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Dolphin Entertainment, Inc.

Form: 10-Q

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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 September 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	**86-0787790**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

150 Alhambra Circle, Suite 1200, Coral Gables, Florida 33134
(Address of principal executive offices, including zip code)

(305) 774-0407
(Registrant's telephone number)

2151 Le Jeune Road, Suite 150-Mezzanine, Coral Gables, Florida 33134
(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 ❑	Accelerated filer ❑
Non-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 17,341,466 as of November 12, 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 September 30, 2019	As of December 31, 2018
ASSETS		
Current		
Cash and cash equivalents	$ 1,550,799	$ 5,542,272
Restricted cash	714,016	732,368
Accounts receivable, net of allowance for doubtful accounts of $311,649 and $283,022, respectively.	3,023,870	3,173,107
Other current assets	576,799	620,970
Total current assets	5,865,484	10,068,717
Capitalized production costs, net	224,024	724,585
Intangible assets, net of accumulated amortization of $3,884,448 and $2,714,785, respectively.	7,696,885	9,395,215
Goodwill	15,996,977	15,922,601
Right-of-use asset	6,139,776	—
Property, equipment and leasehold improvements, net	962,085	1,182,520
Investments	220,000	220,000
Deposits and other assets	502,399	475,956
Total Assets	$ 37,607,630	$ 37,989,594

(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 September 30, 2019	As of December 31, 2018
LIABILITIES		
Current		
Accounts payable	$ 769,608	$ 944,232
Other current liabilities	4,427,469	6,296,594
Line of credit	1,700,390	1,700,390
Put rights	2,912,246	4,281,595
Accrued compensation	2,637,500	2,625,000
Debt	3,311,199	3,353,741
Loan from related party	1,107,873	1,107,873
Contract liabilities	311,484	522,620
Lease liability	1,404,938	—
Convertible notes payable, net of debt discount	2,721,731	625,000
Notes payable	286,068	479,874
Total current liabilities	21,590,506	21,936,919
Noncurrent		
Put rights	365,646	1,702,472
Convertible notes payable	1,477,597	1,376,924
Notes payable	747,012	612,359
Contingent consideration	440,000	550,000
Lease liability	5,269,239	—
Other noncurrent liabilities	—	1,034,393
Total noncurrent liabilities	8,299,494	5,276,148
Total Liabilities	29,890,000	27,213,067
Commitments and contingencies (Note 19)		
STOCKHOLDERS' EQUITY		
Common stock, $0.015 par value, 200,000,000 shares authorized, 14,641,466 and 14,123,157, respectively, issued and outstanding at September 30, 2019 and December 31, 2018	219,624	211,849
Preferred Stock, Series C, $0.001 par value, 50,000 shares authorized, issued and outstanding at September 30, 2019 and December 31, 2018	1,000	1,000
Additional paid in capital	103,146,270	105,092,852
Accumulated deficit	(95,649,264)	(94,529,174)
Total Stockholders' Equity	7,717,630	10,776,527
Total Liabilities and Stockholders' Equity	$ 37,607,630	$ 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 September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Revenues:				
Entertainment publicity and marketing	$ 5,940,440	$ 5,720,264	$ 18,464,330	$ 16,297,466
Content production	7,616	—	86,606	427,153
Total revenues	5,948,056	5,720,264	18,550,936	16,724,619
Expenses:				
Direct costs	1,540,711	333,041	4,006,806	1,199,165
Selling, general and administrative	1,023,757	1,111,516	2,875,348	2,547,621
Depreciation and amortization	485,965	599,078	1,446,168	1,345,421
Legal and professional	353,699	601,330	1,158,497	1,445,818
Payroll	3,956,095	3,614,139	12,503,528	10,755,111
Total expenses	7,360,227	6,259,104	21,990,347	17,293,136
Loss before other income (expenses)	(1,412,171)	(538,840)	(3,439,411)	(568,517)
Other income (expenses):				
Gain (loss) on extinguishment of debt, net	709,097	—	687,811	(53,271)
Acquisition costs	—	(182,504)	—	(217,174)
Change in fair value of put rights	627,799	(110,840)	2,406,175	1,305,797
Change in fair value of contingent consideration	20,000	470,000	110,000	470,000
Interest expense and debt amortization expense	(295,556)	(277,122)	(884,665)	(810,521)
Total other income (expenses)	1,061,340	(100,466)	2,319,321	694,831
(Loss) income before income taxes	$ (350,831)	$ (639,306)	$ (1,120,090)	$ 126,314
Income taxes	—	819,451	—	538,831
Net (loss) income	$ (350,831)	$ 180,145	$ (1,120,090)	$ 665,145
(Loss) income per Share:				
Basic	$ (0.02)	$ 0.01	$ (0.07)	$ 0.05
Diluted	$ (0.05)	$ 0.01	$ (0.17)	$ (0.04)
Weighted average number of shares used in per share calculation				
Basic	16,071,891	14,565,766	15,995,774	13,151,649
Diluted	19,847,935	14,565,766	20,225,129	15,255,445

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 nine months ended September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (1,120,090)	$ 665,145
Adjustments to reconcile net (loss) income to net cash (used in) operating activities:		
Depreciation and amortization	1,446,168	1,345,421
Amortization of capitalized production costs	—	203,560
Impairment of capitalized production costs	629,585	—
Amortization of beneficial conversion on debt	136,791	30,769
Gain on extinguishment of debt, net	(687,811)	53,271
Bad debt and recovery of account receivable written off, net	(114,241)	165,129
Change in fair value of put rights	(2,406,175)	(1,305,797)
Change in fair value of contingent consideration	(110,000)	(470,000)
Change in deferred tax	—	(570,176)
Change in deferred rent	—	71,266
Changes in operating assets and liabilities:		
Accounts receivable	263,478	592,248
Other current assets	44,171	86,415
Capitalized production costs	(129,024)	(12,500)
Deposits and other assets	12,429	40,219
Contract liability	(211,136)	(3,875)
Accrued compensation	12,500	125,000
Accounts payable	(174,624)	(220,831)
Lease liability, net	147,886	—
Other current liabilities	323,003	(596,774)
Other noncurrent liabilities	(217,717)	(580,078)
Net Cash (Used in) Operating Activities	(2,154,807)	(381,588)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(56,070)	(70,504)
Net Cash (Used in) Investing Activities	(56,070)	(70,504)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	—	6,749,204
Proceeds from line of credit	—	1,700,390
Repayment of the line of credit	—	(750,000)
Proceeds from note payable	1,600,000	1,500,000
Repayment of notes payable	(59,154)	—
Repayment of debt, net of interest	(85,958)	(1,170,222)
Sale of common stock and warrants (unit) in Offering	—	81,044
Employee shares withheld for taxes	—	(56,091)
Exercise of put rights	(1,890,500)	(3,577,782)
Repayment to related party	—	(601,001)
Acquisition of Viewpoint	(230,076)	—
Acquisition of 42West	—	(20,000)
Acquisition of The Door	(771,500)	(910,713)
42West settlement of change of control provision	(361,760)	—
Net Cash (Used in) provided by Financing Activities	(1,798,948)	2,944,829
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,009,825)	2,492,737
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	6,274,640	5,296,873
CASH, CASH EQUIVALENTS AND RESTRICTED CASH END OF PERIOD	$ 2,264,815	$ 7,789,610

(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 nine months ended September 30,	
	2019	2018
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest paid	$ 198,140	$ 124,683
SUPPLEMENTAL DISCLOSURES OF NON CASH FLOW INFORMATION:		
Conversion of note payable into shares of common stock	$ 75,000	$ 273,425
Issuance of shares of Common Stock related to the acquisitions	$ 1,000,000	$ 2,246,154
Liability for contingent consideration for the acquisitions	$ 440,000	$ 1,620,000
Put rights exchanged for shares of Common Stock	$ 412,500	$ —
Put rights exchanged for convertible note payable	$ 702,500	$ —

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 nine months ended September 30,	
	2019	2018
Cash and cash equivalents	$ 1,550,799	$ 7,112,256
Restricted cash	714,016	677,354
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statement of cash flows	$ 2,264,815	$ 7,789,610

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 nine months ended September 30, 2019 and 2018

For the nine months ended September 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**
Net loss for the three months ended September 30, 2019	—	—	—	—	—	(350,831)	(350,831)
Shares issued pursuant to Amendment, Waiver and Exchange agreement of August 12, 2019	—	—	385,514	5,783	410,564	—	416,347
Shares retired from exercise of puts	—	—	(138,610)	(2,077)	(835,420)	—	(837,497)
Balance September 30, 2019	**50,000**	**$ 1,000**	**14,641,466**	**$ 219,624**	**$103,146,270**	**$(95,649,264)**	**$ 7,717,630**

(Continued)

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 (Continued)
For the nine months ended September 30, 2019 and 2018

For the nine months ended September 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**
Net income for the three months ended September 30, 2018	—	—	—	—	—	180,145	180,145
Cumulative effect adoption of ASU 2017-11	—	—	—	—	—	923,399	923,399
Deemed dividend from change in fair value of instruments with down round feature	—	—	—	—	20,645	(20,645)	—
Issuance of shares related to acquisition of 42West	—	—	137,932	2,069	(2,069)	—	—
Issuance of shares related to acquisition of The Door	—	—	307,692	4,615	2,241,539	—	2,246,154
Sale of common stock through an offering pursuant to a Registration Statement on Form S-3	—	—	2,515,000	37,725	6,711,479	—	6,749,204
Beneficial conversion of convertible promissory note	—	—	—	—	184,614	—	184,614
Shares retired from exercise of puts	—	—	(117,772)	(1,766)	(1,173,516)	—	(1,175,282)
Balance September 30, 2018	**50,000**	**$ 1,000**	**13,933,540**	**$ 209,003**	**$105,003,434**	**$(90,813,349)**	**$ 14,400,088**

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

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 and 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 clients 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 nine months ended September 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 Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”) on January 1, 2019 are discussed below:

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, 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 (Leases) for further discussion.

