

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## DOLPHIN DIGITAL MEDIA INC

**Form: 10-K**

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

Or

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

Commission file number: 000-50621

**DOLPHIN DIGITAL MEDIA, INC.**

(Exact name of registrant as specified in its charter)

Florida  
(State or other jurisdiction of incorporation or organization)

86-0787790  
(I.R.S. Employer Identification No.)

2151 LeJeune Road, Suite 150-Mezzanine, Coral Gables,  
FL  
(Address of principal executive offices)

33134  
(Zip Code)

Registrant's telephone number (305) 774-0407

Securities registered pursuant to Section 12(b) of the Act:  
None

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.015 par value per share	None

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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

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

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant's most recently completed second fiscal quarter: \$1,570,658

Indicate the number of shares outstanding of the registrant's common stock as of March 31, 2016: 118,375,502

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2016 annual meeting of shareholders, which proxy statement will be filed no later than 120 days after the close of the Registrant's fiscal year ended December 31, 2015, are hereby incorporated by reference in Part III of this Annual Report on Form 10-K.



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## PART I

### ITEM 1. BUSINESS.

#### Overview

Dolphin Digital Media, Inc. ("Dolphin") is dedicated to the production of high-quality digital content. Dolphin Digital Studios, a division of ours, is a producer of original, high quality digital programming for online consumption and is committed to delivering premium, best-in-class entertainment and securing premiere distribution partners to maximize audience reach and commercial advertising potential. Dolphin has also partnered with US Youth Soccer Association, Inc, a nonprofit corporation ("US Youth Soccer") and United Way Worldwide, a worldwide philanthropic organization, to develop online kids clubs for several organizations.

On March 7, 2016, Dolphin, DDM Merger Sub, Inc, our wholly owned subsidiary ("DDM Merger Sub"), Dolphin Films, Inc. ("Dolphin Films") and Dolphin Entertainment, Inc. ("Dolphin Entertainment") completed our previously announced merger (the "Merger") in accordance with the Agreement and Plan of Merger, dated October 14, 2015 (the "Merger Agreement"). Pursuant to the terms of the Merger Agreement, DDM Merger Sub merged with and into Dolphin Films with Dolphin Films surviving the Merger. As a result of the Merger, we acquired Dolphin Films, which is a content producer in the motion picture industry. As consideration for the Merger, we issued 2,300,000 shares of Series B Convertible Preferred Stock and 1,000,000 shares of Series C Convertible Preferred Stock to Dolphin Entertainment. Mr O'Dowd, our President, Chairman and Chief Executive Officer is the founder, president and sole shareholder of Dolphin Entertainment. The Merger Agreement was approved by our shareholders.

Premium online video is the largest growth sector for online advertising, with market leaders such as Yahoo!, Hulu, Netflix, YouTube and AOL making major initiatives around original programming.

We target three distinct demographics for our "web series" activities:

- Tweens (roughly 9-14 years old);
- Teens and Young Adults (roughly 14-24 years old); and
- General Market (roughly 14-49 years old).

We expect to serve each of these demographics with different content, and we may have different distribution partners for each demographic.

#### Dolphin Digital Studios

Dolphin Digital Studios is our digital entertainment division which creates original content to premiere online and has been our primary focus during the year ended December 31, 2015. Substantially all of our operating income and expenses during the twelve months ended December 31, 2015 were related to Dolphin Digital Studios. Dolphin Digital Studios is instrumental in producing, distributing and sourcing financing for our projects.

#### Dolphin Films

Dolphin Films is a content producer of motion pictures. In 2014, we completed our first motion picture, "*Max Steel*" that we expect will be released in late summer of 2016. We also own the rights to several scripts that we intend to produce at a future date.

#### Production

Our in house development team is continuously reviewing scripts for digital projects that are directed at one of our target demographics and that we believe we can produce within our normal planned budget range of \$3.0 to \$5.0 million. Our budget typically includes costs associated with purchase of the script, production of the project and marketing of the project. Occasionally, we will also hire writers to develop a script for an idea that we have internally. From the selection provided by our development team, our management reviews the scripts and evaluates them based on expected appeal to advertisers, talent we think we can attract, available budget for the production and available financing. We normally purchase a variety of scripts which we hold for future use. Not all scripts purchased will be produced. Some scripts revert back to the writer if they are not produced during a contractually agreed upon timeframe. During 2015, we produced and premiered *South Beach-Fever*, a 90 minute soap opera set amidst dueling record labels in Miami, on Hulu.

Once we have a stable of scripts, we present a variety of projects, based on these scripts, to online platforms such as Hulu, AOL, and Yahoo!. The online platform will typically evaluate the project based on its estimation of potential demand, considering the genre or demographic to which they are looking to appeal. Once a project is selected by the online platform, we enter into a distribution agreement with the online platform that outlines, among other things, our revenue share percentages (typically between 30% and 45%) and the length of time that the show will air on that online platform. Based on agreements with the online platforms and advertisers, our management then makes the decision to "greenlight" or to approve, a project for production.

Our aim is to produce young adult and family films and our in-house development team reviews scripts for motion pictures in this genre that can be produced within a budget range of \$6.0 to \$9.0 million. Our budget includes the cost of acquiring the script and producing the motion picture. We financed our motion picture with funds from investors and the financing of international licensing agreements for the picture.

The production of digital projects and motion pictures is very similar. Once management greenlights a project, the pre-production phase including the hiring of a director, talent, various crew and securing locations to film begins. We may become signatories to certain guilds such as Screen Actors Guild, Directors Guild of America and Writers Guild of America in order to allow us to hire directors and talent for our productions. We typically hire crew members directly, engage a production service company to provide us with, among other things, the crew, equipment and a production office or use a combination of the two alternatives. Directors and talent are typically compensated a base amount for their work. In addition, directors and talent who are members of various guilds may receive remuneration from "residuals" that we pay to the various guilds based on the performance of our productions in ancillary markets. To better manage our upfront production costs, we sometimes structure our agreements with talent to allow them to participate in the proceeds of the digital project or motion picture in exchange for reduced upfront fixed payments, regardless of the project's success.

The decision of where to produce the project is oftentimes based on incentive tax programs implemented by many states and foreign countries to attract film production in their jurisdictions as a means of economic development. These incentives normally take the form of sales tax refunds, transferable tax credits, refundable tax credits or cash rebates that are calculated based on a percentage spent in the jurisdiction offering the incentive. The pre-production phase may take several months and is critical to the success of the project.

The length of time needed to film varies by project but is typically between three and six weeks. Once the filming is completed, the project will enter the post-production phase, which includes film and sound editing, and development of special effects, as needed. Depending on the complexity of the work to be done, post-production may take from two to six months to complete.

In the last four years, we produced and distributed "*Cybergeddon*" in partnership with Anthony Zuiker, creator of *CSI*, "*Hiding*", and "*South Beach- Fever*", and were hired to provide production services for "*Aim High*" produced by a related party in conjunction with Warner Brothers. These productions earned various awards including two Streamy Awards. Dolphin Films produced the motion picture, "*Max Steel*" that we expect will be released in 2016.

During the first quarter of 2016, we entered into a co-production agreement for an upcoming digital series. The series, comprised of six episodes is expected to be produced during the second quarter of 2016 and is anticipated to be released in the third or fourth quarter of 2016. Pursuant to the agreement, we are responsible for 50% of the budget which is approved by us and our production partner. In addition, we are responsible for (a) producing; (b) negotiating and contracting the talent; (c) securing locations; (d) preparing the production and delivery schedules; (e) identifying an securing digital distribution; (f) soliciting and negotiating advertising and sponsorships; (g) legal and business affairs and (h) managing and maintaining the production account.

Other projects are currently being evaluated and we plan to greenlight at least one additional project to be produced during 2016.

### Distribution

Our digital productions for advertiser supported video-on-demand (“AVOD”) platforms have premiered on online platforms such as Hulu. Distribution agreements with online platforms are for a limited period, typically six months. Once the contract expires, we have the ability to distribute our productions in ancillary markets such as through home entertainment, subscription video-on-demand (“SVOD”) (e.g. Netflix), pay television, broadcast television, foreign and other markets. Our ability to distribute these productions in ancillary markets is typically based on the popularity of the project during its initial on-line distribution.

Similar to distribution of digital productions described above, the economic life of motion pictures is comprised by different phases. The motion picture is initially distributed in theaters. A successful motion picture may remain in theaters for several months and then we have the ability to distribute the motion picture in ancillary markets such as home entertainment, pay-per-view (“PPV”), video-on-demand (“VOD”), electronic-sell-through (“EST”), subscription video-on-demand (“SVOD”), advertiser-supported video-on-demand (“AVOD”), digital rentals, pay television, broadcast television, foreign and other markets. Concurrent with their release in the U.S., motion pictures are generally released in Canada and may also be released in one or more other foreign markets.

Theatrical distribution refers to the marketing and commercial or retail exploitation of motion pictures. We currently have an agreement with a distributor that can place our movies in theaters for a distribution fee. Pursuant to the agreement, the distribution fee varies depending on whether we provide our own Prints and advertising (“P&A”) funding or whether the distributor will fund the P&A. We intend to spend between \$18 and \$25 million to distribute “*Max Steel*” in approximately 2,000 screens nationwide. We have sold the licensing rights to the motion picture in certain international territories and we expect that the movie will be released simultaneously with the domestic release in some of these territories. As part of our domestic distribution arrangement, we will derive revenues from the ancillary markets described above based on the performance of the movie in the domestic box office.

### Financing

We have financed our acquisition to the rights of certain digital projects and productions through a variety of financing structures including Equity Finance Agreements and Loan and Security Agreements. We earned advertising and producer fee revenues of approximately \$2.2 million, net of our commissions, for our “*South Beach - Fever*” web series during 2015.

We financed our production of “*Max Steel*” using funds from investors and loans partially collateralized by licensing agreements for the exploitation of the motion picture in certain international territories.

### Online Kids Clubs

Through our online kids clubs we seek to partner with various organizations to provide an online destination for entertainment and information for kids. Through online memberships established “brands” in the children’s space seek to to expand their existing online audience through the promotion of original content supplied and/or sourced by Dolphin Digital Studios. Premium entertainment offerings such as original web series, we expect will serve to both increase audiences through positive word of mouth and to increase engagement, or length of time on site. Furthermore, we expect that the online kids clubs will serve as a platform for sponsorship and other marketing opportunities, such as contests and sweepstakes and as strong marketing vehicles for the respective brands, as they keep the brands “top of mind” for the youngest generation, and in a space (the online world) where they increasingly go.

We believe that online kids clubs will provide us the opportunity to capitalize on the combination of the following two consumer trends:

- a greater number of children under the age of 18 have access to the internet (and most “own” their own devices – e.g. laptop computers, tablets and smartphones)
- those children who have access to the internet spend an increasing amount of time online.

Simply put, the internet has become the next generation's "go to" destination for both entertainment and information.

Brands that are "offline" (those without a marketing presence over the internet) need to engage with their participants "online" (or marketed over the internet) or risk losing them altogether. To build successful engagement with children and teenagers in the "real world" and offer them nothing (let alone an equivalent engagement opportunity) in the digital world is a tremendous lost opportunity. For example, Little Leagues may exist for the enjoyment of children, but their websites are overwhelmingly only used by parents. Similarly, non-profits may exist to provide enrichment and cultural opportunities for children, but their websites are seldom visited by the children they serve.

In 2013, we entered into an agreement with United Way Worldwide to create an online kids club which promotes the organization's philanthropic philosophy and encourages literacy in elementary school age children. According to various studies, high school drop-out rates have a direct, proportional correlation to 3rd grade reading proficiency. If a child is already behind in their reading proficiency after 3rd grade, they are over 4x more likely to drop out of high school (a rate which increases to 10x for minority children). In the U.S., nearly 60% of fourth graders are not reading at their grade level. Our online kids club offers reading activities, articles and games. It also promotes parent engagement by emailing parents and continuously messaging the importance of reading and parent involvement to achieve reading proficiency. We have also partnered with Scholastic Books to provide to schools sponsored by a donor, a location in the school that is transformed into a reading room (the "Reading Oasis").

Donors may sponsor a school for \$10,000 which entitles each child in the school to receive an annual online kids club membership and entitles the school to receive a Reading Oasis. The Reading Oasis provides the school with hundreds of books (K-3), colorful bean bag chairs, a reading themed carpet, book cases, a listening library, and a stereo listening center with four headphones. Pursuant to the terms of the agreement, we will share revenues derived from memberships to the online kids club with United Way Worldwide.

