, 2019	12,202	
Total Shares and Aggregate Principal Amount of Note:			76,194	

Exhibit B

[Convertible Note – Attached]

AMENDMENT, WAIVER AND EXCHANGE AGREEMENT

This Amendment, Waiver and Exchange Agreement is dated as of August 12, 2019 (this "Agreement") by and among Dolphin Entertainment, Inc., a Florida corporation (the "Company"), Allan Mayer (the "Holder"), William O'Dowd IV ("O'Dowd") and 42West, LLC, a Delaware limited liability company ("42West").

WHEREAS, Holder is a party to a certain Put Agreement, dated as of March 30, 2017, together with the Company, O'Dowd and 42West (the "Put Agreement"), pursuant to which, among other things, Holder may require that the Company purchase for cash certain shares of the Company's common stock, par value \$0.015 per share ("Common Stock"), in each case at the times and subject to those limitations contained in the Put Agreement;

WHEREAS, capitalized terms used herein and not defined herein have the respective meanings ascribed thereto in the Put Agreement;

WHEREAS, Holder timely exercised his put rights in accordance with the terms of the Put Agreement to require the Company to purchase for cash the 44,740 shares of Common Stock set forth on Exhibit A (the "Exchanged Shares"); and

WHEREAS, in accordance with the terms hereof, the Company, Holder, O'Dowd and 42West desire to amend certain provisions of the Put Agreement to reflect that, in lieu of the Holder exchanging the Exchanged Shares for cash, the Holder has agreed to exchange (the "Exchange") the Exchanged Shares for an aggregate of 385,514 shares of Common Stock (the "Securities").

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I.**THE EXCHANGE**

1.1 Exchange. Subject to the terms and conditions contained herein, on the date hereof, Holder shall sell, convey, transfer, assign and deliver to the Company, free and clear of all liens, charges and encumbrances of any kind (collectively, "Encumbrances"), the Exchanged Shares. In consideration of the transfer to the Company of the Exchanged Shares by Holder, the Company shall issue to Holder the Securities.

1.2 Closing; Deliverables. The closing of the Exchange (the "Closing") shall take place at the Company's offices in Miami, Florida on the date hereof or by delivery of documents required to be delivered hereby by facsimile or other electronic transmission, including by email attachment. At Closing, (A) the Company shall deliver to Holder the Securities, and (B) Holder

shall deliver to the Company such instruments of transfer or other documentation and agreements evidencing the Exchange and delivery to the Company of the Exchanged Shares, in each case as the Company may reasonably request.

1.3 Exercise of Put Rights. The Company and Holder acknowledge and agree that the Put Rights for the Exercise Periods identified on Exhibit A have been exercised in full and, upon consummation of the Exchange, all obligations of the Company in respect of the exercise thereof shall have been satisfied in their entirety, and such Put Rights shall have been extinguished and of no further force or effect.

ARTICLE II. AMENDMENT AND WAIVERS

2.1 Amendment of Put Agreement. The Put Agreement is hereby amended in accordance with Section 10 thereof to include a new Section 15, which shall read in its entirety as follows:

“15. Amendment by Exchange Agreement. This Agreement has been amended and waived to the extent set forth in that certain Amendment, Waiver and Exchange Agreement, dated as of August 12, 2019, by and between the Company, O’Dowd, 42 West and Holder (the “Exchange Agreement”). The Exchange Agreement is hereby incorporated by reference in this Agreement and made a part hereof.”

2.2 No Other Amendment. Except as amended as set forth in Section 2.1, the Put Agreement remains unmodified and in full force and effect in all respects.

2.3 Waiver. Holder hereby waives any breach of, or default under, any provision of the Put Agreement by the Company in respect of Holder’s exercise of the Put Rights for the Exercise Periods identified on Exhibit A, including, without limitation, with respect to any failure of the Company to have delivered payment for Shares on any applicable Put Right Closing Date with respect to such exercise.

ARTICLE III. ADDITIONAL AGREEMENTS

The Company and Holder shall cooperate and use their respective commercially reasonable efforts to take or cause to be taken all actions, and do or cause to be done all things, necessary, proper or advisable under this Agreement and applicable laws and regulations to consummate and make effective the Exchange as soon as practicable.

ARTICLE IV. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Holder as of the date hereof as follows:

4.1 Authorization of Agreements, etc. The execution and delivery by the Company of this Agreement, the performance by the Company of its obligations hereunder, and the issuance, sale and delivery of the Securities have been duly authorized by all requisite corporate action and will not result in any violation of, be in conflict with, or constitute a default under, with or without the passage of time or the giving of notice: (a) any provision of the Company's Articles of Incorporation, as amended, or Bylaws, as amended; (b) any provision of any judgment, decree or order to which the Company is a party or by which it is bound; (c) any material contract or agreement to which the Company is a party or by which it is bound (as defined in Item 601(b)(10) of Regulation S-K under the Securities Exchange Act of 1934, as amended (the "Exchange Act")); or (d) any statute, rule or governmental regulation applicable to the Company, except for such violations, conflicts or defaults as would not individually or in the aggregate have a material adverse effect on the Company.