The Company did not adopt any other accounting pronouncement during the three and nine months ended September 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 does not expect adoption of this new guidance to have a material impact 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 does not expect adoption of this new guidance to have a material impact 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 does not expect adoption of this new guidance to have a material impact 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 does not expect adoption of this new guidance to have a material impact 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 $350,831 and $1,120,090, respectively for the three and nine months ended September 30, 2019, and had an accumulated deficit of $95,649,264 as of September 30, 2019. As of September 30, 2019, the Company had a working capital deficit of $15,725,022 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 issuances of its Common Stock, securities convertible into its Common Stock and/or 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. On October 21, 2019, the Company closed an underwritten public offering and sold 2,700,000 shares of Common Stock at a public offering price of $0.78 per share. See Note 20 (Subsequent Events) for more information. The net proceeds to the Company, after deducting the underwriter discount and offering expenses, were approximately $1.8 million. 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 additional 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 and (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 in 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 for resale 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.

The 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
	$ 1,960,165

The Company has engaged an independent third-party valuation expert to determine the fair values of the various forms of consideration transferred.

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 Common Stock on the Viewpoint Closing Date of $1.96 per share.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the Viewpoint Closing Date (as adjusted):

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	1,479,211
Accrued expenses	(165,284)
Accounts payable	(77,394)
Deferred tax liability	(182,416)
Contract liability	(190,854)
Total liabilities assumed	(615,948)
Net identifiable assets acquired	863,263
Goodwill	1,096,902
Net assets acquired	$ 1,960,165

Of the calculation of $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 ASU 2016-02 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 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 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 assigned fair values.

The $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.

The following table summarizes the original and revised 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:

	October 31, 2018 (As initially reported)	Measurement Period Adjustments	September 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)
Contract liability	(190,854)	—	(190,854)
Deferred tax 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

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 nine months ended September 30, 2019, the Company's measurement period adjustments of $24,220 were made and, accordingly, the Company recognized these adjustments in its September 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 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 September 30, 2019	$ 1,096,902

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 "Door Closing Date"), the Company, entered into an Agreement and Plan of Merger (the "Merger Agreement") with the former members of The Door ("collectively, the "Door Members"), in respect of its acquisition of The Door. On the Door Closing Date, The Door merged with and into Window Merger Sub, LLC, a wholly owned subsidiary of the Company ("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 Door 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 Door Closing Date, the Company issued to the Door Members 307,692 shares of Common Stock and paid the Door 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 Door 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 Door 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 for resale under the Securities Act.

Each of the Door 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.

On the Door Closing Date, the Company entered into a registration rights agreement with the Door Members (the "Registration Rights Agreement"), pursuant to which the Door Members are entitled to rights with respect to the registration for resale 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 Door Members holding at least a majority of the Share Consideration received by the Door 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 on Door Closing Date (307,692 shares)	$1,123,077
Common Stock issued on January 3, 2019 (307,692 shares)	1,123,077
Cash paid to Members' on Door Closing Date	882,695
Members' transaction costs paid on Door 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
	$5,999,323

The Company 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 Door 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 Common Stock on the Door 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 Door 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 Door 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 Door Closing Date. The key assumptions in applying the Monte Carlo Simulation model are as follows: a risk-free discount rate of between 1.61% and 1.88% based on the U.S government treasury obligation with a term similar to that of the contingent consideration, a discount rate of between 16.5%, and an annual asset volatility estimate of 42.5%. 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 (Fair Value Measurements) for further discussion on the fair value as of September 30, 2019.

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	2,836,644
Accrued expenses	(203,110)
Accounts payable	(1,064)
Unearned income	(15,500)
Other liabilities	(1,913)
Deferred tax liabilities	(593,949)
Total liabilities assumed	(815,536)
Net identifiable assets acquired	2,021,108
Goodwill	3,978,215
Net assets acquired	$ 5,999,323

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 Door Closing Date. On January 1, 2019, the Company adopted ASU 2016-02 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.

The following table summarizes the original and revised estimated fair values of the assets acquired and liabilities assumed at the Door Closing Date and the related measurement period adjustments to the fair values:

	July 5, 2018 (As initially reported)	Measurement Period Adjustments	September 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 Door Closing Date to estimate the fair value of assets acquired and liabilities assumed. As of the Door 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 September 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 September 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.

Unaudited Pro Forma Consolidated Statements of Operations

The following presents the Company’s pro forma consolidated operations after giving effect to the Viewpoint and The Door acquisition as if the Company had completed both acquisitions on January 1, 2018 and its results had been included in the consolidated results of the Company for the three and nine months ending September 30, 2018:

	For the three months ended September 30, 2018	For the nine months ended September 30, 2018
Revenue	$ 6,588,679	$24,167,118
Net (loss) income	$ (33,574)	$ 513,120

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of the acquisitions 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 Pinnacle Note (as defined below) used to partially pay the consideration for The Door, calculated as if the Pinnacle Note was outstanding as of January 1, 2018. See Note 8 (Notes Payable) for more information regarding the Pinnacle Note.

The impact of the acquisition of The Door and Viewpoint on the Company's actual results for periods following the acquisitions 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 acquisitions 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.

42West

On March 30, 2017 (the "42West Closing Date"), the Company entered into a purchase agreement with the former members of 42West (collectively, the "42West Members") (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 ASU 2016-02 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 consideration paid by the Company to the 42West Members in connection with the 42West acquisition was approximately $18.7 million in shares of Common Stock, based on a 30-day trading-day average stock price prior to the 42West Closing Date of $9.22 per share, (less certain working capital and closing adjustments, transaction expenses and payments of indebtedness), plus the potential to earn up to $9.3 million shares of Common Stock at a price of $9.22 per share, upon achievement of certain financial targets that were achieved during 2017 (the "Earn-Out Consideration"). As a result, the Company has issued 1,906,011 shares of Common Stock and will issue an additional 934,269 shares of Common Stock a price of $9.22 related to the Earn Out Consideration and closing adjustments.

In connection with the 42West acquisition, 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. The Company entered into Put Agreements with three separate 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.

Also, in connection with the 42West acquisition, on March 30, 2017, the Company entered into put agreements (the "Put Agreements") with each of the 42West Members. Pursuant to the terms and subject to the conditions set forth in the Put Agreements, the Company has granted the 42West Members 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 nine months ended September 30, 2019, respectively, the 42West Members exercised Put Rights with respect to an aggregate of 90,835 and 293,437 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, $115,500 on June 28, 2019, $75,000 on July 10, 2019, $100,000 on July 15, 2019, $100,000 on August 23, 2019 and $250,000 on September 3, 2019 related to these Put Rights. As of September 30, 2019, an additional $75,000 was due from the exercise of these Put Rights and was paid on October 10, 2019.

On August 12, 2019, the Company entered into an Amendment, Waiver and Exchange Agreement with one of the holders of the Put Rights and exchanged 44,740 Put Rights for 385,514 shares of Common Stock at a purchase price of $1.08 per share. On August 12, 2019, the Company entered into an Amendment, Waiver and Exchange Agreement ("Exchange Agreement") with another holder of Put Rights that had previously exercised 76,194 Put Rights that remained unpaid for an aggregate amount of $702,500. Pursuant to the Exchange Agreement, the Company issued a convertible note to such holder of Put Rights in the amount of $702,500 that bears interest at a rate of 10% per annum and matures on August 12, 2020. The noteholder may convert the principal and accrued interest at any time during the term of the convertible note for shares of Common Stock at a purchase price based on the 30-day trailing average closing price of the Common Stock.

As of September 30, 2019, the Company had purchased an aggregate of 822,442 shares of Common Stock from the 42West Members for an aggregate purchase price of $7,583,000, of which $75,000 was paid on October 10, 2019, $412,500 was exchanged for 385,514 shares of Common Stock and $702,500 was exchanged for a convertible note payable as described above.

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

Capitalized Production Costs

Capitalized production costs include the unamortized costs of *Max Steel*, the motion picture released on October 14, 2016, 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 $7,616 and $86,606 for the three and nine months ended September 30, 2019. The Company did not have any revenues earned from motion pictures for the three months ended September 30, 2018 and had $427,153 of revenues earned from motion pictures for the nine months ended September 30, 2018. These revenues were primarily attributable to *Max Steel*. On August 23, 2019, the Company agreed to exchange up to $900,000 of future revenues of *Max Steel* for satisfaction of a debt related to the prints and advertising costs of *Max Steel* (see Note 7 (Debt) for further discussion). Since the Company does not anticipate generating future revenues from *Max Steel*, the capitalized production costs in the amount of $629,585 were impaired and recorded as direct costs in the condensed consolidated statements of operations for the three and nine months ended September 30, 2019. During the three and nine months ended September 30, 2018, the Company amortized $0 and $203,560 of capitalized production costs using the individual-film-forecast method. As of September 30, 2019, and December 31, 2018, the Company had a balance of $0 and $629,585 recorded as capitalized production costs related to *Max Steel*.

The Company purchased scripts for other motion picture or digital productions and recorded $221,536 and $95,000 in capitalized production costs associated with these scripts as of September 30, 2019 and December 31, 2018, respectively. The Company intends to produce these projects, but they were not yet in production as of September 30, 2019 and there can be no assurance that these projects will be produced on the timelines anticipated or at all.