In 2012, we entered into an agreement with US Youth Soccer to create, design and host the US Youth Soccer Clubhouse website aimed at attracting members such as individuals, US Youth Soccer State Associations and members of such State Associations. Pursuant to the terms of the agreement, we will share revenues derived from such memberships with US Youth Soccer.

We operate our kids club activities through our subsidiary, Dolphin Kids Club LLC ("Dolphin Kids Club"). We own 75% of Dolphin Kids Club and the other 25% is owned by a former note holder. The agreement encompasses kids clubs created between January 1, 2012 and December 31, 2016. It is a "gross revenue agreement" and we are responsible for paying all associated operating expenses. Net income will be attributable to each member based on the thresholds established in the operating agreement of the entity.

#### Project Development and Related Services

During 2013, we entered into an agreement with Dolphin Films, Inc., an entity, at the time indirectly owned by our CEO, in which we agreed to provide management team and back office services through December 31, 2014. The agreement was for the term April 1, 2013 through December 31, 2014 for an annual fee of \$2.0 million. Pursuant to the agreement, we provided the related party with a development team to source new projects, production executives to develop scripts, approve budgets and hire and liaise with the production team on individual projects during the production and post-production phases, an accounting and finance team to provide accounting services and tax compliance, in addition to legal support and domestic and international sales support. We also provided office space in Los Angeles and Miami. For the year ended December 31, 2014, we recorded revenues in the amount of \$2.0 million, related to this agreement. The agreement ended on December 31, 2014 and was not renewed for 2015, as the specific projects for which our services were engaged were completed. As discussed earlier, on March 7, 2016, as a result of the Merger, we acquired Dolphin Films.

#### Intellectual Property

We seek to protect our intellectual property through trademarks and copyright. We currently hold three trademarks for *Cybergeddon* and two copyrights for each of *Cybergeddon* and *Hiding*.



## **Competition**

The business in which we engage is highly competitive. We face competition from companies within the entertainment business and from alternative forms of leisure entertainment, such as travel, sporting events, video games and computer-related activities. Our primary business operations are subject to competition from other digital media and movie production companies as well as from large, well established companies within the entertainment industry that have significantly greater development, production, and distribution and capital resources than us. We compete for the acquisition of literary properties and for the services of producers, directors, actors and other artists as well as creative and technical personnel and production financing, all of which are essential to the success of our business. In addition, our productions compete for audience acceptance and advertising dollars.

Given this highly competitive business, our business model is focused on providing high-quality entertainment at a lower production budget. We intend to achieve this by relying on innovative financial structures, partnering with well established brands for production content and lowering overhead cost structure.

## **Customers**

During 2014, we depended on a single customer for the majority of our revenues. On April 1, 2013, we entered into an agreement with Dolphin Films, pursuant to which we provided management team and back office services to Dolphin Films. For the years ended December 31, 2014, we recorded service revenues in the amount of \$2.0 million related to this agreement. This amount represented 97% of our total revenues for the years ended December 31, 2014. The agreement expired on December 31, 2014 and was not renewed for 2015 as the specific projects for which our services were engaged were completed. On March 7, 2016, as a result of the Merger, we acquired Dolphin Films.

## **Employees**

As of March 31, 2016, we have 20 full-time employees in our operations and believe our relationship with our employees is good. We also utilize consultants in the ordinary course of our business and hire additional employees on a project-by-project basis in connection with the production of digital projects and motion pictures.

## **Regulatory Matters**

Our online kids clubs programs which are aimed at elementary school age children are subject to laws and regulations relating to privacy and child protection. Through our online kids clubs we may monitor and collect certain information about the child users of these forums. A variety of laws and regulations have been adopted in recent years aimed at protecting children using the internet such as the Children's Online Privacy and Protection Act of 1998 ("COPPA"). COPPA sets forth, among other things, a number of restrictions on what website operators can present to children under the age of 13 and what information can be collected from them. There are also a variety of laws and regulations governing individual privacy and the protection and use of information collected from such individuals, particularly in relation to an individual's personally identifiable information (e.g., credit card numbers).

We are also subject to state and federal work and safety laws and disclosure obligations, under the jurisdiction of the U.S. Occupational Safety and Health Administration and similar state organizations.

## **Corporate Offices**

Our corporate headquarters is located at 2151 Le Jeune Road, Suite 150-Mezzanine, Coral Gables, Florida 33134. Our telephone number is (305) 774-0407. We also have an office located at 10866 Wilshire Boulevard, Suite 800, Los Angeles, California, 90024.

## **Availability of Reports and Other Information**

Dolphin Digital Media, Inc. was first incorporated in the State of Nevada on March 7, 1995 and was domesticated into the State of Florida on December 3, 2014. Our principal executive offices are located at 2151 Le Jeune Road, Suite 150-Mezzanine, Coral Gables, Florida 33134. Our corporate website is [www.dolphindigitalmedia.com](http://www.dolphindigitalmedia.com). We make available, free of charge, access to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statement on Schedule 14A and amendments to those materials filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), on our website under "Investor Relations – SEC Filings," as soon as reasonably practicable after we file electronically such material with, or furnish it to, the SEC.

**ITEM 1A. RISK FACTORS.**

**Risks Related to our Business and Financial Condition**

***Our independent auditors have expressed substantial doubt about our ability to continue as a going concern.***

For each of the years ended December 31, 2015 and 2014, our independent auditors issued an explanatory paragraph in their audit report expressing substantial doubt about our ability to continue as a going concern based upon our net loss and negative cash flows from operations for the years ended December 31, 2015 and 2014 and our levels of working capital as of December 31, 2015 and 2014. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. Prior to our acquisition of Dolphin Films, its independent auditors also expressed doubt about its ability to continue as a going concern based upon its net loss for the years ended December 31, 2014 and 2013, its accumulated deficit as of December 31, 2014 and 2013 and its level of working capital. Management is planning to raise any necessary additional funds through loans and additional sales of its common stock; however, there can be no assurance that we will be successful in raising any necessary additional capital. If we are not successful in raising additional capital, we may not have enough financial resources to support our business and operations and as a result may not be able to continue as a going concern.

***We have a history of operating losses and may continue to incur operating losses.***

We have a history of operating losses and may be unable to generate sufficient revenue to achieve profitability in the future. For the fiscal year ended December 31, 2015, our operating losses were \$4,050,021. Our accumulated deficit was \$42,628,155 at December 31, 2015. In addition, Dolphin Films, prior to its acquisition had a history of operating losses and may not have been able to generate sufficient revenue to achieve profitability in the future. For the nine months ended September 30, 2015, Dolphin Films' net loss was \$3,410,247 and for the fiscal years ended December 31, 2014 and 2013, its net losses were \$7,106,032 and \$8,094,900, respectively. Dolphin Films' accumulated deficit at September 30, 2015 was \$18,611,179. Furthermore, Dolphin Films did not, and we do not, anticipate having an operating profit in 2016. Our ability to generate operating profit in the future will depend on our ability to successfully produce and commercialize multiple web series and motion pictures, as no single project is likely to generate sufficient revenue to cover our operating expenses. If we are unable to generate an operating profit at some point, we will not be able to meet our debt service requirements or our working capital requirements. As a result we may need to (i) issue additional equity, which could dilute the value of your share holdings, (ii) sell a portion or all of our assets, including any project rights which might have otherwise generated revenue, or (iii) cease operations.

***We may fail to realize any of the anticipated benefits of the recent Merger.***

The success of the Merger will depend on, among other things, our ability to realize anticipated benefits and to combine the businesses of the Company and Dolphin Films in a manner that achieves synergy and a shared strategy but that does not materially disrupt the existing activities of the companies. If we are not able to successfully achieve these objectives, the anticipated benefits of the Merger may not be realized fully, if at all, or may take longer to realize than expected.

***We have substantial indebtedness which may adversely affect our cash flow and business operations.***

We currently have a substantial amount of debt that we may be unable to extend, refinance or repay. If we are unable to refinance or extend our debt, our assets may not be sufficient to repay such debt in full, and our available cash flow may not be adequate to maintain our current operations. The following table sets forth our total principal amount of debt and stockholders' equity as of December 31, 2015 and 2014.

	As of December 31,	
	2015	2014
Total Current Liabilities	\$ 8,059,255	\$ 10,285,083
Total Stockholders' deficit	\$ (12,876,745)	\$ (8,791,843)

As of December 31, 2015, we had total current liabilities of approximately \$8.0 million relative to total stockholders' deficit of approximately \$12.9 million. In addition, we acquired Dolphin Films which had a substantial amount of debt that has now become the Company's debt. As of September 30, 2015, Dolphin Films had total liabilities of \$36.6 million. Our indebtedness could have important negative consequences to us, including:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, future digital productions or other purposes may be impaired or such financing may not be available on favorable terms or at all;
- we may have to pay higher interest rates upon obtaining future financing, thereby reducing our cash flows; and
- we may need a substantial portion of our cash flow from operations to make principal and interest payments on our indebtedness, reducing the funds that would otherwise be available for operations and future business opportunities.

Our ability to service our indebtedness will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions, the success of our productions and other factors contained in these *Risk Factors*, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing or delaying digital or movie productions, selling assets, restructuring or refinancing our indebtedness or seeking additional debt or equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms or at all. As a consequence of our substantial indebtedness, we may not be able to continue to operate as a going concern.

***We may be exposed to litigation as a result of the recent Merger, which could have an adverse effect on our business and operations.***

The combined company may be exposed to increased litigation from stockholders and other third parties due to the combination of the Company and Dolphin Films businesses following the Merger. Such litigation may have an adverse impact on the combined company's business and results of operation or may cause disruptions to the combined company's operations.

***Our business requires a substantial investment of capital and failure to access sufficient capital while awaiting delayed revenues will have a material adverse effect on our results of operation.***

The production, acquisition and distribution of a digital production or a motion picture require a significant amount of capital. In 2014, for example, Dolphin Films capitalized production costs were \$14,274,866. A significant amount of time may elapse between our expenditure of funds and the receipt of revenues from our productions. We do not have a traditional credit facility with a financial institution on which to depend for our liquidity needs and a time lapse may require us to fund a significant portion of our capital requirements through related party transactions with our CEO or other financing sources. There can be no assurance that any additional financing resources will be available to us as and when required, or on terms that will be acceptable to us. Our inability to raise capital necessary to sustain our operations while awaiting delayed revenues would have a material adverse effect on our liquidity and results of operations.

***We have been in the past, and may be in the future, unable to recoup our investments in digital projects.***

Similar to others in the entertainment industry, we purchase scripts and project ideas for which we have no current production plans and for which we have not identified a potential distributor. For example, in 2011 and 2012, we purchased scripts for several digital projects related to a particular financing structure. We were unable to identify a distributor or sufficient advertisers who were interested in the development and distribution of certain digital projects, which represented a total cost of \$648,525. As a result, the costs incurred to purchase those scripts were written off in 2015, which negatively impacted our financial results. If, in the future, we are unable to generate interest in other scripts and project ideas which we have purchased, those scripts will also be written off, which will adversely affect our results of operations.

***Delays, cost overruns, cancellation or abandonment of the completion or release of our digital web series or motion pictures may have an adverse effect on our business.***

There are substantial financial risks relating to production, completion and release of digital web series or motion pictures. Actual film costs may exceed their budgets and factors such as labor disputes, unavailability of a star performer, equipment shortages, disputes with production teams or adverse weather conditions may cause cost overruns and delay or hamper film completion. We are typically responsible for paying all production costs in accordance with a budget and received a fixed producer's fee for our services plus a portion of any project income, however to the extent that delays, failure to complete projects or cost overruns result in us not completing the web series or motion picture within budget, there may not be enough funds left to pay us our producer's fee, to generate any project income or complete the project at all. If this were to occur, it would significantly and adversely affect our revenue and results of operations.

***We have identified material weaknesses in our internal controls over financial reporting and our ability to both timely and accurately report our financial results could be adversely affected.***

In connection with the preparation of our financial statements for the years ended December 31, 2015 and 2014, we identified several material weaknesses in our internal controls over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As of December 31, 2015, we concluded that our internal control over financial reporting was not effective due to the following material weaknesses:

- Design deficiencies related to the entity level control environment, including risk assessment, information and communication and monitoring controls:
  - There is no documented fraud risk assessment or risk management oversight function.
  - There are no documented procedures related to financial reporting matters (both internal and external) to the appropriate parties.
  - There is no budget prepared and therefore monitoring controls are not designed effectively as current results cannot be compared to expectations.
  - There is no documented process to monitor and remediate deficiencies in internal controls.
- Inadequate documented review and approval of certain aspects of the accounting process including the documented review of accounting reconciliations and journal entries that they considered to be a material weakness in internal control. Specifically:
  - There is no documented period end closing procedures, specifically the individuals that are responsible for preparation, review and approval of period end close functions.
  - Reconciliations are performed on all balance sheet accounts, including noncontrolling interest on at least a quarterly basis; however there is no documented review and approval by a member of management that is segregated from the period end financial reporting process.
  - There is no review and approval for the posting of journal entries.
- Inadequate segregation of duties within the accounting process, including the following:
  - One individual has the ability to add vendors to the master vendor file. This individual also has access to the Company checkbook that is maintained in a secured location.
  - One individual has sole access to our information technology system to initiate, process and record financial information. We have not developed any internal controls related to information technology systems including change management, physical security, access or program development.