4.2 Valid Issuance of Securities. The Securities have been duly authorized and, when issued, sold and delivered to the Holder, will be validly issued, fully paid and nonassessable and will be free and clear of Encumbrances except for (i) restrictions on transfer under applicable Federal and state securities laws and (ii) Encumbrances created by Holder.

4.3 Validity. This Agreement has been duly executed and delivered by the Company and constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

4.4 Brokers and Finders. Neither the Company nor any of its subsidiaries, officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the Exchange.

ARTICLE V.

REPRESENTATIONS AND WARRANTIES OF HOLDER

Holder represents and warrants to the Company as of the date hereof as follows:

5.1 Authorization of Agreements, etc. Holder has full right, power, authority and capacity to enter into this Agreement and to consummate the Exchange, and the execution and delivery by Holder of this Agreement and the performance by Holder of his obligations hereunder will not result in any violation of, be in conflict with, or constitute a default under, with or without the passage of time or the giving of notice: (a) any provision of any judgment, decree or order to which Holder is a party or by which it is bound; (b) any material contract or agreement to which Holder is a party or by which it is bound; or (c) any statute, rule or governmental regulation applicable to Holder.

5.2 Validity. This Agreement has been duly executed and delivered by Holder and constitutes the legal, valid and binding obligation of Holder, enforceable against Holder in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency,

reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

5.3 Investment Representations.

(a) At the time Holder was offered the Securities, he was, and at the date hereof he is, and on each date on which he receives the Securities will be, an "accredited investor" as defined by Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act");

(b) Holder is knowledgeable, sophisticated and experienced in financial and business matters and has sufficient knowledge and experience in investing in companies similar to the Company so as to be able to evaluate the risks and merits of his investment in the Securities and is able financially to bear the economic risks of his investment in the Securities;

(c) The Securities being purchased by Holder hereunder are being acquired for Holder's own account solely for the purpose of investment and not with a present view to, or for sale in connection with, any distribution or resale thereof. Holder does not have any agreement or understanding, directly or indirectly, with any person to distribute any of the Securities;

(d) Holder understands and acknowledges that:

(i) The Securities have not been registered under the Securities Act or any state securities laws and are being offered and sold in reliance upon specific exemptions from the registration requirements of the Securities Act and state securities laws, and the Company is relying upon the truth and accuracy of, and Holder's compliance with, the representations, warranties, covenants, agreements, acknowledgments and understandings of Holder contained in this Agreement in order to determine the availability of such exemptions and the eligibility of Holder to acquire the Securities;

(ii) the Securities must be held by Holder indefinitely unless a subsequent disposition thereof is registered under the Securities Act or is exempt from such registration; and

(iii) the Securities will bear a legend substantially in the form set forth in Section 6.1, and the Company will make a notation on its transfer books to such effect;

(e) Holder is not acquiring the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement. Holder further acknowledges that he has a pre-existing relationship with the Company, such as a holder of currently outstanding securities of the Company;

(f) Holder acknowledges that the Company has made available to Holder all documents and information that Holder has requested relating to an investment in the Securities, and Holder has been afforded: (i) the opportunity to discuss this investment with, to ask such questions as he has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Securities and the merits and risks of investing in the Securities; (ii) access to information about the Company and its subsidiaries and their respective financial condition, results of operations, business, properties, management and prospectus sufficient to enable it to evaluate its investment; and (iii) the opportunity to obtain such additional information that the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to the Securities; and

(g) Holder has, in connection with its decision to acquire the Securities, relied solely upon the representations and warranties of the Company contained in this Agreement.

5.4 Risk of Loss. Holder understands that its investment in the Securities involves a significant degree of risk, including a risk of total loss of Holder's investment, and Holder has full cognizance of and understands all of the risk factors related to its purchase of the Securities, including, but not limited to, those set forth in the Annual, Quarterly and Current Reports filed by the Company with the Securities and Exchange Commission. Holder understands that no representation is being made as to the future value of the Securities.

5.5 Brokers and Finders. Holder has not employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the Exchange.

ARTICLE VI.

MISCELLANEOUS

6.1 Transfer Restrictions. Holder acknowledges and understands that (i) the Securities may only be disposed of in compliance with state and federal securities laws and (ii) in connection with any transfer of the Securities, other than pursuant to an effective registration statement or pursuant to an available exemption from the registration requirements of the Securities Act (including sales made in accordance with Rule 144) to the Company or to an affiliate of Holder, the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act.

6.2 Legend. Each instrument that represents any Securities shall have conspicuously endorsed thereon a legend in substantially the following form:

This Securities evidenced by this instrument have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. Such securities may not be offered or transferred by sale, assignment, pledge or

otherwise unless (a) a registration statement for the resale of such securities under the Securities Act is currently effective or (b) the Company has received an opinion of counsel, which opinion is satisfactory to the Company, to the effect that such registration is not required under the Securities Act or relevant state securities laws.