As of September 30, 2019, and December 31, 2018, the Company had total capitalized production costs of $221,536 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 whether the Company should assess if the fair value of the productions is less than the unamortized costs capitalized and aside from those discussed above, 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. As of September 30, 2019, the Company has delivered the motion picture to the distributors and satisfied the other requirements of these agreements. For the nine months ended September 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 under selling, general and administrative expenses. 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. The Company did not have a balance in accounts receivable related to *Max Steel* as of both September 30, 2019, and 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 September 30, 2019 and December 31, 2018, the Company had accounts receivable balances of $3,023,870 and $3,173,107, respectively, net of allowance for doubtful accounts of $311,649 and $283,022, respectively, related to its entertainment publicity and marketing segment.

Other Current Assets

The Company had a balance of $576,799 and $620,970 in other current assets on its condensed consolidated balance sheets as of September 30, 2019 and December 31, 2018, respectively. As of September 30, 2019 and December 31, 2018, these amounts were primarily composed of the following:

Indemnification asset – As of September 30, 2019 and December 31, 2018, the Company included 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 September 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 certain taxes paid for 2018. As of September 30, 2019 and December 31, 2018, the Company had a balance of $29,339 and $62,776, respectively, from income tax receivable.

Capitalized costs – The Company capitalizes certain third-party costs used in the production of its marketing video content. As of September 30, 2019 and December 31, 2018, the Company had a balance of $18,918 and $76,313, respectively related to these third-party costs.

Deferred costs – As of September 30, 2019, the Company had $65,414 in other deferred costs mainly related to improvements to the property that it is leasing effective October 1, 2019. The Company did not have any deferred costs recorded on its consolidated balance sheet as of December 31, 2018.

NOTE 5 — PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvement consists of:

	September 30, 2019	December 31, 2018
Furniture and fixtures	$ 719,291	$ 713,075
Computers and equipment	1,679,782	1,636,391
Leasehold improvements	732,870	732,870
	3,131,943	3,082,336
Less: accumulated depreciation and amortization	(2,169,858)	(1,899,816)
Property, equipment and leasehold improvements, net	$ 962,085	$ 1,182,520

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 $96,077 and $276,505 for the three and nine months ended September 30, 2019, respectively.

NOTE 6 — INVESTMENT

At September 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 September 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. The loan was also secured by substantially all of the assets of Max Steel Holdings. Once it was determined that *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 funds in the Company’s bank account to the reduce the loan balance. Amounts borrowed under the credit facility accrued 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.

On August 23, 2019, the Company entered into a Revenue Participation Agreement (the "Participation Agreement") with the creditor of the P&A Loan and agreed to exchange up to $900,000 of future domestic revenues of *Max Steel* for the full repayment and discharge of the balance of the P&A Loan that on the date of the Participation Agreement was $712,953, including accrued interest. Per the terms of the Participation Agreement, the Company does not make any representation or warranty that *Max Steel* will generate additional revenues. The Company recorded a gain on extinguishment of debt in the amount of $712,953 in its condensed consolidated statements of operations for the three and nine months ended September 30, 2019, related to the discharge of the P&A Loan. As of September 30, 2019 and December 31, 2018, the Company had outstanding balances of $0 and $682,842, respectively, related to the P&A Loan recorded on its condensed consolidated balance sheets in the caption debt. On its condensed consolidated statement of operations for the three and nine months ended September 30, 2019, the Company recorded interest expense of $13,411 and $60,660, respectively, and $0 and $112,491 for the three and nine months ended September 30, 2018, respectively, related to the P&A Loan. For the nine months ended September 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. 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 September 30, 2019, and December 31, 2018, the Company had outstanding balances of $3,311,199, including accrued interest in the amount of $1,698,280 and $3,353,740, including accrued interest of $1,624,754, respectively, in the caption debt related to this Production Service Agreement on its condensed consolidated balance sheets

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 September 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 September 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 and 137,500 additional warrants 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. As such, on each of July 23, 2019 and September 20, 2019, the Company issued Lincoln Park Warrants to purchase up to 137,500 shares of Common Stock. 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 shares 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 September 30, 2019, the Company recorded $33,361 of interest expense from the amortization of the original issue discount and beneficial conversion feature. As of September 30, 2019, the Company had a balance of $877,594, net of $83,334 of original debt discount and $139,072 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 each of March 25, 2019, July 9, 2019, and September 25, 2019 the Company issued convertible promissory note agreements to third-party investors and received $200,000, $150,000, and $250,000, respectively, to be used for working capital. The convertible promissory notes bear interest at a rate of 10% per annum and mature on March 25, 2021, July 9, 2021, and September 25, 2021, respectively. The balance of the convertible promissory notes 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 September 30, 2019, the Company had a balance of $600,000 in noncurrent liabilities related to these convertible promissory notes.

On August 12, 2019, the Company entered into the Exchange Agreement whereby one of the 42West Members agreed to take a convertible note instead of cash in exchange for 76,194 Put Rights that had been exercised by one of the 42West Members and not paid. The principal amount of the convertible note is $702,500, bears interest at a rate of 10% per annum and matures on August 12, 2020. The balance of the convertible note and any accrued interest may be converted into shares of Common Stock at the noteholder's option at any time during the term of the convertible note payable, at a purchase price based on the 30-day trailing average closing price of the Common Stock. See Note 3 (Mergers and Acquisitions) for more information regarding the Exchange Agreement.

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 Pinnacle 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 nine months ended September 30, 2019, the Company recorded interest expense of $30,000 and $90,000, respectively related to the Pinnacle Note and paid interest in the amount of $30,000 and $60,000, respectively. For the three and nine months ended September 30, 2019, the Company recorded $30,769 and $92,307 as interest expense related to the amortization of the debt discount. As of September 30, 2019, the Company had a balance of $1,469,231, net of $30,769 of debt discount, recorded in current liabilities on its condensed consolidated balance sheet, related to the Pinnacle Note and $30,000 of accrued interest recorded in other current liabilities. 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 had an initial maturity date of 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 noteholders 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.

For the three and nine months ended September 30, 2019, the Company paid interest on these notes in the aggregate amount of $20,875 and $54,021, respectively and recorded interest expense in the amount of $31,903 and $66,368, respectively relating to these notes. For the three and nine months ended September 30, 2018, the Company paid interest on these notes in the aggregate amount of $15,625 and $50,515, respectively and recorded interest expense in the amount of $15,208 and $58,564, respectively relating to these notes. As of September 30, 2019 and December 31, 2018, the Company recorded accrued interest of $17,209 and $4,861, respectively, relating to the convertible notes payable. As of September 30, 2019 and December 31, 2018, the Company had a balance of $550,000 and $1,252,000, respectively, in current liabilities and a balance of $600,000 in noncurrent liabilities as of September 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 nine months ended September 30, 2019, the Company paid interest on its nonconvertible promissory notes in the aggregate amount of $26,165 and $79,973, respectively. During the three and nine months ended September 30, 2018, the Company paid interest on its nonconvertible promissory notes in the aggregate amount of $15,000 and $45,834, respectively. The Company had balances of $6,038 and $6,315 as of September 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 nine months ended September 30, 2019 of $26,165 and $79,696, respectively, and $22,562 and $67,438, for the three and nine months ending September 30, 2018, respectively, relating to these promissory notes. As of September 30, 2019, the Company had a balance of $286,068 in current liabilities and $747,012 in noncurrent liabilities related to these nonconvertible promissory notes. As of December 31, 2018, the Company had balances of $479,874 in current liabilities and $612,359 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 nine months ended September 30, 2019, the Company did not repay any principal balance of the DE LLC Note and recorded interest expense of $27,924 and $82,863, respectively. For the three and nine months ended September 30, 2018, the Company repaid $0 and $601,001, respectively of principal balance and recorded interest expense of $27,924 and $101,459, respectively, relating to the DE LLC Note. As of September 30, 2019 and December 31, 2018, the Company had a principal balance of $1,107,873 and accrued interest of $387,668 and $304,888, respectively, relating to the DE LLC Note on its condensed consolidated balance sheet.

See Note 8 (Notes Payable) for discussion on a note payable with KCF, an entity wholly owned by Stephen L Perrone, an affiliate of the Company.

NOTE 10 — FAIR VALUE MEASUREMENTS

Put Rights

In connection with the 42West acquisition on March 30, 2017, the Company entered into the Put Agreements, pursuant to which it granted Put Rights to the sellers. During the nine months ended September 30, 2019, the sellers exercised their Put Rights, in accordance with the Put Agreements, for an aggregate amount of 293,437 shares of Common Stock. As a result, the sellers were 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, $115,500 on June 28, 2019, $75,000 on July 10, 2019, $100,000 on July 15, 2019, $100,000 on August 23, 2019 and $250,000 on September 3, 2019 related to these Put Rights. As of September 30, 2019, an additional $75,000 was due from the exercise of these Put Rights and was paid on October 10, 2019. In addition, the Company exchanged 44,740 Put Rights for 385,514 shares of Common Stock and issued a convertible note payable in the amount of $702,500 for 76,194 Put Rights. See Note 3 (Mergers and Acquisitions) for further discussion.