While we have taken a number of remedial actions to address these material weaknesses, we cannot predict the outcome of our remediation efforts at this time. Each of the material weaknesses described above could result in a misstatement of our accounts or disclosures that would result in a material misstatement of our annual or interim consolidated financial statements that would not be prevented or detected. We cannot assure you that the measures we have taken to date, or any measures we may take in the future, will be sufficient to remediate the material weaknesses described above or avoid potential future material weaknesses. If we are unable to report financial information timely and accurately or to maintain effective disclosure controls and procedures, our stock price could be negatively impacted and we could be subject to, among other things, regulatory or enforcement actions by the SEC.

***We rely on third party relationships with online digital platforms for our advertising revenue and we may be unable to secure such relationships.***

We anticipate entering into distribution agreements containing revenue share provisions with online digital platforms to distribute our digital productions. Pursuant to these revenue share provisions, we will earn a portion of advertising revenues once our digital productions are distributed online. If we fail to secure such relationships with online digital platforms, we will not be able to earn advertising revenues from our digital projects, which could have a material adverse effect on our liquidity and results of operations. In addition, some of our distributors have moved from an advertisement-based model to a subscription-based model which makes it more difficult for us to use our funding and distribution methods.

***Our co-production activities may be unsuccessful.***

We have entered into a co-production agreement with a production partner for an upcoming digital series. Pursuant to the agreement we will rely on our co-producer to raise 50% of the budget for the digital series and to help develop and produce the digital series. If our co-producer fails to fulfill its obligations under the co-production agreement, we may not be able to successfully complete production of the digital series which would have a material adverse effect on our results of operations.

***Dolphin Films relies on third party distributors to distribute its films and their failure to perform will negatively impact our ability to generate revenues.***

Dolphin Films motion pictures are primarily distributed and marketed by third party distributors. If any of these third party distributors fails to perform under their respective arrangements with us and Dolphin Films, such failure could negatively impact the success of the motion pictures that Dolphin Films produces and have a material adverse effect on our business reputation and ability to generate revenues.

***We may be unable to attract or retain advertisers, which could negatively impact our results of operation.***

Typically, online digital platforms are responsible for securing advertisers and, as such, our ability to earn advertising revenues would depend on their success in doing so. However, at times we have, and may continue to, proactively secure advertising commitments against anticipated web series. Our ability to retain advertisers is contingent on our ability to successfully complete and deliver online projects which are commercially successful, which we may fail to do. Advertising revenues could also be adversely impacted by factors outside our control such as failure of our digital productions to attract our target viewer audiences, lack of future demand for our digital productions, the inability of third party online digital platforms to deliver ads in an effective manner, competition for advertising revenue from existing competitors or new digital media companies, declines in advertising rates, adverse legal developments relating to online advertising, including legislative and regulatory developments and developments in litigation. The existence of any of these factors could result in a decrease of our anticipated advertising revenues.

***Our kids clubs depend on sponsorship donations to generate revenue.***

We generate revenues from our online kids clubs through a portion of the sale of memberships to various donors. Donors typically sponsor a school for \$10,000 which entitles each child in the school to receive an annual online kids club membership and entitles the school to receive a Reading Oasis. Receipt of sponsorship donations are unpredictable and depend on a number of factors such as our ability to successfully brand, market and implement the online kids clubs as well as local and international business and economic conditions.

***Our CEO beneficially owns approximately 52.5% of our outstanding share capital and has super voting rights with respect to the Series C Convertible Preferred Stock which he currently holds, and his interests may be different from yours.***

As of March 31, 2016, our CEO, Mr. O'Dowd beneficially owned approximately 52.5% of our outstanding share capital. Consequently, Mr. O'Dowd has substantial influence over our business, including election of directors, declaration of dividends and decisions regarding whether or not to issue stock and for what consideration, whether or not to sell all or substantially all of our assets and for what consideration and other significant corporate actions. It is possible that Mr. O'Dowd may act in a manner that advances his best interests but may not be aligned with your interests or the best interests of the Company.

In addition, as a holder of Series C Convertible Preferred Stock, Mr. O'Dowd also has super voting rights of three votes per preferred share. Holders of Series C Convertible Preferred Stock and are entitled to vote together as a single class on all matters upon which Common Stock holders are entitled to vote. Your voting rights will be diluted as a result of these super voting rights. In addition, anti-dilution protections, described below, may result in an increase in the number of shares of Common Stock into which Series C Convertible Preferred Stock held by Mr. O'Dowd and certain eligible persons can be converted, which could further dilute your percentage of voting rights.

#### **Risks Related to the Industry**

***We have and may in the future be adversely affected by union activity.***

We retain the services of actors who are covered by collective bargaining agreements with Screen Actors Guild – American Federation of Television and Radio Artists (“SAG-AFTRA”) and we may also become signatories to certain guilds such as Directors Guild of America and Writers Guild of America in order to allow us to hire directors and talent for our productions. Collective bargaining agreements are industry-wide agreements, and we lack practical control over the negotiations and terms of these agreements. In addition, our digital projects fall within SAG-AFTRA's definition of “new media”, which is an emerging category covered by its New Media and Interactive Media Agreements for actors. As such, our ability to retain actors is subject to uncertainties that arise from SAG-AFTRA's administration of this relatively new category of collective bargaining agreements. Such uncertainties have resulted and may continue to result in delays in production of our digital projects.

In addition, if negotiations to renew expiring collective bargaining agreements are not successful or become unproductive, the union could take actions such as strikes, work slowdowns or work stoppages. Strikes, work slowdowns or work stoppages or the possibility of such actions could result in delays in production of our digital projects. We could also incur higher costs from such actions, new collective bargaining agreements or the renewal of collective bargaining agreements on less favorable terms. Depending on their duration, union activity or labor disputes could have an adverse effect on our results of operations.

***The popularity and commercial success of our digital productions and motion pictures are subject to numerous factors, over which we may have limited or no control.***

The popularity and commercial success of our digital productions and motion pictures depends on many factors including, but not limited to, the key talent involved, the timing of release, the promotion and marketing of the digital production or motion picture, the quality and acceptance of other competing programs released into the marketplace at or near the same time, the availability of alternative forms of entertainment, general economic conditions, the genre and specific subject matter of the digital production or motion picture, its critical acclaim and the breadth, timing and format of its initial release. We cannot predict the impact of such factors on any digital production or motion picture, and many are factors that are beyond our control. As a result of these factors and many others, our digital productions and motion pictures may not be as successful as we anticipate, and as a result, our results of operations may suffer.

***We may be unable to consistently create and distribute filmed entertainment that meets the changing preferences of our consumers.***

Changing consumer tastes affect our ability to predict which digital productions will be popular with web audiences. As we invest in various digital projects, stars and directors, it is highly likely that at least some of the digital projects in which we invest will not appeal to our target audiences. If we are unable to produce web content that appeals to our target audiences the costs of such digital productions could exceed revenues generated and anticipated profits may not be realized. Our failure to realize anticipated profits could have a material adverse effect on our results of operations.

***The creation of content for the entertainment industry is highly competitive and we will be competing with companies with much greater resources than we have.***

The business in which we engage is highly competitive. Our primary business operations are subject to competition from companies which, in many instances, have greater development, production, and distribution and capital resources than us. We compete for the services of writers, producers, directors, actors and other artists to produce our digital content. Larger companies have a broader and more diverse selection of scripts than we do, which translates to a greater probability that they will be able to more closely fit the demands and interests of advertisers than we can.

In addition, our acquired business Dolphin Films is a very small and unproven entity as compared to our competitors. As an independent producer, we through Dolphin Films, will compete with major U.S. and international studios. Most of the major U.S. studios are part of large diversified corporate groups with a variety of other operations that can provide both the means of distributing their products and stable sources of earnings that may allow them better to offset fluctuations in the financial performance of their motion picture and other operations. In addition, the major studios have more resources with which to compete for ideas, storylines and scripts created by third parties, as well as for actors, directors and other personnel required for production. Such competition for the industry's talent and resources may negatively affect our ability to acquire and produce product.

***Others may assert intellectual property infringement claims or liability claims for media or motion picture content against us which may force us to incur substantial legal expenses.***

There is a possibility that others may claim that our productions and production techniques, or those of Dolphin Films, misappropriate or infringe the intellectual property rights of third parties with respect to their previously developed digital web series, stories, characters, other entertainment or intellectual property. In addition, as distributors of media and motion picture content, we may face potential liability for such claims as defamation, invasion of privacy, negligence or other claims based on the nature and content of the materials distributed. If successfully asserted, our insurance may not be adequate to cover any of the foregoing claims. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and diversion of resources in defending against them, which could have a material adverse effect on our operating results.

***If we fail to protect our intellectual property and proprietary rights adequately, our business could be adversely affected.***

Our ability to compete depends, in part, upon successful protection of our intellectual property, including that of Dolphin Films. We attempt to protect proprietary and intellectual property rights to our productions through available copyright and trademark laws and distribution arrangements with companies for limited durations. Unauthorized parties may attempt to copy aspects of our intellectual property or to obtain and use property that we regard as proprietary. We cannot assure you that our means of protecting our proprietary rights will be adequate. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as the laws of the United States. Intellectual property protections may also be unavailable, limited or difficult to enforce in some countries, which could make it easier for competitors to steal our intellectual property. Our failure to protect adequately our intellectual property and proprietary rights could adversely affect our business and results of operations.

***Our online activities are subject to a variety of laws and regulations relating to privacy and child protection, which, if violated, could subject us to an increased risk of litigation and regulatory actions.***

In addition to our company websites and applications, we use third-party applications, websites, and social media platforms to promote our projects and engage consumers, as well as monitor and collect certain information about users of our online forums. A variety of laws and regulations have been adopted in recent years aimed at protecting children using the internet such as the Children's Online Privacy and Protection Act of 1998 ("COPPA"). COPPA sets forth, among other things, a number of restrictions on what website operators can present to children under the age of 13 and what information can be collected from them. There are also a variety of laws and regulations governing individual privacy and the protection and use of information collected from such individuals, particularly in relation to an individual's personally identifiable information (e.g., credit card numbers). Many foreign countries have adopted similar laws governing individual privacy, including safeguards which relate to the interaction with children. If our online activities were to violate any applicable current or future laws and regulations, we could be subject to litigation and regulatory actions, including fines and other penalties.

## **Risks Related to our Common Stock and Preferred Stock**

### ***The Series C Convertible Preferred Stock has anti-dilution protections that may adversely affect our shareholders.***

For a period of five years from the date of issuance, the Series C Convertible Preferred Stock (issued as consideration for the Merger) will be subject to certain anti-dilution protections. Upon triggers specified in its Certificate of Designation, the number of shares of Common Stock into which Series C Convertible Preferred Stock held by Mr. O'Dowd (or any entity directly or indirectly controlled by Mr. O'Dowd) (including Mr. O'Dowd) can be converted will be increased, such that the total number of shares of Common Stock held by Mr. O'Dowd (or any entity directly or indirectly controlled by Mr. O'Dowd) (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 currently held by such persons, which currently is approximately 52.5% of the shares of Common Stock outstanding. As a result, your ownership interests may be further diluted.

### ***Past and future equity issuances could result in dilution of your investment and a decline in our stock price.***

We recently issued 2,300,000 shares of Series B Convertible Preferred Stock and 1,000,000 Series C Convertible Preferred Stock, each convertible into shares of Common Stock upon exercise of their respective conversion rights, as consideration in the Merger, in addition to granting to Eligible Series C Preferred Stock Holders certain anti-dilution protections. In addition, we recently issued an aggregate of approximately 36.5 million shares of Common Stock to certain holders of promissory notes, including our CEO, in full repayment of the amounts of principal and interest outstanding under such promissory notes. As a result of these stock issuances, your ownership interest in the Company will be diluted, meaning you would own a smaller percentage of the Company.

In the near term, we may also need to raise additional capital and may seek to do so by conducting one or more private placements of equity securities, selling additional securities in a registered public offering, or through a combination of one or more of such financing alternatives. Such issuance of additional securities would dilute the equity interests of our existing shareholders, perhaps substantially, and may cause our stock price to decline.