6.3 Brokerage. Each party hereto will indemnify and hold harmless the other against and in respect of any claim for brokerage or other commissions relative to this Agreement or to the Exchange, based in any way on agreements, arrangements or understandings made or claimed to have been made by such party with any third party.

6.4 Assignment; Parties in Interest. All representations, covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto whether so expressed or not. No party may assign all or any portion of such party's rights or obligations under this Agreement without the prior written consent of, in the case of an assignment by Holder, the Company, and in the case of an assignment by the Company, the Holder. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other person or entity.

6.5 Notices. All notices, requests, consents, demands, and other communications under this Agreement shall be given in accordance with Section 5 of the Put Agreement.

6.6 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California for all purposes and in all respects, without regard to the conflict of law provisions of such state that would cause the laws of another jurisdiction to apply. The parties hereto acknowledge and agree that venue and jurisdiction for any claim, suit or controversy related to or arising out of this Agreement shall be as set forth in Section 12 of the Put Agreement. THE PARTIES HEREBY WAIVE THE RIGHT TO JURY TRIAL OF ANY MATTERS ARISING OUT OF THIS AGREEMENT OR THE CONDUCT OF THE RELATIONSHIP BETWEEN THEM.

6.7 Entire Agreement. This Agreement and the Put Agreement constitutes the sole and entire agreement of the parties with respect to the subject matter hereof.

6.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimile or other electronically scanned and transmitted signatures, including by email attachment, shall be deemed originals for all purposes of this Agreement.

6.9 Amendments and Waivers. This Agreement may be amended or modified, and provisions hereof may be waived, only by a written instrument executed, in the case of an amendment, by the Company and Holder and, in the case of a waiver, by the party against whom enforcement is sought.

6.10 Severability. If any provision of this Agreement shall be declared void or unenforceable by any judicial or administrative authority, the validity of any other provision and of the entire Agreement shall not be affected thereby.

6.11 Construction. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party. The recitals set forth immediately following the preamble to this Agreement are incorporated herein and made a part hereof. Section references refer to sections of this Agreement unless otherwise specifically stated.

6.12 Representations. Holder agrees that, except for the representations and warranties contained in Article IV, the Company makes no other representations or warranties, and the Company hereby disclaims any other representations or warranties made by itself or any of its directors, officers employees, investment bankers, financial advisors, attorneys, accountants, agents and other representatives (collectively, "Representatives"), with respect to the execution and delivery of this Agreement, notwithstanding the delivery or disclosure to any other party or any other party's Representatives of any document or other information with respect to any one or more of the foregoing. Without limiting the generality of the foregoing, and notwithstanding any otherwise express representations and warranties made by the Company in this Agreement, Holder agrees that none of the Company, its subsidiaries or any of their respective Representatives makes or has made any representation or warranty with respect to (i) any projections, forecasts, estimates, plans or budgets or future revenues, expenses or expenditures, future results of operations (or any component thereof), future cash flows (or any component thereof) or future financial condition (or any component thereof) of the Company or any of its subsidiaries or the future business, operations or affairs of the Company or any of its subsidiaries heretofore or hereafter delivered to or made available to it, or (ii) any other information, statements or documents heretofore or hereafter delivered to or made available to it with respect to the Company or any of its subsidiaries or the business, operations or affairs of the Company or any of its subsidiaries, except to the extent and as expressly covered by a representation and warranty made in this Agreement.

[signature page follows]

IN WITNESS WHEREOF, the undersigned has caused this Agreement to be executed by their duly authorized representatives as of the date and year first above written.

Dolphin Entertainment, Inc.

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

42West, LLC

By: /s/William O'Dowd, IV
Name: William O'Dowd, IV
Title: Authorized Signatory

/s/William O'Dowd, IV
William O'Dowd IV

/s/Allan Mayer
Allan Mayer

[Signature Page to Amendment and Exchange Agreement]

Exhibit A

Holder	Number (as identified in Annex A to Put Agreement)	Exercise Periods	Exchange Shares	Securities
Allan Mayer	12	June 20, 2018 – June 30, 2018	12,202	105,140
Allan Mayer	14	September 20, 2018 – September 30, 2018	5,423	46,729
Allan Mayer	15	December 10, 2018 – December 20, 2018	6,779	58,411
Allan Mayer	17	March 11, 2019 – March 21, 2019	2,711	23,364
Allan Mayer	18	March 11, 2019 – March 21, 2019	12,202	105,140
Allan Mayer	19	March 11, 2019 – March 21, 2019	5,423	46,730

**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: August 13, 2019

/s/ William O'Dowd IV

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: August 13, 2019

/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 June 30, 2019 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: August 13, 2019

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 June 30, 2019, 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: August 13, 2019

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