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 September 30, 2019 and December 31, 2018 was $3,277,892 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 nine months September 30, 2019, the Company recorded a gain of $627,799 and $2,406,175, respectively, and a loss of $110,840 and a gain of $1,305,797, respectively, for the three and nine months ended September 30, 2018, 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 September 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 September 30, 2019	As of December 31, 2018
Equity volatility estimate	60.4% – 65.0%	35.0% – 59.4%
Discount rate based on US Treasury obligations	1.69% – 1.89%	2.45% – 2.63%

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 September 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	(2,406,175)
Put rights exercised September 2019 and not yet paid	75,000
Ending fair value of put rights reported in the condensed consolidated balance sheet at September 30, 2019	$ 3,277,892

Contingent Consideration

In connection with the Company's acquisition of The Door, the Door 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 $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. See Note 3 (Mergers and Acquisitions) for further discussion.

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 September 30, 2019 and December 31, 2018 is $440,000 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 nine months ended September 30, 2019, the Company recorded a gain on the Contingent Consideration of $20,000 and $110,000, 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 September 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)	1.61% - 1.88%	2.47% - 2.59%
Annual Asset Volatility Estimate	42.5%	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 September 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	(110,000)
Ending fair value balance reported in the condensed consolidated balance sheet at September 30, 2019	$ 440,000

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 $311,484 and $522,620 as of September 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				
(in USD)	As of and for the nine months ended September 30, 2019	For the three months ended September 30, 2019	As of December 31, 2018	As of and for the nine months ended September 30, 2018	For the three months ended September 30, 2018	As of and for the nine months ended September 30, 2019	For the three months ended September 30, 2019	As of December 31, 2018	As of and for the nine months ended September 30, 2018	For the three months ended September 30, 2018
Assets	7,379,851	—	7,978,887	8,722,453	—	182,267	—	205,725	—	—
Liabilities	(11,816,966)	—	(11,887,911)	(12,228,022)	—	(6,750,057)	—	(6,741,834)	(6,743,568)	—
Revenues	78,990	—	—	427,153	—	7,616	7,616	—	—	—
Expenses	(607,081)	(633,371)	—	(280,604)	(173,339)	(39,298)	(9,834)	—	(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 September 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 nine months ended September 30, 2019 and 2018. These entities were previously under common control and have been accounted for at historical costs for all periods presented.

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 (Debt), 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 September 30, 2019 and December 31, 2018, the Company had a balance in capitalized production costs of $0 and $629,585, respectively. 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 nine months ended September 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 nine months ended September 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 September 30, 2019 and December 31, 2018, there were outstanding balances of $3,311,199, including accrued interest of $1,698,280 and $3,353,741, including accrued interest of $1,624,755, respectively, related to this debt which are included in the caption debt in the condensed consolidated balance sheets. The accrued interest was reclassified from other current liabilities to debt in the current period.

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.

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 was converted to a note payable on August 12, 2019.

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.

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.

On August 12, 2019, one of the sellers of 42West exercised exchanged 44,740 Put Rights for 385,514 shares of Common Stock. On the same day, the same seller exercised Put Rights for 16,269 shares of Common Stock and was paid $150,000 on September 3, 2019.

On August 19, 2019, one of the sellers of 42West exercised Put Rights for 10,846 shares of Common Stock and was paid $100,000 on September 3, 2019.

On August 23, 2019, one of the sellers of 42West exercised Put Rights for 10,846 shares of Common Stock and was paid $100,000.

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

As of September 30, 2019 and December 31, 2018, the Company had 14,641,466 and 14,123,157 shares of Common Stock issued and outstanding, respectively.

See Note 20 (Subsequent Events) regarding the issuance of 2,700,000 shares of Common Stock in an underwritten public offering in October 2019.

NOTE 14 — EARNINGS (LOSS) PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Numerator				
Net (loss) income attributable to Dolphin Entertainment common stock shareholders	$ (350,831)	$ 180,145	$ (1,120,090)	$ 665,145
Deemed dividend	—	(20,645)	—	(20,645)
Net (loss) income attributable to Dolphin Entertainment common stock shareholders and numerator for basic earnings per share	$ (350,831)	$ 159,500	$ (1,120,090)	$ 644,500
Change in fair value of put rights	(627,799)	—	(2,406,175)	(1,305,797)
Numerator for diluted (loss) earnings per share	$ (978,630)	$ 159,500	$ (3,526,265)	$ (661,297)
Denominator				
Denominator for basic EPS - weighted-average shares	16,071,891	14,565,766	15,995,774	13,151,649
Effect of dilutive securities:				
Put rights	3,776,045	—	4,229,355	2,103,796
Denominator for diluted EPS - adjusted weighted-average shares	19,847,936	14,565,766	20,225,129	15,255,445
Basic (loss) earnings per share	$ (0.02)	$ 0.01	$ (0.07)	$ 0.05
Diluted (loss) earnings per share	$ (0.05)	$ 0.01	$ (0.17)	$ (0.04)

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) earnings 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 (loss) earnings per share for the three and nine months ended September 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 nine months ended September 30, 2019 and 2018 is subtracted from net income.

Other potentially dilutive equity instruments such as convertible notes payable, were not included in the calculation of diluted (loss) earnings per share for the three and nine months ended September 30, 2019 and the nine months ended September 30, 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 nine months ended September 30, 2019 is as follows:

Warrants:	Shares	Weighted Avg. Exercise Price
Balance at December 31, 2018	2,727,253	$ 3.62
Issued	412,500	2.00
Exercised	—	—
Expired	(1,000,000)	2.29
Balance at September 30, 2019	2,139,753	$ 3.61

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 September 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
	1,250,000				

The Warrants “G”, “H” and “I” contain a down round 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 down round 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 2017 offering, 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 each of May 21, July 23, and September 20, 2019 the Company issued Lincoln Park Warrants to purchase up to 137,500 shares of Common Stock (412,500 total) at a purchase price of $2.00 per share to Lincoln Park related to the Lincoln Park Note. 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 approximately $190,000. The Company determined that the Lincoln Park Warrants should be classified as equity and recorded the fair value of the warrants as additional debt discount and 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 September 30, 2019 and December 31, 2018, the Company accrued $2,637,500 and $2,625,000, respectively, of compensation as accrued compensation and has balances of $1,427,054 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 $66,164 for each three month period ended September 30, 2019 and 2018, and $196,336 and $192,745 for the nine months ended September 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 54,230 shares of Common Stock at a purchase price of $9.22 per share for an aggregate purchase price of $500,000, during the nine months ended September 30, 2019. In addition, on August 12, 2019, Mr. Mayer entered into an agreement with the Company to exchange 44,740 Put Rights for 385,514 shares of Common Stock.

See Note 9 for discussion on related party loans.

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) which is the same as ((Loss) income before other income (expenses) on the Company's consolidated statement of operations for the three and nine months ended September 30, 2019 and 2018). 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.

In connection with the acquisitions of 42West, The Door, and Viewpoint, the Company assigned $7,696,885 of intangible assets, net of accumulated amortization of $3,884,448 and goodwill of $15,996,977 (after goodwill impairment of $1,857,000) as of September 30, 2019 to the Entertainment Publicity and Marketing segment. The balances reflected as of September 30, 2018 for Entertainment Publicity and Marketing segment comprise 42West and The Door.

	Three months ended	Nine months ended	Three months ended	Nine months ended
	September 30, 2019		September 30, 2018	
Revenues:				
EPD	$ 5,940,440	$18,464,330	$ 5,720,264	$16,297,466
CPD	7,616	86,606	—	427,153
Total	$ 5,948,056	$18,550,936	$ 5,720,264	$16,724,619
Segment Operating (Loss) Income:				
EPD	$ (81,511)	$ (892,269)	$ 351,040	$ 1,316,723
CPD	(1,330,660)	(2,547,142)	(889,880)	(1,885,240)
Total operating loss	(1,412,171)	(3,439,411)	(538,840)	(568,517)
Interest expense	(295,556)	(884,665)	(277,122)	(810,521)
Other income (expense)	1,356,896	3,203,986	176,656	1,505,352
(Loss) Income before income taxes	$ (350,831)	$ (1,120,090)	$ (639,306)	$ 126,314

	As of September 30, 2019	2018
Total assets:		
EPD	$35,774,237	$31,948,212
CPD	1,833,393	8,374,516
Total	$37,607,630	$40,322,728

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 and included in restricted cash in the amounts of $36,662 and $55,014 as of September 30, 2019 and December 31, 2018, respectively. 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 Door Members is obligated under an operating lease agreement for the office space expiring in August 2020. The Company made payments of $150,973 to the affiliate during the nine months ended September 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 September 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 was obligated under an operating lease for office space in Los Angeles, California until July 31, 2019. The monthly rent was $13,746 with annual increases of 3% for years 1 – 3 and 3.5% for the remainder of the lease. The lease was 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 was 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 were satisfied. As such, $30,802 of the security deposit was returned to the Company.

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 landlord and the Company agreed on October 1, 2019 as the lease commencement date. 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 September 30, 2019. 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 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	September 30, 2019
Assets		
Right-of-use asset	$ 7,547,769	$ 6,139,776
Liabilities		
Current		
Lease liability	$ 1,394,479	$ 1,404,938
Noncurrent		
Lease liability	$ 6,298,437	$ 5,269,239
Total lease liability	$ 7,692,916	$ 6,674,177

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

Lease costs	Classification	Three months ended September 30, 2019	Nine months ended September 30, 2019
Operating lease costs	Selling, general and administrative expenses	$ 529,694	$ 1,651,423
Operating lease costs	Direct costs	60,861	182,583
Sublease income	Selling, general and administrative expenses	—	(94,738)
Net lease costs		$ 590,555	$ 1,739,268

Maturities of lease liabilities were as follows:

2019 (excluding nine months ended September 30, 2019)	$ 476,401
2020	1,892,725
2021	1,550,344
2022	926,500
2023	927,564
Thereafter	2,860,001
Total lease payments	$ 8,633,535
Less: Imputed interest	(1,959,443)
Present value of lease liabilities	$ 6,674,092

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 September 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., a former wholly owned subsidiary of the Company that has subsequently filed for bankruptcy in Canada and been dissolved (“Dolphin Canada”), 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 Canada, Winterman Group Limited, Malcolm Stockdale and Sara Stockdale seek contribution or indemnity against Dolphin Canada alleging that Dolphin 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 Canada filed a Statement of Defense and Crossclaim. In the Statement of Defense, Dolphin Canada denied any liability under the lease and in the Crossclaim against Winterman Group Limited, Malcolm Stockdale and Sara Stockdale, Dolphin 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 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 Canada 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 September 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 nine months ended September 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 $77,000 and $275,535, during the three and nine months ended September 30, 2019. Contributions to the 42West and The Door 401(K) plan that was in existence during the nine months ended September 30, 2018 were at the discretion of management. The Company's contributions were $214,407 for the nine months ended September 30, 2019. 42West adopted the Company's plan during the nine months ended September 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.