### ***As an issuer of "penny stock," the protection provided by the federal securities laws relating to forward-looking statements does not apply to us and as a result we could be subject to legal action which may be costly.***

Although federal securities laws provide a safe harbor for forward-looking statements made by a public company that files reports under the federal securities laws, this safe harbor is not available to issuers of penny stocks. As a result, for as long as we are a penny stock, we will not have the benefit of this safe harbor protection in the event of any legal action based upon a claim that the material provided by us contained a material misstatement of fact or was misleading in any material respect because of our failure to include any statements necessary to make the statements not misleading.

### ***Our common stock is quoted only on the OTC Market Pink Sheets, which may have an unfavorable impact on our stock price and liquidity.***

Our common stock is quoted on the OTC Market Pink Sheets. The OTC Market Pink Sheets is a significantly more limited market than the New York Stock Exchange or NASDAQ system. The quotation of our shares on the OTC Market may result in an illiquid market available for existing and potential stockholders to trade shares of our Common Stock and depress the trading price of our Common Stock, and may have a long-term adverse impact on our ability to raise capital in the future.



**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES.**

As of the date of this report, we do not own any real property. We lease 3,332 square feet of office space located at 2151 Le Jeune Road, Suite 150-Mezzanine, Coral Gables, Florida 33134, at a monthly rate of \$5,388 with annual increases. In 2012, we opened an additional office located at 10866 Wilshire Boulevard, Suite 800, Los Angeles, California 90024 and currently lease 4,582 square feet of office space at a monthly rate of \$13,746 with annual increases of 3% for years 1 to 3 and 3.5% for the remainder of the lease. We believe our current facilities are adequate for our operations for the foreseeable future.

**ITEM 3. LEGAL PROCEEDINGS.**

We are involved in various legal proceedings relating to claims arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our business, financial condition, results of operations or liquidity.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market for Our Common Stock

Our common stock currently trades on the over-the-counter market and is quoted on the OTC Market Pink Sheets under the symbol "DPDM". The high and low bid information for each quarter since January 1, 2014, as quoted on the OTC, is as follows:

<u>Quarter</u>	<u>High Bid</u>	<u>Low Bid</u>
Fourth Quarter 2015	\$ .25	\$ .03
Third Quarter 2015	\$ .05	\$ .03
Second Quarter 2015	\$ .06	\$ .04
First Quarter 2015	\$ .05	\$ .04
Fourth Quarter 2014	\$ .08	\$ .02
Third Quarter 2014	\$ .08	\$ .04
Second Quarter 2014	\$ .08	\$ .06
First Quarter 2014	\$ .14	\$ .06

The over-the-counter quotations above reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not reflect actual transactions. Such quotes are not necessarily representative of actual transactions or of the value of our securities, and are, in all likelihood, not based upon any recognized criteria of securities valuation as used in the investment banking community.

The trading volume for our common stock is relatively limited. There is no assurance that an active trading market will continue to provide adequate liquidity for our existing shareholders or for persons who may acquire our common stock in the future.

## Holders of our Common Stock

As of March 31, 2016, an aggregate of 118,375,502 shares of our common stock were issued and outstanding and were owned by approximately 273 stockholders of record, based on information provided by our transfer agent.

## Dividends

We have never paid dividends on our common stock and do not anticipate that we will do so in the near future.

## Equity Compensation Plan Information

On September 7, 2012, our Board of Directors approved an Incentive Compensation Plan. The plan was adopted as a means of attracting and retaining exceptional employees and consultants by enabling them to share in the long term growth and financial success of the Company. The plan will be administered by the Board of Directors or a committee designated by the board. The Board of Directors has designated 10,000,000 shares of common stock for this plan. No awards were issued during the years ended December 31, 2015 and 2014 related to this plan.

## **ITEM 6. SELECTED FINANCIAL DATA**

Not required for smaller reporting companies.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS .**

*The following discussion of our financial condition and results of operations should be read in conjunction with our audited historical consolidated financial statements and the notes thereto, which are included elsewhere in this Form 10-K. The following discussion includes forward-looking statements that involve certain risks and uncertainties, including, but not limited to, those described in Item 1A. Risk Factors. Our actual results may differ materially from those discussed below. See "Special Note Regarding Forward-Looking Statements" and Item 1A. Risk Factors.*

### **OVERVIEW**

Dolphin Digital Media, Inc. specializes in the production and distribution of online digital content. In partnership with US Youth Soccer and United Way Worldwide, we also seek to develop online kids clubs.

As previously discussed, as a result of the Merger, on March 7, 2016, we acquired Dolphin Films, which is a content producer in the motion picture industry. As consideration for the Merger, we issued 2,300,000 shares of Series B Convertible Preferred Stock and 1,000,000 shares of Series C Convertible Preferred Stock to its parent, Dolphin Entertainment. Mr. O'Dowd, our President, Chairman and Chief Executive Officer is the founder, President and sole shareholder of Dolphin Entertainment.

### **Revenues**

During 2015, we derived revenue through (1) the online distribution of web series produced and distributed by Dolphin Digital Studios, our digital entertainment division and (2) a portion of fees obtained from the sale of memberships to online kids clubs. During 2014, we also provided production management and back office services to Dolphin Films, an affiliated entity, and the table below sets forth the components of revenue for the years ended December 31, 2015 and 2014:

<b>Revenues:</b>	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Production and distribution	98.0%	2.5%
Service	-	97.0%
Membership	2.0%	0.5%
Total revenue	100.0%	100.0%

As demonstrated in the table above, during the year ended December 31, 2014, our primary sources of revenue were from i) production management and back office services provided to Dolphin Films, an entity at the time, indirectly owned by our CEO, (ii) the online distribution of web series produced and distributed by Dolphin Digital Studios and (iii) revenues from the sale of memberships to online kids clubs. The provision of production management and back office services to Dolphin Films was pursuant to an agreement which ended on December 31, 2014 and was not renewed for 2015 as the specific projects for which our services were engaged were completed. Consequently, we did not generate any revenues for those services in 2015. As discussed earlier, on March 7, 2016, as a result of the Merger, we acquired Dolphin Films.

By comparison during the year ended December 31, 2015, we generated revenue primarily from the online distribution of web series produced and distributed by Dolphin Digital Studios and some revenues from our membership activities.

We expect that a significant portion of our revenues for 2016 will be derived through Dolphin Digital Studios with the production and release of additional web series on online platforms.

- Producer's Fees: We earn fees for producing each web series, as included in the production budget for each project. We either recognize producer's fees on a percentage of completion or a completed contract basis depending on the terms of the producer agreements, which we negotiate on a project by project basis. During the year ended December 31, 2015, we completed production and released our web series titled "*South Beach-Fever*". Producer's fees are initially funded with funds received from investors. We received \$500,000 as an advance for our producer's fee which had been recorded in deferred revenue and upon delivery and exploitation of the web series in July 2015, we recorded the revenues during the year ended December 31, 2015. During the year ended December 31, 2014, we did not produce any digital content and instead, concentrated our efforts in identifying and acquiring the rights to certain properties that we intend to produce for online distribution. Some of our current agreements with financing sources permit us to earn up to a \$250,000 producer's fee for each web series.
- Initial Distribution/Advertising Revenue: We earn revenues from the distribution of online content on advertising based video on demand ("AVOD") platforms. Distribution agreements contain revenue sharing provisions which permit the producer to retain a percentage of all domestic and international advertising revenue generated from the online distribution of a particular web series. Typically, these rates range from 30% to 45% of such revenue. We have previously distributed our productions on various online platforms including Yahoo! and Facebook and currently have an agreement to distribute our web series "*South Beach - Fever*" through Hulu and ancillary content through AOL. Pursuant to our agreements with the online platforms, we have recorded revenues from advertising for the year ended December 31 2015 of \$2.9 million of which \$2.4 million has been received.
- Secondary Distribution Revenue: Once our contractual obligation with the initial online distribution platform expires, we have the ability to derive revenues from distributions of the web series in ancillary markets such as DVD, television and subscription video on demand ("SVOD"). For the year ended December 31, 2014, we derived \$0.05 million of revenues in ancillary markets from the distribution of projects that were completed in 2012. No revenues from this source have been derived during the year ended December 31 2015, as our project is contractually obligated to remain in the initial distribution window for a period of at least six months.

As a producer, we also have the ability to generate sponsorship revenues. We would generally be eligible to retain between 70% and 100% of any product integration fees or sponsorship revenues, associated with any of our web series. During the years ended December 31, 2015 and 2014, we did not earn any revenues from product integration.

During 2013, we entered into an agreement with Dolphin Films, an entity directly owned by our CEO in which we agreed to provide management team and back office services until December 31, 2014. The agreement was for the term April 1, 2013 through December 31, 2014 for an annual fee of \$2.0 million. Pursuant to the agreement, we provided the related party with a development team to source new projects, production executives to develop scripts, approve budgets and hire and liaise with the production team on individual projects during the production and post-production phases, an accounting and finance team to provide accounting services and tax compliance, legal support and domestic and international sales and sales support. We also provided office space in Los Angeles and Miami. For the year ended December 31, 2014, we recorded revenues in the amount of \$2.0 million, related to this agreement. The agreement ended on December 31, 2014 and was not renewed for 2015 as the specific projects for which our services were engaged were completed. As discussed earlier, on March 7, 2016, as a result of the Merger, we acquired Dolphin Films.

#### *Online Kids Clubs*

We have partnered with US Youth Soccer, in 2012, and United Way Worldwide, in 2013, to create online kids clubs. Our online kids clubs derive revenue from the sale of memberships in the online kids clubs to various individuals and organizations. We share in a portion of the membership fees as outlined in our agreements with the various entities. For the years ended December 31, 2015 and 2014, we derived revenues of \$0.07 million and \$0.02 million, respectively, from online kids clubs. We operate our kids club activities through our subsidiary, Dolphin Kids Club LLC ("Dolphin Kids Club"). We own 75% of Dolphin Kids Club and the other 25% is owned by a former note holder who agreed to convert \$1.5 million aggregate principal amount of an outstanding note into equity of Dolphin Kids Club and made additional capital contributions of \$1.5 million during the year ended December 31, 2012. The agreement encompasses kids clubs created between January 1, 2012 and December 31, 2016. It is a "gross revenue agreement" and we are responsible for paying all associated operating expenses. Net income is attributable to each member based on the thresholds established in the operating agreement of the entity.

#### **Expenses**

Our expenses consist primarily of (1) direct production costs, (2) selling, general and administrative expenses and (3) payroll expenses.

Direct production costs include amortization of deferred production costs, impairment of deferred production costs, residuals and other costs associated with production. Residuals represent amounts payable to various unions or "guilds" such as the Screen Actors Guild, Directors Guild of America, and Writers Guild of America, based on the performance of the digital production in certain ancillary markets.

Selling, general and administrative expenses include all overhead costs except for payroll that is reported as a separate expense item. Included within general and administrative expenses are the commissions that we pay our advertising and distribution brokers, which can range up to 25% of the distribution and advertising revenue that we receive.

#### **Other Income and Expenses**

Other income and expenses consist primarily of interest payments to our CEO in connection with loans that he made to the Company and interest payments related to the Loan and Security Agreements entered into to finance the production of certain digital content.

### **RESULTS OF OPERATIONS**

#### **Year ended December 31, 2015 as compared to year ended December 31, 2014**

##### **Revenues**

For the year ended December 31 2015, we generated substantially all of our revenue from the distribution of our digital web series. We also generated revenues from a portion of fees obtained from the sale of memberships to online kids clubs. We have earned \$2.4 million from advertising commitments for the year ended December 31, 2015. In addition, we have earned a net producer's fee of \$0.5 million related to our digital web series, "*South Beach-Fever*". During 2015, substantially all of our time and resources were spent on the production and post-production of our web series, "*South Beach-Fever*". By comparison, during the year ended December 31, 2014, we generated revenue from (1) the production and distribution of online digital content and (2) the provision of production management and back office services to Dolphin Films, Inc., an affiliated entity. As stated above, the agreement to provide production management and back office services ended on December 31, 2014 and was not renewed for 2015 as the specific projects for which our services were engaged were completed. As discussed earlier, on March 7, 2016, as a result of the Merger, we acquired Dolphin Films.

	For the year ended December 31,	
	2015	2014
<b>Revenues:</b>		
Production and distribution	\$ 2,929,518	\$ 51,192
Service	-	2,000,000
Membership	69,761	19,002
Total revenue	\$ 2,999,279	\$ 2,070,194

Revenues from production and distribution increased by \$2.8 million for the year ended December 31, 2015 as compared to the prior year due to the release of our digital web series.