In connection with the acquisition of The Door, each of the Door Members has entered into a four-year employment agreement with The Door, pursuant to which each Door 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 nine months ended September 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 nine months ended September 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 September 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 nine months ended September 30, 2019, it paid an aggregate amount of $27,921 and $174,651, respectively, to the Plans related to this agreement. As of December 31, 2018, the Company had accrued $174,651 in its consolidated balance sheet related to the audit. As $174,651 was paid in the nine months ended September 30, 2019, the accrual has been fully settled.

NOTE 20 – SUBSEQUENT EVENTS

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

On October 11, 2019, the Company issued a convertible promissory note agreement to a third-party investor and received $500,000. The convertible promissory note bears interest at a rate of 10% per annum and matures on October 11, 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 October 17, 2019, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Maxim Group LLC ("Maxim") relating to an underwritten public offering of 2,700,000 shares of Common Stock at a price to the public of $0.78 per share. The offering closed on October 21, 2019 and the net proceeds to the Company were approximately $1.8 million, after deducting the underwriter's discount and offering expenses payable by the Company. Pursuant to the Underwriting Agreement, we granted Maxim the option, exercisable for a period of 45 days, to purchase up to 405,000 shares of Common Stock to cover overallotments. Maxim has not exercised the option as of the date of this Quarterly Report on Form 10-Q. The Company intends to use the proceeds for general corporate purposes, including the acquisitions of complementary businesses and working capital.

On October 31, 2019, pursuant to the Viewpoint Purchase Agreement, the Company owed $250,000 of consideration to the Viewpoint Shareholders. On October 31, 2019, the Company paid $65,938 and owes an additional $184,062 that had not been paid as of the filing of this Form 10-Q.

On November 5, 2019, the Company issued a promissory note (the "Note") in the amount of $350,000 and received $348,250, after a one half of one percent non-refundable origination fee, per the terms of the Note. The Note matures on November 4, 2021 and bears interest of 10% per annum payable on a monthly basis. The Company may prepay the Note, in whole or in part, without penalty, as long as a minimum interest amount of $17,500 has been paid. The proceeds of the Note will be used for working capital.

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 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. On October 21, 2019, we closed an underwritten public offering and sold 2,700,000 shares of Common Stock at a public offering price of $0.78 per share and received approximately $1.8 million, after deducting the underwriter's discount and offering expenses payable by us. This and any 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 nine months ended September 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 three months ended September 30, 2019, revenue from content production was generated from international sales of *Believe* and for the nine months ended September 30, 2019, revenue from content production segment was derived primarily from the domestic distribution of *Max Steel*. For the three and nine months ended September 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 nine months ended September 30, 2019 and 2018 is set forth below:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Revenues:				
Entertainment publicity and marketing	99.9%	100.0%	99.5%	97.4%
Content production	0.1%	0.0%	0.5%	2.6%
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 copyrighting, 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 nine months ended September 30, 2019, we derived revenues from Dolphin Films primarily through the domestic distribution of our motion picture, *Max Steel*. For the nine months ended September 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 nine months ended September 30, 2019 and 2018, the majority of revenues from *Max Steel* were derived from these channels.

In 2016, Max Steel Holdings entered into a loan agreement to finance the prints and advertising costs of *Max Steel*. The loan for the prints and advertising costs was to be repaid by revenue generated from the domestic distribution of *Max Steel*. On August 23, 2019, Max Steel Holdings entered into a revenue participation agreement with the creditor of the prints and advertising loan and agreed to exchange up to $0.9 million of future domestic revenues of *Max Steel* for the repayment and discharge of the balance of the prints and advertising loan which on the date of the agreement was approximately $0.7 million. Our ability to receive additional revenues from *Max Steel* depends on the film generating additional revenues over $0.9 million from the domestic distribution of *Max Steel.*

The Max Steel VIE entered into a production service agreement to finance the production of *Max Steel*. Funds received from the production service agreement were to be repaid from the revenues generated from the international distribution of *Max Steel*. The international distribution agreements did not yield sufficient funds for the repayment prior to the loan's maturity date. If the lender forecloses on the collateral securing the loan, the Max Steel VIE will lose the copyright for *Max Steel* and consequently we will no longer receive any revenues from the international distribution of *Max Steel*. For a discussion of the terms of these agreements, 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 and nine months ended September 30, 2019 other income and expenses consisted of: (1) changes in fair value of put rights; (2) changes in fair value of contingent consideration (3) interest and debt amortization expense, and (4) gain on debt extinguishment. For the three months ended September 30, 2018 other income and expenses consisted of (1) acquisition costs; (2) changes in fair value of put rights; (3) changes in fair value of contingent consideration, and (4) interest expense and debt amortization expense. For the nine months ended September 30, 2018 other income and expenses consisted of (1) loss on extinguishment of debt; (2) acquisition costs; (3) changes in fair value of put rights; (4) changes in fair value of contingent consideration, and (5) interest expense and debt amortization expense.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2019 as compared to three and nine months ended September 30, 2018

Revenues

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Revenues:				
Entertainment publicity and marketing segment	$ 5,940,440	$ 5,720,264	$18,464,330	$16,297,466
Content production segment	7,616	—	86,606	427,153
Total revenue	$ 5,948,056	$ 5,720,264	$18,550,936	$16,724,619

Revenues from entertainment publicity and marketing increased by approximately $0.2 million and $2.2 million, respectively, for the three and nine months ended September 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 $0.3 million for the nine months ended September 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. On August 23, 2019, we entered into an agreement with the creditor of the prints and advertising loan related to *Max Steel* and agreed to exchange up to $0.9 million of future revenues from the domestic distribution of *Max Steel* for the repayment and discharge of the prints and advertising loan. As a result, we will not generate additional revenues from the domestic distribution of *Max Steel* unless the film generates over $0.9 million of revenues.

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 nine months ended September 30, 2019 and 2018, our expenses were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Expenses:				
Direct costs	$ 1,540,711	$ 333,041	$ 4,006,806	$ 1,199,165
Selling, general and administrative	1,023,757	1,111,519	2,875,348	2,547,621
Depreciation and amortization	485,965	599,078	1,446,168	1,345,421
Legal and professional	353,699	601,330	1,158,497	1,445,818
Payroll	3,956,095	3,614,139	12,503,528	10,755,111
Total expenses	$ 7,360,227	$ 6,259,107	$ 21,990,347	$ 17,293,136

Direct costs increased by approximately $1.2 million and $2.8 million, respectively, for the three and nine months ended September 30, 2019, as compared to the three and nine months ended September 30, 2018. Direct costs related to the entertainment publicity and marketing segment were approximately $0.8 million and $3.2 million, respectively, for the three and nine months ended September 30, 2019 as compared to $0.3 million and $0.8 million, respectively, for the three and nine months ended September 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 nine months ended September 30, 2018 was composed of only the direct costs for 42West.

Direct costs related to the content production segment were approximately $0.7 million for the three and nine months ended September 30, 2019 and approximately $0.1 million and $0.3 million, respectively, for the three and nine months ended September 30, 2018. Direct costs for the content production segment consist primarily of (i) impairment of capitalized production costs; (ii) residual payments made to the guilds and (iii) distributor costs to produce DVD's. Capitalized production costs for *Max Steel* were impaired during the three and nine months ended September 30, 2019 as a result of the agreement to direct all future film revenues up to $0.9 million to the print and advertising loan's creditor, in settlement of said loan. We evaluate capitalized production costs to determine if the fair value of the capitalized production costs is below the carrying value. Based on management's estimate of ultimate revenues for *Max Steel*, the capitalized production costs in the amount of $0.7 million were determined to be above fair value and were impaired during the three months ended September 30, 2019.

Selling, general and administrative expenses decreased by approximately $0.1 million and increased by approximately $0.3 million for the three and nine months ended September 30, 2019, as compared to the three and nine months ended September 30, 2018. The three-month decrease was primarily due to decreases in bad debt, travel, and administrative expenses, offset by Viewpoint expenses included in the 2019 balance. The increase was primarily due to the addition of operations of Viewpoint included in the balances for the nine months ended September 30, 2019. Since the acquisition of Viewpoint took place after September 30, 2018, selling, general and administrative expenses for the three and nine months ended September 30, 2018 did not include any balances for this entity.

Depreciation and amortization decreased by approximately $0.1 million for the three months ended September 30, 2019 and increased by approximately $0.1 million for the nine months ended September 30, 2019, as compared to the three and nine months ended September 30, 2018. For the three months ended September 30, 2019, the amortization expense does not include favorable lease amortization due to the Company's adoption of the new lease accounting (ASC 842) on January 1, 2019 that requires favorable leases to be accounted for as a right-of-use asset. The nine months ended September 30, 2019, included a full nine months of amortization expense related to the intangible assets of The Door, whereas the nine months ended September 30, 2018 included only three months.