Revenues from Service decreased by \$2.0 million for the year ended December 31, 2015. This was due to not renewing the agreement to provide production management and back office services to our related party after its expiration on December 31, 2014.

### Expenses

For the years ended December 31, 2015 and 2014, our primary operating expenses were direct production costs, general and administrative expenses and payroll expenses.

	For the year ended December 31,	
	2015	2014
<b>Expenses:</b>		
Direct production costs	\$ 2,290,645	\$ 159,539
Selling, general and administrative	2,478,794	1,533,211
Payroll	1,435,765	1,630,369
Total expenses	\$ 6,205,204	\$ 3,323,119

Direct production costs increased by approximately \$2.1 million for the year ended December 31, 2015 as compared to the prior year due to the amortization of deferred production costs of our digital web series, which was released in July 2015. In addition, we impaired \$0.6 million of scripts that we own but do not intend to immediately produce.

Selling, general and administrative expenses increased by approximately \$1.0 million for the year ended December 31, 2015 as compared to the prior year. The increase is mainly due to a fee paid to our advertising and distribution broker related to our web series, fees paid to acquire certain financing for our digital projects and increase in legal fees related to an accrual for fees to effectuate the merger with Dolphin Films.

Payroll expenses decreased by approximately \$0.2 million for the year ended December 31, 2015 as compared to the prior year mostly due to a highly compensated employee that left the Company during the first quarter of 2015 and the capitalization of \$0.06 million of payroll costs related to our web series, "South Beach-Fever".

### Other Income and expenses

	For the year ended December 31,	
	2015	2014
<b>Other Income and expenses:</b>		
Other income	\$ 96,302	\$ 40,000
Interest expense	(940,398)	(660,580)
Total	\$ (844,096)	\$ (620,580)

During the first quarter of 2016, we restated our agreement with United Way to not include a license fee. We recorded approximately \$0.1 million in other income for the reversal of the previously recorded accrued license fees. During the year ended December 31, 2014, the Company determined that the statute of limitations for penalties to be assessed for not filing certain information returns on a timely basis had expired. As such, the Company recorded \$40,000 of other income. Interest expense increased by approximately \$0.3 million due to additional Loan and Security Agreements and a full year of interest on Loan and Security Agreements in existence in 2014.

### **Net Loss**

Net loss was approximately \$4.0 million or \$(0.05) per share for the year ended December 31, 2015 based on 81,892,352 weighted average shares outstanding as of December 31, 2015 and approximately \$1.9 million or \$(0.02) per share for the year ended December 31, 2014 based on 81,892,352 weighted average shares outstanding as of December 31, 2014. The increase in net loss between the years ended December 31, 2015 and 2014 was related to the factors discussed above.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Cash Flows***

Cash flows used in operating activities increased by approximately \$0.4 million from approximately \$(1.4) million used during the year ended December 31, 2014 to approximately \$(1.8) million used during the year ended December 31, 2015. This increase was mainly due to the use of funds related to capitalized production costs increasing by approximately \$1.5 million related to the production of our web series. This increase is offset by a decrease in the use of funds for (i) other current liabilities of \$0.5 million primarily due to accrued interest on loan and security agreements and fees owed to our advertising and distribution broker; (ii) use of funds for accounts payable decreasing by \$0.3 million; and (iii) receipt of funds from accounts receivable decreasing by \$0.3 million.

Cash flows used in investing activities decreased by approximately \$0.07 million in 2015 mainly due to office furniture purchased for the new office opened in Los Angeles, California during 2014.

Cash flows from financing activities increased by approximately \$3.0 million from approximately \$0.9 million for the year ended December 31, 2014 to approximately \$3.9 million for the year ended December 31, 2015. During 2015, we received approximately \$1.1 million from Loan and Security Agreements and \$3.2 from a convertible note. In addition we received \$2.8 million from a related party as advances for working capital and repaid \$3.2 million to the same related party. During the year ended December 31, 2014, we received \$2.9 million in Loan and Security Agreements that were offset by a repayment of approximately \$2.1 million to a related party.

As of December 31, 2015 and 2014, we had cash of approximately \$2.2 million and approximately \$0.2 million, respectively, and a working capital deficit of approximately \$5.2 million and approximately \$9.6 million, respectively.

As discussed earlier, we entered into an agreement with Dolphin Films, Inc., entity directly owned by our CEO to provide management team and back office services for the period April 1, 2013 through December 31, 2014 for an annual fee of \$2.0 million. For the year ended December 31, 2014, we recorded revenues in the amount of \$2.0 million related to this agreement. The agreement ended on December 31, 2014 and was not renewed for 2015 as the specific projects for which our services were engaged had been completed. During 2015, we received \$0.5 million in producer's fees and \$1.9 million of advertising revenues from our web series. We received approximately \$0.5 million of additional advertising revenue and borrowed approximately \$0.3 million from our CEO during the first quarter of 2016. We expect to begin to generate cash flows from our other sources of revenue, including the production and distribution of at least one web series and intend to borrow funds from our CEO and raise additional capital through the sale of shares of our common stock for working capital.

### ***Financing Arrangements***

During 2011 and 2012, we secured financing for a slate of projects through Equity Finance Agreements in the amount of \$1.0 million that were entered into during 2011 and 2012. Pursuant to the terms of the agreements, we were permitted to invest in projects through December 31, 2012. These funds were allocated across eleven projects. Lenders are entitled to receive, from the producers' gross receipts generated by each of the eleven projects, (i) first, a return of their principal, (ii) second, a preferential return of 15% of their principal and (iii) third, a 50% split of any additional producers' gross receipts (with the Company receiving the other 50%). The agreement defines "producers' gross receipts" as the net profit of the production after all costs have been paid and after the actors and others have been paid their pro rata share of any subsequent revenue. Each of the agreements provides that the Company is entitled to earn a producer's fee of up to \$250,000 per production which is considered part of the expenses of the project and paid prior to calculation of the producers' gross receipts.

Based on the gross producers' revenues through December 31, 2015, we are not required to pay the lenders any amount in excess of the existing liability already recorded as of December 31, 2015. Two of the productions were completed as of December 31, 2015 and there was immaterial producer gross receipts generated as defined in the Equity Finance Agreements as of December 31, 2015. To the extent that we generate additional gross producer revenues subsequent to year end, the lenders would be entitled to receive their pro rata share of such revenue.

During the years ended December 31, 2015 and 2014, we entered into various Loan and Security Agreements with individual investors totaling \$4.0 million to finance the production of our new web series "*South Beach – Fever*". In connection with the execution of each of the Loan and Security Agreements, the Company granted each individual lender the right to participate in the future profit generated by the series (defined as the gross revenues of such series less the aggregate amount of principal and interest paid for the financing of such series) in proportion to their loan commitment over the aggregated loan commitment received to the finance the series. The loans earn interest of up to 12% annually which was initially payable monthly through August 31, 2015, except for one agreement which was through February 29, 2015. During the year ended December 31, 2015 and pursuant to the terms of the agreements, we exercised our option to extend the maturity date of the Loan and Security agreements to August 31, 2016 and began accruing interest at 1.25% over the stated rate. Subsequent to year end, we have signed agreements with ten of the Loan and Security agreement debtholders to issue shares of common stock at \$0.25 per share in payment in full of their principal and interest outstanding under their agreements.

On December 7, 2015, we entered into a subscription agreement with an investor to sell up to \$7,000,000 in convertible promissory notes. The promissory note, bears interest on the unpaid balance at a rate of 10% per annum, becomes due and payable on December 7, 2016 and may be prepaid, without penalty, at any time. Pursuant to the subscription agreement, we issued a convertible note to the Investor in the amount of \$3,164,000. At any time prior to the maturity date, the investor has the right, at its option, to convert some or all of the convertible note into common shares. The convertible note has a conversion price of \$0.25 per share. The outstanding principal amount and all accrued interest are mandatorily and automatically converted into common stock, at the conversion price, upon the average market price of our common stock being greater than or equal to the conversion price for twenty trading days. As of December 31, 2015, we recorded \$3,164,000 as Convertible note in non current liabilities and accrued \$21,671 of interest in other current liabilities in its consolidated balance sheets. Subsequent to year end, the convertible note was automatically converted into 12,656,000 shares of common stock after the average common stock price was equal to or greater than the conversion price for twenty trading days.

### ***Going Concern***

Our independent auditors issued an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern based upon our net loss for the years ended December 31, 2015 and 2014, our accumulated deficit as of December 31, 2015 and 2014 and our level of working capital. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. Management is planning to raise any necessary additional funds through loans, project-specific financing and additional sales of our common stock; however, there can be no assurance that we will be successful in raising any necessary additional loans or capital.

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

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



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

#### Capitalized Production Costs

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

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

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

An increase in the estimate of ultimate revenue will generally result in a lower amortization rate and, therefore, less amortization expense of deferred productions costs, while a decrease in the estimate of ultimate revenue will generally result in a higher amortization rate and, therefore, higher amortization expense of capitalized production costs, and also periodically results in an impairment requiring a write-down of the capitalized production costs to fair value. These write-downs are included in production expense within our consolidated statements of operations. For the year ended December 31, 2015 and 2014, we impaired approximately \$0.6 and \$0.1 million, respectively of capitalized production costs.

#### Revenue Recognition

In general, we record revenue when persuasive evidence of an arrangement exists, products have been delivered or services have been rendered, the selling price is fixed and determinable, and collectability is reasonably assured. We recognize monthly and annual subscription revenues over the service period. Advertising revenue is recognized over the period the advertisement is displayed.

When accounting for service contracts, we consider the nature of these contracts and the types of and services provided when determining the proper accounting for a particular contract. Revenue from service-type fixed-price contracts is recognized ratably over the contract period and contract costs are expensed as incurred. The risk to us on a fixed-price contract is that if estimates to complete the contract change from one period to the next, profit levels will vary from period to period. For all types of contracts, we recognize anticipated contract losses as soon as they become known and estimable. Out-of-pocket expenses that are reimbursable by the customer are included in revenue and cost of revenue.

The use of contract accounting requires significant judgment relative to estimating total contract revenues and costs, including assumptions relative to the length of time to complete the work, the nature and complexity of the work to be performed and anticipated increases in wages for subcontractor services. Our estimates are based upon the professional knowledge and experience of our personnel. Changes in estimates are applied prospectively and when adjustments in estimated contract costs are identified, such revisions may result in current period adjustments to earnings applicable to performance in prior periods.

Revenue from web series are recognized in accordance with guidance of FASB ASC 926-60 " *Revenue Recognition – Entertainment-Films*". Revenue is recorded when a contract with a buyer for the web series exists, the web series is complete in accordance with the terms of the contract, the customer can begin exhibiting or selling the web series, the fee is determinable and collection of the fee is reasonable. On occasion, we may enter into agreements with third parties for the co-production or distribution of a web series. We may also enter into agreements for the sponsorship or integration of a product in a web series productions. Revenue from these agreements will be recognized when the web series is complete and ready to be exploited. In addition, the advertising revenue is recognized at the time advertisements are shown when a web series is aired. Cash received and amounts billed in advance of meeting the criteria for revenue recognition is classified as deferred revenue.

#### Income Taxes

Deferred taxes are recognized for the future tax effects of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using tax rates in effect for the years in which the differences are expected to reverse. The effects of changes in tax laws on deferred tax balances are recognized in the period the new legislation is enacted. Valuation allowances are recognized to reduce deferred tax assets to the amount that is more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income. We calculate our current and deferred tax position based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified.

Tax benefits from an uncertain tax position are only recognized if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. Interest and penalties related to unrecognized tax benefits are recorded as incurred as a component of income tax expense.

#### Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 3 to the audited consolidated financial statements contained elsewhere in this annual report on Form 10K.

#### Off-Balance Sheet Arrangements

As of December 31, 2015 and 2014, we did not have any off-balance sheet arrangements.

#### Special Note Regarding Forward-Looking Statements

Certain statements in this Form 10-K under "Management's Discussion and Analysis" constitute "forward-looking" statements for purposes of federal and state securities laws. Such forward-looking statements include our expectations or beliefs regarding:

- (1) the growth potential of the digital and movie entertainment market, in general, and for quality digital content in particular;
- (2) our expectation regarding the timing of release of our motion picture, "Max Steel" and the production and release of our upcoming digital series under our co-production agreement;
- (3) our ability to deliver content that will appeal to our target demographics, and to increase audiences and engagement online;
- (4) our expectation to greenlight at least one additional project in 2016;
- (5) our expectation to generate a significant source of revenues from Dolphin Digital Studios with the production and release of additional web series on online platforms;
- (6) the potential of our online kids clubs to serve as a platform for sponsorship and other marketing opportunities thereby generating revenue;
- (7) our expectation to generate revenues from producer's fees, distribution fees and sponsorships, sufficient to maintain our liquidity position;
- (8) our expectation to receive additional advertising revenues in 2016;
- (9) our intention to raise additional capital through the sale of shares of Common Stock for working capital and through borrowed funds from our CEO; and
- (10) our plans to implement improvements to remediate the material weaknesses in internal control over financial reporting.