Legal and professional fees decreased by approximately $0.3 million for the three and nine months ended September 30, 2019, as compared to the three and nine months ended September 30, 2018. The decrease is primarily due legal and professional fees incurred for the acquisition of The Door in 2018, as well as 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 $0.4 million and $1.7 million for the three and nine months ended September 30, 2019, as compared to the three and nine months ended September 30, 2018. The increase for the three months ending September 30, 2019 is primarily due to the addition of payroll for Viewpoint and an increase in The Door payroll, offset by a decrease in the payroll of 42West related to the departures of certain senior publicists in mid-2018. The increase for the nine months ending September 30, 2019 is primarily due to nine months of payroll recorded for The Door and Viewpoint, 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 September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Other Income and expenses:				
Extinguishment of debt, net	$ 709,097	$ —	$ 687,811	$ (53,271)
Acquisition costs	—	(182,504)	—	(217,174)
Change in fair value of put rights	627,799	(110,840)	2,406,175	1,305,797
Change in fair value of contingent consideration	20,000	470,000	110,000	470,000
Interest expense and debt amortization expense	(295,556)	(277,122)	(884,665)	(810,521)
Total	$ 1,061,340	$ (100,466)	$ 2,319,321	$ 694,831

During the three and nine months ended September 30, 2019, we recorded a gain on extinguishment of debt of $0.7 million related to the agreement with the creditor of the prints and advertising loan in which we exchanged potential future revenues from *Max Steel* for discharging the prints and advertising loan. During the nine months ended September 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.

During the three and nine months ended September 30, 2018, we recorded acquisition costs of approximately $0.2 million related to the acquisition of The Door.

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 $0.6 million and $2.4 million for the three and nine months ended September 30, 2019, respectively, and increased by $0.1 million and decreased by $1.3 million for the three and nine months ended September 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 nine months ended September 30, 2019, the fair value of the contingent consideration decreased by approximately $0.02 million and $0.1 million, respectively.

Interest expense and debt amortization expense increased by approximately $0.02 million and $0.07 million for the three and nine months ended September 30, 2019, as compared to the same periods in the prior year, primarily due to the 2018 convertible note payable, the 2019 Lincoln note, and the issuance of 2019 convertible notes payable.

Net Income

Net loss was approximately $(0.4) million or $(0.02) per share based on 16,071,891 weighted average shares outstanding for basic earnings per share and $(0.05) per share based on 19,847,935 weighted average shares on a fully diluted basis for the three months ended September 30, 2019 and net loss was approximately $(1.1) million or $ (0.07) per share based on 15,995,774 weighted average shares outstanding and $(0.17) per share based on 20,225,129 weighted average shares outstanding on a fully diluted basis for the nine months ended September 30, 2019. Net income was approximately $0.2 million or $0.01 per share based on 14,565,766 weighted average shares outstanding for each of basic and fully diluted earnings per share for the three months ended September 30, 2018 and net income was approximately $0.7 million or $0.05 per share based on 13,151,649 weighted average shares outstanding and $(0.04) per share based on 15,255,445 weighted average shares outstanding on a fully diluted basis for the nine months ended September 30, 2018. The reduction in net income for the three and nine months ended September 30, 2019 as compared to the three and nine months ended September 30, 2018, is related to the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Nine months ended September 30, 2019 as compared to nine months ended September 30, 2018

Cash flows used in operating activities for the nine months ended September 30, 2019 were approximately $2.2 million compared to $0.4 million cash flows used in operating activities for the nine months ended September 30, 2018. The increase in cash used in operating activities for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 is primarily due to lower cash flows from operations before changes in operating assets and liabilities of approximately $2.2 million.

Cash flows used in financing activities for nine months ended September 30, 2019 was approximately $1.8 million as compared to $2.9 million of cash flows provided by financing activities during the nine months ended September 30, 2018. Cash flows used in financing activities for the nine months ended September 30, 2019 consisted primarily of (i) $0.1 million of net repayment of debt related to *Max Steel*; (ii) $1.9 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 $1.6 million received from the issuance of convertible promissory notes. By contrast cash flows used in financing activities during the nine months ended September 30, 2018 consisted primarily of (i) $1.7 million in proceeds from our line of credit with Bank United (ii) $0.7 million used to repay our line of credit with City National; (iii) repayment of our debt under the prints and advertising loan; (iv) $1.5 million in proceeds from a note payable; (v) $3.6 million used to buy back our Common Stock pursuant to Put Rights that were exercised; (vi) $0.6 million used to repay advances from our CEO and (vii) $6.8 million in proceeds from the sale of common stock including $6.5 million from the public offering and $0.3 million for shares sold to an investor by direct registration.

As of September 30, 2019 and 2018, we had cash available for working capital of approximately $1.6 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 $7.1 million, not including $0.7 million pledged as collateral for the standby letter of credit for the New York office, respectively, and a working capital deficit of approximately $15.7 million and $8.9 million, respectively.

These factors, along with an accumulated deficit of $95.6 million as of September 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 September 30, 2019, our total debt was approximately $14.6 million and our total stockholders' equity was approximately $7.7 million. Approximately $3.3 million of the total debt as of September 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 $3.3 million of our indebtedness, including accrued interest, as of September 30, 2019 (under the production service agreement) was incurred by our variable interest entity consolidated in our financial statements, Max Steel Productions LLC ("Max Steel VIE"). Repayment of this 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 this loan prior to the maturity date. As a result, if the lender forecloses 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*.

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 nine months ended September 30, 2019, we purchased 293,437 shares of our Common Stock from certain of the sellers in accordance with the put agreements. An aggregate purchase price of $1,890,500 was paid during the nine months ended September 30, 2019, including $375,000 for put rights exercised in December 2018 and $75,000 was paid on October 10, 2019.

On August 12, 2019, we entered into an agreement with one of the 42West sellers and issued a convertible promissory note in the amount of $702,500 as payment for 76,194 put rights that had been previously exercised. The convertible note bears interest at a rate of 10% per annum and matures on August 12, 2020. The balance of the convertible note and any accrued interest may be converted into shares of Common Stock at the noteholder's option at any time at a purchase price based on the 30-day trailing average closing price of the Common Stock.

On August 12, 2019, we entered into an agreement with one of the 42West sellers and exchanged 44,740 put rights for 385,514 shares of Common Stock at a price of $1.08 per share.

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 nine months ended September 30, 2019. See Note 3—(Mergers and Acquisitions) to the unaudited condensed consolidated financial statements contained elsewhere in this Quarterly Report on Form 10-Q 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, entered into a loan and security agreement 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 proceeds of the credit facility were used to pay a portion of the prints and advertising expenses of the domestic distribution of our feature film, *Max Steel*. Amounts borrowed under the credit facility accrued 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. On August 23, 2019, we entered into a revenue participation agreement with the creditor and agreed to exchange up to $0.9 million of future domestic revenues of *Max Steel* for the repayment and discharge of the prints and advertising loan. Accordingly, we recorded a gain on the extinguishment of debt of $0.7 million during the three and nine months ended September 30, 2019 related to the prints and advertising loan.

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 nine months ended September 30, 2019, Max Steel VIE 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 $3.3 million, including accrued interest of $1.7 million, related to this agreement in the caption debt on our condensed consolidated balance sheet as of September 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 September 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 September 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 nine months ended September 30, 2019, we repaid $0.06 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 $286,068 in current liabilities and $747,012 in noncurrent liabilities related to the foregoing nonconvertible notes on our balance sheet as of September 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. As such, on each of July 23, 2019 and September 20, 2019, we issued warrants to purchase up to 137,500 shares of our common stock. 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 September 30, 2019, we had a balance of $0.9 million, net of $0.1 million original issue discount and $0.1 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 November 5, 2019, we issued a promissory note in the amount of $350,000 and received $348,250, after a one half of one percent non-refundable origination fee, per the terms of the promissory note. The promissory note matures on November 4, 2021 and bears interest of 10% per annum payable on a monthly basis. We may prepay the promissory note in whole or in part, without penalty, as long as a minimum interest amount of $17,500 has been paid.

On October 11, 2019, we issued a convertible promissory note agreement to a third-party investor and received $500,000. The convertible promissory note bears interest at a rate of 10% per annum and matures on October 11, 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 our common stock.

On September 25, 2019, we issued a convertible promissory note agreement to a third-party investor and received $250,000. The convertible promissory note bears interest at a rate of 10% per annum and matures on September 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 our common stock.

On August 12, 2019, in lieu of cash, we issued a $702,500 convertible promissory note agreement in exchange for 76,194 shares of our common stock related to 76,194 exercised put rights of one of the 42West Sellers. The convertible promissory note bears interest at a rate of 10% per annum and matures on August 12, 2020. 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 our common stock.

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 our 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 our 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 September 30, 2019, we have a balance of $1.47 million, net of a debt discount of $0.03 million, on our condensed consolidated balance sheet and recorded $0.09 million of interest expense on our condensed consolidated statement of operations for the nine months ended September 30, 2019.