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

- (1) unpredictability of the commercial success of future web series;
- (2) performance of our co-producer under the terms of the co-producer agreement;
- (3) economic factors that affect advertising revenue generally and in the online industry specifically;
- (4) continuing industry demand for high-quality online digital entertainment and the pricing that producers are able to obtain for such content;
- (5) our ability to identify, produce and develop online digital entertainment that meets the industry demand;
- (6) competition for talent and other resources within the industry and our ability to enter into agreements with talent under favorable terms ;
- (7) availability of capital and financing under favorable terms to fund our digital projects and operations ; and
- (8) our ability to successfully implement improvements to remediate the material weaknesses in internal control over financial reporting.

Any forward-looking statements, which we make in this Form 10-K, speak only as of the date of such statement, and we undertake no obligation to update such statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data. The safe harbor provisions of the Private Securities Litigation Reform Act of 1995 do not apply to our forward-looking statements as a result of being a penny stock issuer.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not required for smaller reporting companies.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The financial statements required by this Item 8 are included at the end of this Report beginning on page F-1 as follows:

	<u>Page</u>
Reports of Independent Registered Public Accounting Firms	F-1
Consolidated Balance Sheets as of December 31, 2015 and 2014	F-2
Consolidated Statements of Operations for the years ended December 31, 2015 and 2014	F-3
Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014	F-4
Consolidated Statements of Changes in Stockholder's Deficit for the years ended December 31, 2015 and 2014	F-5
Notes to Consolidated Financial Statements	F-6

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE .**

None.

**ITEM 9A. CONTROLS AND PROCEDURES.**

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

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our CEO, 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 December 31, 2015. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective due to material weaknesses identified in our internal control over financial reporting described below.

We are responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined by Exchange Act Rule 13a-15(f). Our internal controls are designed to provide reasonable assurance as to the reliability of our financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Internal control over financial reporting has inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable, not absolute, assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Under the supervision and with the participation of our CEO and CFO, we have evaluated the effectiveness of our internal control over financial reporting as of December 2015, as required by Exchange Act Rule 13a-15(c). In making our assessment, we have utilized the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in the 1992 Internal Control —Integrated Framework. We concluded that based on our evaluation, our internal control over financial reporting was not effective as of December 31, 2015, due to material weaknesses identified as follows:

- In connection with the audit of our consolidated financial statements for the fiscal year ended December 31, 2015, our independent registered accounting firm reported to our Board of Directors that they determined the following design deficiencies related to the entity level control environment, including risk assessment, information and communication and monitoring controls.
  - There is no documented fraud risk assessment or risk management oversight function.
  - There are no documented procedures related to financial reporting matters (both internal and external) to the appropriate parties.
  - There is no budget prepared and therefore monitoring controls are not designed effectively as current results cannot be compared to expectations.

- There is no documented process to monitor and remediate deficiencies in internal controls.
- After a review of our current entity level control environment, management concluded that the above deficiencies represented a material weakness.
- In connection with the audit of our consolidated financial statements for the fiscal year ended December 31, 2015, our independent registered accounting firm reported to our Board of Directors that they observed inadequate documented review and approval of certain aspects of the accounting process including the documented review of accounting reconciliations and journal entries that they considered to be a material weakness in internal control. Specifically:
  - There is no documented period end closing procedures, specifically the individuals that are responsible for preparation, review and approval of period end close functions.
  - Reconciliations are performed on all balance sheet accounts, including noncontrolling interest on at least a quarterly basis; however there is no documented review and approval by a member of management that is segregated from the period end financial reporting process.
  - There is no review and approval for the posting of journal entries.

After a review of our current review and approval of certain aspects of the accounting process, management concluded that the inadequate documented review and approval process represented a material weakness.

- In connection with the audit of our consolidated financial statements for the fiscal year ended December 31, 2015, our independent registered accounting firm reported to our Board of Directors that they observed inadequate segregation of duties within the accounting process including the following:
  - One individual has the ability to add vendors to the master vendor file. This individual also has access to the Company checkbook that is maintained in a secured location.
  - One individual has sole access to our information technology system to initiate, process and record financial information. We have not developed any internal controls related to information technology systems including change management, physical security, access or program development.

After a review of our current accounting process and the individuals involved, management concluded that the inadequate segregation of duties represented a material weakness.

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

During the year ended December 31, 2015, we implemented the following improvements to remediate some of the material weaknesses in internal control over financial reporting that had been reported on our Form 10-K for the year ended December 31, 2014:

- We began taking minutes at the Board of Director meetings.

In order to remediate the other material weaknesses in internal control over financial reporting, we intend to implement improvements during fiscal year 2016, 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.
- We plan to document all significant accounting policies and ensure that the accounting policies are in accordance with GAAP and that internal controls are designed effectively to ensure that the financial information is properly reported. Management will engage independent accounting specialists to ensure that there is an independent verification of the accounting positions taken.
- We plan to implement a higher standard for document retention and support for all items related to revenue recognition. All revenue arrangements that are entered into by us will be evaluated under the applicable revenue guidance and Management should document its position based on the facts and circumstances of each agreement.

- We plan to review our current review and approval processes and implement changes to ensure that all material agreements, accounting reconciliations and journal entries are reviewed and approved on a timely basis and that such review is documented by a member of Management separate from the preparer. A documented quarter end close procedure will be established whereby Management expects to review and approve reconciliations and journal entries prepared by the outside accountant. Management plans to formally approve new vendors that are added to the master vendor file.

#### **Limitations on Effectiveness of Controls and Procedures**

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. We do not expect that our disclosure controls will prevent or detect all errors and all fraud. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

#### **Changes in Internal Controls**

Except as noted above, during the fiscal year ended December 31, 2015, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

We are neither an accelerated filer nor a large accelerated filer, as defined in Rule 12b-2 under the Exchange Act, and is not otherwise including in this Annual Report an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not required to be attested by our registered public accounting firm pursuant to Item 308(b) of Regulation S-K.

#### **ITEM 9B. OTHER INFORMATION.**

##### **1.01 Entry into a Material Definitive Agreement**

On March 29, 2016, the Company entered into ten individual subscription agreements (the "Subscription Agreements") with each of ten subscribers (the "Subscribers"). The Subscribers were holders of outstanding promissory notes of the Company, issued pursuant to certain Loan and Security Agreements in 2014 and 2015 (the "Notes"). Pursuant to the terms of the Subscription Agreements, the Company and the Subscribers agreed to convert the \$2,883,377 aggregate amount of principal and interest outstanding under the Notes into an aggregate of 11,533,508 shares of Common Stock at \$0.25 per share as payment in full of each of the Notes. Mr. Nicholas Stanham, director of the Company, was one of the Subscribers that converted its Note into shares of common stock.

A form of the Subscription Agreement executed by each Subscriber is attached as Exhibit 10.11.

##### **Item 3.02 Unregistered Sales of Equity Securities.**

The information set forth in Item 1.01 above is incorporated herein by reference. The issuance by the Company of shares of Common Stock to each of the Subscribers pursuant to the Subscription Agreements was made in reliance upon the exemption from registration requirements in Section 3(a)(9) of the Securities Act of 1933, as amended.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.**

The information required by this Item is incorporated by reference to our Proxy Statement for our 2016 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2015 and is incorporated herein by reference.

Dolphin has adopted a Code of Ethics for our officers and directors that is located on our internet website at [www.dolphindigitalmedia.com](http://www.dolphindigitalmedia.com) under "Investor Relations – Corporate Governance." We intend to provide disclosure of any amendments or waivers of our Code of Ethics on our website within four business days following the date of the amendment or waiver.

**ITEM 11. EXECUTIVE COMPENSATION.**

The information required by this Item is incorporated by reference to our Proxy Statement for our 2016 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2015 and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The information required by this Item is incorporated by reference to our Proxy Statement for our 2016 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2015 and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is incorporated by reference to our Proxy Statement for our 2016 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2015 and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The information required by this Item is incorporated by reference to our Proxy Statement for our 2016 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2015 and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

(1) Financial Statements

See Item 8 for Financial Statements included with this Annual Report on Form 10-K.

(2) Financial Statement Schedules

None.

(3) Exhibits

<u>Exhibit No.</u>	<u>Description</u>	<u>Incorporated by Reference</u>
2.1	Preferred Stock Purchase Agreement between Logica Holdings Inc., T Squared Partners LLC and T Squared Investments LLC., dated October 4, 2007.	Incorporated herein by reference to Exhibit 2.1 in the Company's Current Report on Form 8-K, filed on October 15, 2007.
2.2	Agreement and Plan of Merger by and among Dolphin Digital Media, Inc., DDM Merger Sub, Inc., Dolphin Films, Inc. and Dolphin Entertainment, Inc. dated October 14, 2015.	Incorporated herein by reference to Exhibit 2.2 in the Company's Current Report on Form 8-K, filed on October 19, 2015.



<a href="#">3.1.a</a>	Amended Articles of Incorporation of Dolphin Digital Media, Inc. (conformed copy incorporating all amendments through February 23, 2016).	Filed herewith.
3.2	Bylaws of Dolphin Digital Media, Inc. dated December 3, 2014.	Incorporated herein by reference to Exhibit 3.2 in the Company's Current Report on Form 8-K, filed on December 9, 2014.
4.1	Registration Rights Agreement dated October 4, 2007, between Logica Holdings and T Squared Partners LLC, and T Squared Investments LLC.	Incorporated herein by reference to Exhibit 4.5 in the Company's Current Report on Form 8-K, filed on October 15, 2007.
4.2	Letter Agreement with T Squared Investments LLC, dated July 29, 2009.	Incorporated herein by reference to Exhibit 4.6 in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.
4.3	Subscription Agreement with T Squared Investments LLC, dated July 29, 2009.	Incorporated herein by reference to Exhibit 4.7 in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.
4.4	Common Stock Purchase Warrant "D" with T Squared Investments, LLC, dated July 29, 2009.	Incorporated herein by reference to Exhibit 4.8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.
10.1	Amendment to Preferred Stock Purchase Agreement, dated December 30, 2010.	Incorporated herein by reference to Exhibit 10.1 in the Company's Current Report on Form 8-K, filed on January 5, 2011.
10.2	Revolving Promissory Note in favor of William O'Dowd, dated December 31, 2011.	Incorporated herein by reference to Exhibit 10.2 in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.
10.3	Service Agreement between the Company and Dolphin Films, Inc. dated April 1, 2013.	Incorporated herein by reference to Exhibit 10.3 in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.
10.4	Employment Agreement between the Company and William O'Dowd dated December 31, 2014.	Incorporated herein by reference to Exhibit 10.4 in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.
10.5	Form of Loan and Security Agreement.	Incorporated herein by reference to Exhibit 10.1 in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014.
10.6	Form of Equity Purchase Agreement.	Incorporated herein by reference to Exhibit 10.6 in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

10.7	Preferred Stock Exchange Agreement between the Company and T Squared Partners LP dated October 16, 2015.	Incorporated herein by reference to Exhibit 10.7 in the Company's Current Report on Form 8-K, filed on October 19, 2015.
10.8	Form of Subscription Agreement.	Incorporated herein by reference to Exhibit 10.8 in the Company's Current Report on Form 8-K, filed on December 15, 2015.
10.9	Form of Convertible Note.	Incorporated herein by reference to Exhibit 10.9 in the Company's Current Report on Form 8-K, filed on December 15, 2015.
10.10	Subscription Agreement between the Company and Dolphin Entertainment, Inc. dated March 4, 2016.	Incorporated herein by reference to Exhibit 10.10 in the Company's Current Report on Form 8-K, filed on March 11, 2016.
10.11	Form of Subscription Agreement dated March 29, 2016.	Filed herewith.
14.1	Amended and Restated Code of Ethics for Senior Financial Officers.	Incorporated herein by reference to Exhibit 14.1 in the Company's Current Report on Form 8-K, filed on October 30, 2014.
<a href="#">21.1</a>	List of Subsidiaries of the Company.	Filed herewith.
<a href="#">31.1</a>	Certification of Chief Executive Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
<a href="#">31.2</a>	Certification of Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
<a href="#">32.1</a>	Certification of Chief Executive Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
<a href="#">32.2</a>	Certification of Chief Financial Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
101.INS	XBRL Instance Document.	Furnished herewith.
101.SCH	XBRL Taxonomy Extension Schema Document.	Furnished herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Furnished herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Furnished herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Furnished herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Furnished herewith.