2017 Convertible Debt

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 our common stock at a price of either (i) the 90 day average closing market price per share of our 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 our common stock is made, 95% of the public offering price per share of our common stock. As of September 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 nine months ended September 30, 2019, we purchased 293,437 shares of Common Stock and paid an aggregate amount of $1,890,500 to the sellers of 42West, including $375,000 for put rights exercised in December 2018 and paid $75,000 on October 12, 2019. As of September 30, 2019, there were 384,891 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 former 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 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. 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 September 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)	1.61% - 1.88%	2.47% - 2.59%
Annual Asset Volatility Estimate	42.5%	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 September 30, 2019:

Beginning fair value balance on December 31, 2018	$ 550,000
Change in fair value (gain) reported in the statements of operations	(110,000)
Ending fair value balance on September 30, 2019	$ 440,000

Recent Accounting Pronouncements

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

Off-Balance Sheet Arrangements

As of September 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 September 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

Except as set forth below, 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.

If we fail to regain compliance with the minimum closing bid requirements of the Nasdaq Capital Market or to satisfy other requirements for continued listing, our common stock may be delisted and the price of our common stock and our ability to access the capital markets could be negatively impacted.

Our common stock is listed for trading on the Nasdaq Capital Market ("Nasdaq"). To maintain this listing, we must satisfy Nasdaq's continued listing requirements, including, among other things, a minimum closing bid price requirement of $1.00 per share.

On October 17, 2019, we received a notification letter from Nasdaq informing us that for the prior 30 consecutive business days, the bid price of our common stock had closed below $1.00 per share. This notice had no immediate effect on our Nasdaq listing and we have 180 calendar days, or until April 14, 2020, to regain compliance. The closing bid price of our common stock must be at least $1.00 per share for a minimum of ten consecutive business days to regain compliance. If by that time we have not regained compliance with the bid price requirement, a second 180-day compliance period may be available, provided (i) we meet the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on Nasdaq (except for the bid price requirement), and (ii) we provide written notice to Nasdaq of our intention to cure this deficiency during the second compliance period by effecting a reverse stock split, if necessary.

If we are unable to regain compliance with the minimum closing bid price requirement by April 14, 2020, or such further extended period as may be provided by Nasdaq, or if we fail to meet any of the other continued listing requirements, our common stock may be delisted from Nasdaq, which could reduce the liquidity of our common stock materially and result in a corresponding material reduction in the price of our common stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, employees and business development opportunities. Such a delisting likely would impair your ability to sell or purchase our common stock when you wish to do so. Further, if we were to be delisted from Nasdaq, our common stock may no longer be recognized as a "covered security" and we would be subject to regulation in each state in which we offer our securities. Thus, delisting from Nasdaq could adversely affect our ability to raise additional financing through the public or private sale of equity securities, would significantly impact the ability of investors to trade our securities and would negatively impact the value and liquidity of our common stock.

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 September 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
7/1/2019 – 7/31/2019	—	$ —	—	—
8/1/2019 – 8/30/2019	82,701	9.22	—	—
9/1/2019 – 9/30/2019	8,134	9.22	—	—
Total	90,835	$ 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 90,835 shares of common stock, including 44,740 put rights that were exchanged for 385,514 shares of our common stock. We paid an aggregate amount of $425,000, including $75,000 that was paid on October 10, 2019, related to the exercise of put rights. 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.

Convertible Notes Payable

On September 25, 2019, we issued a convertible promissory note agreement to a third-party investor and received $250,000. The convertible promissory note bears interest at a rate of 10% per annum and matures on September 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 August 12, 2019, in lieu of cash, we issued a $702,500 convertible promissory note agreement in exchange for 76,194 Company shares related to the exercised put rights of one of the 42West sellers. The convertible promissory note bears interest at a rate of 10% per annum and matures on August 12, 2020. 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 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 July 23, 2019 and September 20, 2019, pursuant to the terms of the securities purchase agreement with Lincoln Park, we issued Series B and Series C Warrants that each entitle the holder to purchase up to 137,500 shares of Common Stock at $2.00 per share. The initial exercise dates of the Series B and Series C Warrants are January 23, 2020 and March 2, 2020, respectively, and each can be exercised thereafter for a period of five years.

The securities referred to above were issued, and any shares of common stock to be issued upon conversion or exercise thereof, as applicable, will be 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

On October 17, 2019, the Company received a deficiency notice from The Nasdaq Stock Market ("Nasdaq") informing the Company that its common stock fails to comply with the $1 minimum bid price required for continued listing on The Nasdaq Capital Market under Nasdaq Listing Rule 5550(a)(2) based upon the closing bid price of the common stock for the 30 consecutive business days prior to the date of the notice from Nasdaq.

Nasdaq's notice had no immediate effect on the listing of the common stock on The Nasdaq Capital Market and, at this time, the common stock will continue to trade on The Nasdaq Capital Market under the symbol "DLPN". Pursuant to Nasdaq Listing Rule 5810(c)(3)(A), the Company has been provided an initial compliance period of 180 calendar days, or until April 14, 2020, to regain compliance with the minimum bid price requirement. To regain compliance, the closing bid price of the common stock must meet or exceed $1.00 per share for a minimum of ten consecutive business days prior to April 14, 2020.

If the Company is unable to regain compliance by April 14, 2020, the Company may be eligible for an additional 180 calendar day compliance period to demonstrate compliance with the minimum bid price requirement. To qualify, the Company will be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market, with the exception of the minimum bid price requirement, and will need to provide written notice to Nasdaq of its intention to cure the deficiency during the second compliance period. If the Company does not qualify for the second compliance period or fails to regain compliance during the second 180 calendar day period, Nasdaq will notify the Company of its determination to delist the Common Stock, at which point the Company would have an opportunity to appeal the delisting determination to a Hearings Panel.

The Company intends to monitor the closing bid price of its Common Stock and is considering its options to regain compliance with the minimum bid price requirement under the Nasdaq Listing Rules.

ITEM 6. EXHIBITS

Exhibit No.	Description
10.1	"Max Steel" Revenue Participation Agreement, dated as of August 23, 2019, by and between the Company and ORF MS, LLC
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 November 14, 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

EXHIBIT 10.1

"MAX STEEL"
REVENUE PARTICIPATION AGREEMENT

This Revenue Participation Agreement (this "Agreement"), dated effective as of August 23, 2019 (the "Effective Date"), is entered into by and between Dolphin Max Steel Holdings LLC, a Florida limited liability company ("Dolphin"), on the one hand, and ORF MS, LLC, a Delaware limited liability company ("ORFMS"), on the other hand, with respect to that certain feature-length motion picture known as "Max Steel" (the "Picture"). Dolphin and ORFMS are each referred to herein individually as a "Party" and collectively as the "Parties".

Whereas, Dolphin and Comerica Bank, a Texas banking association ("Comerica") entered into that certain Loan and Security Agreement (with that agreement, as modified, amended and supplemented from time to time, being hereafter referred to as the "Comerica Loan Agreement"), dated as of August 12, 2016;

Whereas, Dolphin and Open Road Films, LLC, a California limited liability company (the "Domestic Distributor") entered into that certain Distribution Rights Acquisition Agreement, dated as of August 12, 2016 (the "Domestic Distribution Agreement");

Whereas, ORFMS was previously assigned all rights and obligations of Comerica under and pursuant to the Comerica Loan Agreement and all related loan and security documents;

Whereas, OR Acquisition Co, LLC was previously assigned the Domestic Distribution Agreement, and OR Acquisition Co, LLC is now the Domestic Distributor under the Domestic Distribution Agreement;

Whereas, as of the Effective Date, the outstanding balance of the Obligations (as defined in the Comerica Loan Agreement), including all accrued and unpaid interest, was Seven Hundred, Twelve Thousand, Nine Hundred Fifty Three Dollars and twenty-nine cents ($712,953.29) (the "Outstanding Loan Amount"); and

Whereas, in consideration for (i) the Outstanding Loan Amount being deemed fully repaid and discharged and (ii) the Comerica Loan Agreement being terminated, Dolphin now desires to grant ORFMS an ongoing revenue participation in the Picture pursuant to the terms and conditions contained herein.

Now, therefore, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt, adequacy and sufficiency of which is hereby acknowledged, the Parties hereto agree as follows:

1. CONTINGENT COMPENSATION; COMERICA LOAN AGREEMENT TERMINATION.

(a) Revenue Participation. From and after the Effective Date, Dolphin shall direct the Domestic Distributor (or its successor in interest) to pay one hundred percent (100%) of all payments owed to Dolphin pursuant to the Domestic Distribution Agreement to ORFMS directly

until such time as ORFMS has received Nine Hundred Thousand Dollars ($900,000) (the "Revenue Participation"). If, notwithstanding Dolphin's direction to pay all Revenue Participation amounts directly to ORFMS, Revenue Participation amounts are paid to Dolphin, any of its affiliates or any other third party, then Dolphin shall and shall direct such affiliate or such other third party to (i) segregate and hold in trust all of such receipts that it receives; and (ii) remit such receipts in the form received directly to ORFMS not later than five (5) business days following the day of its receipt thereof. For the avoidance of doubt, any rights to the return of any prints and advertising monies on deposit in an account maintained by or for the benefit of a debtor in the Bankruptcy Cases (as defined below) shall be the property of OR Acquisition Co, LLC and shall not be deemed to constitute part of Revenue Participation.

(b) Comerica Loan Agreement Termination. The Parties hereby agree that the grant of the Revenue Participation pursuant to Paragraph 1(a) above shall constitute payment and satisfaction in full of all amounts owing to ORFMS by Dolphin pursuant to the Comerica Loan Agreement, including, without limitation, the Outstanding Loan Amount. In furtherance of the foregoing, the Parties hereby agree that the Comerica Loan Agreement is hereby terminated and shall have no further force or effect (other than any indemnification provision therein that by its terms survives the repayment of the Outstanding Loan Amount and/or termination of the Comerica Loan Agreement) and shall execute a termination letter substantially in the form attached hereto as Exhibit A evidencing the same. The Parties further hereby: (i) acknowledge that they have no outstanding (whether actual, contingent, deferred or otherwise) claims, costs, damages, interest, expenses or rights against each other whatsoever under the Comerica Loan Agreement; (ii) agree and covenant not to bring any claim or action or exercise such other right, arising out of the Comerica Loan Agreement or the termination thereof, against each other in the future (other than the exercise of any indemnification right thereunder that by its terms survives termination of the Comerica Loan Agreement); and (iii) agree that the Lender Repayment Date (as defined in the Comerica Loan Agreement) shall be deemed to be the Effective Date for all purposes of the Comerica Loan Agreement, including, without limitation, Section 10.1 thereof.

(c) General. Dolphin makes no representation or warranty that the Picture will generate any Revenue Participation. Nothing contained herein shall be construed to obligate Dolphin to take any action to maximize revenues or the Revenue Participation or to give ORFMS any right, title or interest of any kind in or to the revenues, gross receipts or net proceeds derived from the Picture other than as specifically set forth herein. Nothing contained in this Agreement shall be construed as creating a fiduciary relationship between Dolphin and ORFMS.

2. WITHDRAWAL OF DOLPHIN'S CLAIMS. On the Effective Date, Dolphin shall withdraw with prejudice each proof of claim and request for payment of administrative expense that it filed in the bankruptcy cases pending in the U.S. Bankruptcy Court for the District of Delaware styled *In re Open Road Films, LLC, et al*, Case No. 18-12012 (Bankr. D. Del.) (the "Bankruptcy Cases"), including, without limitation, the claims, copies of which are attached hereto. On the Effective Date, Dolphin shall have no claim, nor seek to assert a claim, against the debtors in the Bankruptcy Cases for an administrative expense or any cure claim on account of Open Road Films, LLC's assumption and assignment of the Domestic Distribution Agreement to OR Acquisition Co, LLC. Dolphin hereby agrees that the court-appointed claims agent may rely on this Agreement as a withdrawal of the proofs of claim filed by Dolphin, and Dolphin further agrees that ORFMS may provide a copy of this Agreement to the court-appointed claims agent

for purposes of withdrawal of the proofs of claim filed by Dolphin. For the avoidance of doubt, Dolphin hereby waives as to OR Acquisition Co, LLC any cure claim it may have had on account of Open Road Films, LLC's assumption and assignment of the Domestic Distribution Agreement to OR Acquisition Co, LLC, and waives as to ORFMS any claim it may have against ORFMS under the Comerica Loan Agreement.

3. GOVERNING LAW; DISPUTE RESOLUTION. All controversies, claims or disputes between the Parties to this Agreement arising out of or related to this Agreement, the Comerica Loan Agreement, or the interpretation, performance or breach thereof, including, but not limited to, alleged violations of state or federal statutory or common law rights or duties, and the determination of the scope or applicability of this Agreement to arbitrate ("Dispute"), except as set forth in Paragraphs 3 (c) and (d) below, shall be resolved according to the procedures set forth in Paragraph 3(a) which shall constitute the sole dispute resolution mechanism hereunder:

(a) Arbitration. Any Dispute arising out of or relating to this Agreement or the Comerica Loan Agreement shall be subject to binding arbitration before a single neutral arbitrator with experience in entertainment law pursuant to the then effective commercial arbitration rules of the JAMS. The arbitrator shall not have the authority to award equitable or injunctive relief and shall not be authorized to award punitive damages. The award issued by any such arbitrator may be entered and confirmed as a judgment in any court of competent jurisdiction.

(b) Other Matters. Any Dispute or part thereof, or any claim for a particular form of relief (not otherwise precluded by any other provision of this Agreement), that may not be arbitrated pursuant to applicable law may be heard only in a court of competent jurisdiction in Los Angeles County.

(c) Governing Law; Jurisdiction and Venue. This Agreement shall be governed and construed in accordance with the laws of the [State of California] applicable to contracts entered into and fully performed therein. The Parties hereby submit to the exclusive jurisdiction and venue of the local, state and federal courts located in [Los Angeles County].

4. MISCELLANEOUS.

(a) Further Acts. All Parties agree to execute any other documents, agreements, instruments or certificates and take any other action reasonably necessary in order to implement the terms and intent of this Agreement.

(b) Entire Agreement. This Agreement and the Exhibits hereto sets forth the complete understanding between the Parties hereto with respect to the subject matter hereof, and all prior agreements have been merged herein, whether written or oral, and may not be modified except by a written instrument signed by all Parties hereto. Each of Dolphin and ORFMS acknowledges that no representation or promise not expressly contained in this Agreement has been made by the other party or any of its agents, employees or representatives.

(c) Severability. If there is any conflict between any provision of this Agreement and any present or future statute, law, ordinance or regulation the latter shall prevail; provided, that the provision hereof so affected shall be limited only to the extent necessary and no other provision shall be affected.

(d) Relationship of Parties; Counterparts. This Agreement is not a partnership between or joint venture of the Parties hereto and neither Party is the agent of the other. This Agreement is not for the benefit of any third party, not otherwise referred to herein. This Agreement may be signed in counterpart, each of which shall be deemed an original, but all of which together shall constitute the Agreement.

(Signature Page Follows)

IN WITNESS WHEREOF, the Parties hereto have signed this Agreement as of the date first set forth above.

ORF MS, LLC

By: /s/Josh Green
Name: Josh Green
Its: Authorized Signatory

Dolphin Max Steel Holdings LLC

By: /s/William O'Dowd
Name: William O'Dowd
Its: Authorized Signatory

Exhibit A

Termination Letter

[See attached.]

August 23, 2019

Dolphin Max Steel Holdings LLC
2151 Le Jeune Road, Suite 150
Coral Gables, Florida 33134
Attention: Bill O'Dowd

Re: Termination Letter

Dear Mr. O'Dowd:

Reference is made to that certain Loan and Security Agreement (with that agreement, as modified, amended and supplemented from time to time, being hereafter referred to as the "Comerica Loan Agreement"), dated as of August 12, 2016, by and between Dolphin Max Steel Holdings LLC, a Florida limited liability company ("Dolphin") and ORF MS, LLC, a Delaware limited liability company (as successor in interest to Comerica Bank, a Texas banking association) ("ORFMS"). Dolphin and ORFMS are each referred to herein individually as a "Party" and collectively as the "Parties". Capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in the Comerica Loan Agreement.

On August 23, 2019 (the "Payoff Date"), Dolphin and ORFMS entered into that certain Revenue Participation Agreement (the "RPA"), pursuant to which (i) Dolphin was deemed to have paid and satisfied in full all amounts owing to ORFMS by Dolphin pursuant to the Comerica Loan Agreement, including, without limitation, the outstanding balance of the Obligations as of the Payoff Date; and (ii) the Parties agreed to terminate the Comerica Loan Agreement with no further force or effect. In furtherance of the foregoing, the Parties agreed to enter into this termination letter to evidence the same.

The Parties hereby acknowledge, in each case, as of the Payoff Date:

(a) all Obligations and outstanding indebtedness due and owing under the Comerica Loan Agreement (including interest, principal and fees) have been deemed automatically fully paid and discharged, all without any further action being required to effectuate the foregoing;

(b) the Comerica Loan Agreement has been automatically terminated and has no further force and effect;

(c) all existing liens, security interests and mortgages granted by Dolphin under or in connection with the Comerica Loan Agreement have been automatically released, satisfied, discharged and terminated and are of no further force and effect; and

(d) ORFMS has assigned, delivered and released unto, and caused to re-vest in, Dolphin any and all rights and interests that it had or may have in any property of Dolphin under the Comerica Loan Agreement.

ORFMS hereby agrees that Dolphin and/or its designees are authorized to file such Uniform Commercial Code termination statements, and any mortgage discharges, satisfactions, releases or terminations, and such other termination statements, discharge of security interests or other similar discharge documents in recordable form as is necessary or appropriate to release, of record, all other notices of liens previously filed by ORFMS in connection with the Comerica Loan Agreement. ORFMS further agrees to (A) execute and deliver to Dolphin, or its counsels or other designees, such additional documents to effectuate the foregoing, (B) provide additional information to effectuate the foregoing, and (C) deliver to Dolphin or its designee any stock certificates, transfer instruments, promissory notes or other Collateral in ORFMS' possession belonging to Dolphin, in each case as Dolphin may reasonably request from time to time and in each case at Dolphin's sole expense.

Each Party hereto agrees, upon the reasonable request of any other Party hereto, at any time and from time to time, promptly to execute and deliver all such further documents and to promptly take all such action as may be reasonably necessary or appropriate in order more effectively to confirm or carry out the provisions of this termination letter.

Notwithstanding the foregoing, all provisions in the Comerica Loan Agreement that are expressly stated to survive termination, shall survive the termination thereof.

This termination letter shall be governed by the laws of the State of [California]. This termination letter may be executed in any number of separate counterparts by facsimile or email transmission, each of which shall, collectively and separately, constitute one agreement. The undersigned Parties have signed below to indicate their consent to be bound by the terms and conditions of this termination letter.

[signature page follows]

Very truly yours,

ORF MS, LLC, as Lender

By: /s/Josh Green
Name: Josh Green
Title: Authorized Signatory

ACKNOWLEDGED AND AGREED:

DOLPHIN MAX STEEL HOLDINGS LLC, as Borrower

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

[Signature Page to Termination Letter]

Exhibit 31.1

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: November 14, 2019

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

Exhibit 31.2

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: November 14, 2019

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

Exhibit 32.1

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 September 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: November 14, 2019

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

Exhibit 32.2

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 September 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: November 14, 2019

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