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **DOLPHIN DIGITAL MEDIA, INC.**

By: /s/ William O'Dowd IV

\_\_\_\_\_  
William O'Dowd IV  
Chief Executive Officer  
Dated: March 31, 2016

/s/ Mirta A Negrini

\_\_\_\_\_  
Mirta A Negrini  
Chief Financial and Operating Officer  
Dated: March 31, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ William O'Dowd IV

\_\_\_\_\_  
William O'Dowd IV  
Chief Executive Officer  
Dated: March 31, 2016

/s/ Mirta A Negrini

\_\_\_\_\_  
Mirta A Negrini  
Chief Financial and Operating Officer  
Dated: March 31, 2016

/s/ Michael Espensen

\_\_\_\_\_  
Michael Espensen  
Director  
Dated: March 31, 2016

/s/ Nelson Famadas

\_\_\_\_\_  
Nelson Famadas  
Director  
Dated: March 31, 2016

/s/ Nicholas Stanham

\_\_\_\_\_  
Nicholas Stanham  
Director  
Dated: March 31, 2016

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders  
Dolphin Digital Media, Inc. and subsidiaries  
Miami, Florida

We have audited the accompanying consolidated balance sheets of Dolphin Digital Media, Inc. and subsidiaries as of December 31, 2015 and 2014 and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dolphin Digital Media, Inc. and subsidiaries at December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations, negative cash flows from operations, and does not have sufficient working capital. These events raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Miami, Florida  
March 31, 2016

/s/ BDO USA, LLP  
Certified Public Accountants

**DOLPHIN DIGITAL MEDIA, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**As of December 31, 2015 and 2014**

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current		
Cash and cash equivalents	\$ 2,259,504	\$ 198,470
Prepaid Expenses	10,018	2,339
Receivable and other current assets	560,112	479,924
Total Current Assets	<u>2,829,634</u>	<u>680,733</u>
Capitalized production costs	2,439	693,526
Property and equipment	55,413	77,690
Deposits	41,291	41,291
Total Assets	<u>\$ 2,928,777</u>	<u>\$ 1,493,240</u>
 <u>LIABILITIES</u> 		
Current		
Accounts payable	\$ 479,799	240,736
Other current liabilities	2,669,456	1,547,580
Accrued compensation	2,065,000	1,750,000
Debt	2,545,000	3,995,000
Loan from related party	-	2,451,767
Note payable	300,000	300,000
Total Current Liabilities	<u>8,059,255</u>	<u>10,285,083</u>
Non Current		
Convertible note payable	3,164,000	-
Loan from related party	1,982,267	-
Debt	2,600,000	-
Total Non Current Liabilities	<u>\$ 7,746,267</u>	<u>\$ -</u>
Total Liabilities	<u>15,805,522</u>	<u>-</u>
 <u>STOCKHOLDERS' DEFICIT</u> 		
Common stock, \$0.015 par value, 200,000,000 shares authorized, 81,892,352 issued and outstanding at December 31, 2015 and 2014 Preferred stock \$0.001 par value, 10,000,000 shares authorized	1,228,385	1,228,385
1,042,753 shares issued and outstanding, liquidation preference of \$1,042,753 at December 31, 2015 and 2014	1,043	1,043
Additional paid in capital	25,544,174	25,544,174
Accumulated deficit	(42,628,155)	(38,560,694)
Total Dolphin Digital Media, Inc. Deficit	<u>\$ (15,854,553)</u>	<u>\$ (11,787,092)</u>
Non-controlling interest	2,977,808	2,995,249
Total Stockholders' Deficit	<u>\$ (12,876,745)</u>	<u>\$ (8,791,843)</u>
Total Liabilities and Stockholders' Deficit	<u>\$ 2,928,777</u>	<u>\$ 1,493,240</u>

**DOLPHIN DIGITAL MEDIA, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
**For the years ended December 31, 2015 and 2014**

	2015	2014
<b>Revenues:</b>		
Production	\$ 2,929,518	\$ 51,192
Service	-	2,000,000
Membership	<u>69,761</u>	<u>19,002</u>
<b>Total Revenue:</b>	2,999,279	2,070,194
<b>Expenses:</b>		
Direct costs	2,290,645	159,539
Selling, general and administrative	2,478,794	1,533,211
Payroll	<u>1,435,765</u>	<u>1,630,369</u>
<b>Loss before other income (expense)</b>	(3,205,925)	(1,252,925)
<b>Other Income/(Expense)</b>		
Other income	\$ 96,302	\$ 40,000
Interest expense	<u>(940,398)</u>	<u>(660,580)</u>
<b>Total Other Income/Expense</b>	(844,096)	(620,580)
<b>Net Loss</b>	<u>(4,050,021)</u>	<u>(1,873,505)</u>
Net Income attributable to non- controlling interest	17,440	4,750
Net Loss attributable to Dolphin Digital Media, Inc.	<u>(4,067,461)</u>	<u>(1,878,255)</u>
Net Loss	<u>\$ (4,050,021)</u>	<u>\$ (1,873,505)</u>
Basic and Diluted Loss per Share	\$ (0.05)	\$ (0.02)
Weighted average number of shares used in share calculation	81,892,352	81,892,352

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

**DOLPHIN DIGITAL MEDIA, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
For the years ended December 31, 2015 and 2014

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Loss	\$ (4,050,021)	\$ (1,873,505)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation	24,826	19,633
Amortization of capitalized production costs	1,642,120	37,897
Impairment of capitalized production costs	648,525	113,472
<b>Changes in operating assets and liabilities:</b>		
Prepaid expenses	(7,679)	6,680
Other current assets	(115,069)	(400,535)
Capitalized production costs	(1,599,558)	(63,504)
Deposits	-	(21,338)
Accounts payable	239,063	(44,218)
Accrued compensation	315,000	250,000
Other current liabilities	1,121,876	620,203
<b>Net Cash Used In Operating Activities</b>	<b>(1,780,917)</b>	<b>(1,355,215)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(2,549)	(73,849)
<b>Net Cash Used In Investing Activities</b>	<b>(2,549)</b>	<b>(73,849)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Return of capital of minority interest	-	(8,251)
Proceeds from Loan and Security agreements	1,150,000	2,895,000
Proceeds from convertible note payable	3,164,000	-
Repayment of notes payable	-	(35,000)
Proceeds from note payable with related party	2,797,500	166,000
Repayment of note payable to related party	(3,267,000)	(2,096,856)
<b>Net Cash Provided By Financing Activities</b>	<b>3,844,500</b>	<b>920,893</b>
NET INCREASE (DECREASE) IN CASH	2,061,034	(508,171)
CASH, BEGINNING OF PERIOD	198,470	706,641
<b>CASH, END OF PERIOD</b>	<b>2,259,504</b>	<b>198,470</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:</b>		
Interest Paid	\$ 234,777	\$ 79,401

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

**Dolphin Digital Media Inc. and Subsidiaries**  
**Consolidated Statements of Changes in Stockholders' Deficit**  
**For the years ended December 31, 2015 and 2014**

	Preferred Stock		Common Stock		Additional	Non	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in	controlling	Deficit	Stockholders
					Capital	interest		Deficit
<b>Balance January 1, 2014</b>	<u>1,042,753</u>	<u>\$ 1,043</u>	<u>81,892,352</u>	<u>\$ 1,228,385</u>	<u>\$25,544,174</u>	<u>\$ 3,000,000</u>	<u>\$(36,682,439)</u>	<u>\$ (6,908,837)</u>
Net loss for the twelve months ended December 31, 2014	-	-	-	-	-	-	(1,873,505)	(1,873,505)
Income attributable to the non controlling interest	-	-	-	-	-	4,750	(4,750)	-
Return of capital to noncontrolling member	-	-	-	-	-	(9,501)	-	(9,501)
<b>Balance December 31, 2014</b>	<u>1,042,753</u>	<u>\$ 1,043</u>	<u>81,892,352</u>	<u>\$ 1,228,385</u>	<u>\$25,544,174</u>	<u>\$ 2,995,249</u>	<u>\$(38,560,694)</u>	<u>\$ (8,791,843)</u>
Net loss for the twelve months ended December 31, 2015	-	-	-	-	-	-	(4,050,021)	(4,050,021)
Income attributable to the non controlling interest	-	-	-	-	-	17,440	(17,440)	-
Return of capital to noncontrolling member	-	-	-	-	-	(34,881)	-	(34,881)
<b>Balance December 31, 2015</b>	<u>1,042,753</u>	<u>\$ 1,043</u>	<u>81,892,352</u>	<u>\$ 1,228,385</u>	<u>\$25,544,174</u>	<u>\$ 2,977,808</u>	<u>\$(42,628,155)</u>	<u>\$ (12,876,745)</u>



**DOLPHIN DIGITAL MEDIA, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 1 — BASIS OF PRESENTATION AND ORGANIZATION:**

Dolphin Digital Media, Inc. (the "Company"), initially known as Rising Fortune Incorporated, was incorporated in the State of Nevada on March 7, 1995. The Company had no operations between inception and 2003. On November 19, 2003, the Company amended its Articles of Incorporation to change its name to Maximum Awards Inc. On July 3, 2007, the Company amended its Articles of Incorporation again to change its name to Logica Holdings Inc. On July 29, 2008, the Company amended its Articles of Incorporation again to change its name to Dolphin Digital Media, Inc.

The accompanying consolidated financial statements represent the consolidated financial position and results of operations of the Company and include the accounts and results of operations of the Company, Dolphin Digital Media, Inc. and its subsidiaries, Hiding Digital Productions LLC, Cybergeddon Productions LLC, Dolphin Kids Clubs LLC and Dolphin SB Productions LLC for the years ended December 31, 2015 and 2014. Intercompany accounts and transactions have been eliminated in consolidation.

In September 2010, the Company announced the launch of Dolphin Digital Studios as a new division of the Company. Dolphin Digital Studios creates original programming that premieres online, with an initial focus on content geared toward tweens and teens.

On August 4, 2011 the Company formed Hiding Digital Productions, LLC a wholly-owned subsidiary of Dolphin Digital Media, Inc. as a holding company.

On March 7, 2012, the Company formed Cybergeddon Productions LLC, a wholly owned subsidiary of Dolphin Digital Media, Inc. for the production of a web series.

On May 21, 2012, the Company formed Dolphin Kids Clubs, LLC, and owns 75% interest in the entity, for the purpose of creating online kids clubs. In accordance with Accounting Standards Codification (ASC) 810-20, Dolphin Kids Clubs LLC is consolidated in the Company's financial statements. Amounts attributable to the noncontrolling interest will follow the provisions in the contractual arrangement. Noncontrolling interest is presented as a separate component of shareholders' equity.

On November 26, 2014, the Company formed Dolphin SB Productions LLC, a wholly-owned subsidiary of Dolphin Digital Media, Inc. for the production of a web series.

On October 13, 2015, the Company formed DDM Merger Sub, Inc, a wholly owned subsidiary of Dolphin Digital Media, Inc for the purpose of effectuating a merger with Dolphin Films, Inc, a related party wholly owned by Dolphin Entertainment, Inc, an entity wholly owned by our CEO.

**NOTE 2 — GOING CONCERN**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate the continuation of the Company as a going concern. The Company has incurred net losses for the years ended December 31, 2015 and 2014 of \$4,050,021 and \$1,873,505, respectively. The Company has generated negative cash flows from operations for the years ended December 31, 2015 and 2014 of \$1,780,917 and \$1,355,215 respectively. Further, the Company has a working capital deficit for the years ended December 31, 2015 and 2014 of \$5,229,621 and \$9,604,350, respectively, that is not sufficient to maintain or develop its operations, and it is dependent upon funds from private investors and the support of certain stockholders.

These factors raise substantial doubt about the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. In this regard, management is planning to raise any necessary additional funds through loans and additional issuance of its common stock. There is no assurance that the Company will be successful in raising additional capital. The Company is currently working on producing a variety of digital projects which it intends to fund through private investors on a project basis. The Company expects to derive revenues from these digital productions in the third quarter of 2016. The Company received approximately \$549,000 in February 2016 from one of its digital projects. It also received \$270,000 in loans from its CEO. During 2015, the Company derived approximately \$70,000 of revenues from its kids club business and it expects to see an increase in these revenues during 2016. There can be no assurances that such income will be realized in future periods.

## NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Use of Estimates

The preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management's past experience and best knowledge of historical trends, actions that we may take in the future, and other information available when the consolidated financial statements are prepared. Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available. Areas where the nature of the estimates makes it reasonably possible that actual results could differ from the amounts estimated include the carrying value of capitalized production costs, revenue recognition, the realization of deferred tax assets, uncertain tax positions and contingent liabilities. Actual results could differ from those estimates.

### Statement of Comprehensive Income

In accordance with ASC Topic 220, *Comprehensive Income*, a statement of comprehensive income has not been included as the Company has no items of other comprehensive income. Comprehensive income is the same as net income for all periods presented.

### Revenue Recognition

In general, the Company records revenue when persuasive evidence of an arrangement exists, products have been delivered or services have been rendered, the selling price is fixed and determinable, and collectability is reasonably assured. The Company recognizes monthly and annual subscription revenues over the service period. Advertising revenue is recognized over the period the advertisement is displayed.

When accounting for service contracts, the Company considers the nature of these contracts and the types of and services provided when determining the proper accounting for a particular contract. Revenue from service-type fixed-price contracts is recognized ratably over the contract period and contract costs are expensed as incurred. The risk to the Company on a fixed-price contract is that if estimates to complete the contract change from one period to the next, profit levels will vary from period to period. For all types of contracts, the Company recognizes anticipated contract losses as soon as they become known and estimable. Out-of-pocket expenses that are reimbursable by the customer are included in revenue and cost of revenue.

The use of contract accounting requires significant judgment relative to estimating total contract revenues and costs, including assumptions relative to the length of time to complete the work, the nature and complexity of the work to be performed and anticipated increases in wages for subcontractor services. Our estimates are based upon the professional knowledge and experience of the Company's personnel. Changes in estimates are applied retrospectively and when adjustments in estimated contract costs are identified, such revisions may result in current period adjustments to earnings applicable to performance in prior periods.

Revenue from web series are recognized in accordance with guidance of FASB ASC 926-60 "*Revenue Recognition – Entertainment-Films*". Revenue is recorded when a contract with a buyer for the web series exists, the web series is complete in accordance with the terms of the contract, the customer can begin exhibiting or selling the web series, the fee is determinable and collection of the fee is reasonable. On occasion, the Company may enter into agreements with third parties for the co-production or distribution of a web series. The Company may also enter into agreements for the sponsorship or integration of a product in a web series productions. Revenue from these agreements will be recognized when the web series is complete and ready to be exploited. In addition, the advertising revenue is recognized at the time advertisements are shown when a web series is aired. Cash received and amounts billed in advance of meeting the criteria for revenue recognition is classified as deferred revenue.

### Capitalized Production Costs

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

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

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

An increase in the estimate of ultimate revenue will generally result in a lower amortization rate and, therefore, less amortization expense of deferred productions costs, while a decrease in the estimate of ultimate revenue will generally result in a higher amortization rate and, therefore, higher amortization expense of deferred production costs, and also periodically results in an impairment requiring a write-down of the deferred production costs to fair value. It is also presumed that an entity will dispose of any projects that are not set for production within three years from the first capitalized transaction, or sooner if the Company determines that it will no longer move forward with the production. These write-downs are included in production expense within the consolidated statements of operations. The Company recorded \$648,525 and \$113,472 in direct costs for the years ended December 31, 2015 and 2014 respectively, for impairment of certain capitalized production costs.

#### Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amount to the future net cash flows which the assets are expected to generate. If such assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds its fair value. Except for those described above in Capitalized Production Costs, there were no impairment charges for long lived assets during the years ended December 31, 2015 and 2014.

#### Property and Equipment

Property and equipment is recorded at cost and depreciated over the estimated useful lives of the assets using the straight-line method. The Company recorded depreciation expense of \$24,826 and \$19,633, respectively for the years ended December 31, 2015 and 2014. When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value and proceeds realized thereon. Ordinary maintenance and repairs are charged to expense as incurred, and replacements and betterments are capitalized. The range of estimated useful lives to be used to calculate depreciation and amortization for principal items of property and equipment are as follow:

<b>Asset Category</b>	<b>Depreciation/ Amortization Period</b>
Furniture and fixtures	5 Years
Computer equipment	3 Years
Leasehold improvements	5 Years

## 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. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's 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. The three levels of the fair value hierarchy are 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 that are observable for the asset or liability, either directly or indirectly, as of the reporting date.

Level 3 — 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.

As of December 31, 2015 and 2014, the Company had no assets or liabilities measured at fair value, based on the hierarchy input levels defined above, on a recurring basis.

## Income Taxes

Deferred taxes are recognized for the future tax effects of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using tax rates in effect for the years in which the differences are expected to reverse. The effects of changes in tax laws on deferred tax balances are recognized in the period the new legislation is enacted. Valuation allowances are recognized to reduce deferred tax assets to the amount that is more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income. We calculate our current and deferred tax position based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on filed returns are recorded when identified.

Tax benefits from an uncertain tax position are only recognized if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Interest and penalties related to unrecognized tax benefits are recorded as incurred as a component of income tax expense.

## Cash and cash equivalents

Cash and cash equivalents consist of cash deposits at financial institutions. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

## Loss per share

Loss per common share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the period, including the issuable shares related to the anti-dilution agreement. Stock warrants were not included in the computation of loss per share for the periods presented because their inclusion is anti-dilutive. The total potential dilutive warrants outstanding were 21,000,000 at December 31, 2015 and 2014.

## Concentration of Risk

The Company maintains its cash and cash equivalents with financial institutions and, at times, balances may exceed federally insured limits of \$250,000. All of the Company's service revenue for the year ended December 31, 2014 was derived from one related party (see Note 11). Substantially all of the production revenue during the years ended December 31, 2015 and 2014 was derived from two productions.

## Business Segments

The Company operates the following business segments:

- 1) Dolphin Digital Media (USA): The Company created online kids clubs and derives revenue from annual membership fees.
- 2) Dolphin Digital Studios: Dolphin Digital Studios creates original programming that premieres online, with an initial focus on content geared toward tweens and teens. It also provides production services to a related party. (See Note 11) This segment was the main focus of the Company during 2015 and 2014.

Based on an analysis of the Company's operating segments and the provisions of ASC 280, *Segment Reporting*, the Company believes it meets the criteria for aggregating its operating segments into a single reporting segment because they have similar economic characteristics, similar nature of product sold, (on-line content), similar production process (the Company uses the same labor force, and content), similar type of customer (children teens and tweens) and similar method to distribute its product (on-line distribution).

## Recent Accounting Pronouncements

In August 2014, the FASB issued an accounting standard update relating to management's evaluation of conditions and events that, when considered in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements were issued. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date the financial statements are issued. When management identifies these relevant conditions or events, it should consider whether its plans will alleviate the substantial doubt. Management's plans should be considered only to the extent that 1) it is probable that the plans will be effectively implemented and 2) it is probable that the plans will mitigate the conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. Management should disclose to financial statement users a) principal conditions or events that raised substantial doubt b) Management's evaluation of the significance of those conditions or events in relation to entity's ability to meet its obligations and c) discussion of how Management's plan, if already implemented, alleviated the substantial doubt about the entity's ability to continue as a going concern or in the case, that the plan has not yet been implemented, how Management's plans are intended to alleviate the substantial doubt about the entity's ability to continue as a going concern. The guidance will be effective for our fiscal year beginning January 1, 2016. The Company is currently evaluating the impact that the adoption of this new guidance will have on our consolidated financial statements.

In May 2014, the FASB issued an accounting standard update relating to the recognition of revenue from contracts with customers, which will supersede most current U.S. GAAP revenue recognition guidance, including industry-specific guidance. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance will be effective for our fiscal year beginning January 1, 2017, and can be applied either retrospectively or under a cumulative-effect transition method. The Company is currently evaluating the impact that the adoption of this new guidance will have on our consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-17, Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. We are currently evaluating ASU 2015-17 to determine if this guidance will have a material impact on our financial position, results of operations or cash flows.

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

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

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

### Capitalized Production Costs

Capitalized production costs include the unamortized costs of completed web series which have been produced by the Company 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 web series.

For years ended December 31, 2015 and 2014, revenues earned from web series were \$2,929,518 and \$51,192, respectively. The Company amortized capitalized production costs (included as direct costs) in the consolidated statements of operations using the individual film forecast computation method in the amount of \$1,642,120 and \$37,897 for the years ended December 31, 2015 and 2014.

As of December 31, 2015 and 2014, respectively, the Company has total capitalized production costs of \$2,439 and \$693,526, net of accumulated amortization, tax incentives and impairment charges, recorded on its consolidated balance sheet.

In previous years, the Company entered into agreements to hire writers to develop scripts for other digital web series productions. Management evaluated the scripts and based on guidance in ASC 926-20-40-1 impaired \$648,525 of capitalized production costs as of December 31, 2015, as the scripts were more than three years old and the Company has not began production on the projects. During the year ended December 31, 2014, the Company impaired deferred capitalized production costs in the amount of \$113,472 due to an assessment that ultimate revenues would be below those originally projected and such costs were no longer recoverable.

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

#### Receivables and Other Current Assets

The Company recorded \$560,112 and \$479,924 in receivables and other current assets on its consolidated balance sheets as of December 31, 2015 and 2014, respectively. The December 31, 2015 amount was primarily comprised of a receivable for advertising revenues on one of its productions. The December 31, 2014 amount was primarily comprised of receivables from the sale of licensing rights in foreign territories of its productions and a receivable from an agreement with a related party. During the year ended December 31, 2015, the Company earned advertising revenue from one of its digital productions in the amount of \$2,929,518. During the year ended December 31, 2014, the Company earned revenue from foreign sales in the amount of \$51,192 and earned production service revenue from a related party in the amount of \$2,000,000.

#### **NOTE 5 — DEBT**

During February 2011, the Company entered into Revenue Participation Agreements with two parties for the development of a Dolphin Group Kids Club ("Group Kids Club"). Each party paid the Company \$50,000 in return for the participation of future revenue related to the Group Kids Club. The amount will be repaid based on a pro-rata basis of the revenue generated by the Group Kids Club until the total investment is recouped. Thereafter, they will share in a percentage of the profit of that Group Kids Club. For the years December 31, 2015 and 2014, there were no significant revenues generated or costs incurred related to these Group Kids Clubs. The Company made payments totaling \$0 and \$45,000, respectively, to one of the parties to these agreements during the years ended December 31, 2015 and 2014, respectively.

During the years ended December 31, 2012 and 2011, the Company entered into Equity Finance Agreements for the future production of web series and the option to participate in the production of future web series. The Investors contributed a total equity investment of \$1,000,000 and will share in the future revenues of the web series, on a pro-rata basis, until the total equity investment is recouped and then will share at a lower percentage of the additional revenues. The agreements stated that prior to December 31, 2012, the Company may utilize all or any portion, of the total equity investment to fund any chosen production. On January 1, 2013, the production "cycle" ceased and the Investors were entitled to share in the future revenues of any productions for which the funds invested were used. Per the Equity Finance Agreements, the Company is entitled to a producer's fee, not to exceed \$250,000, for each web series that it produces before calculating the share of revenues owed to the investors. Based on the gross producer's revenues for the productions to date and the amount of investor funds used to date, the Company is not required to pay the investors any amount in excess of the existing liability already recorded as of December 31, 2015 and 2014. The Company has invested these funds in eleven projects. Two of the productions were completed as of December 31, 2015 and there was immaterial producer gross revenue as defined in the Equity Finance Agreements as of December 31, 2015 and 2014.

During the year ended December 31, 2014, the Company entered into various Loan and Security Agreements with individual investors totaling \$4,090,000 that the Company borrowed to finance a production. In connection with the execution of each of the Loan and Security Agreements, the Company granted each individual lender the right to participate, on a pro-rata basis based on their loan commitment as a percentage of the total loan commitments received to fund the specific series, in the future profit generated by such series (defined as the gross revenues of such series less the aggregate amount of principal and interest paid for the financing of such series). \$340,000 of the amount received is from a related party. Per the agreements, the Company will pay up to 12% interest per annum payable monthly through August 31, 2015. Pursuant to the terms of the agreement, the Company exercised its option to extend the maturity date of the loan to August 31, 2016 and accrue interest at 1.25% over the stated rate. As of December, 2015 and 2014, the Company recorded \$173,212 and \$22,082 as accrued interest on its consolidated balance sheets and \$388,320 and \$94,620 of interest expense on the consolidated statement of operations related to these agreements.

As of December 31, 2015 and 2014, \$5,145,000 and \$3,995,000, respectively, were outstanding related to these agreements.

The Company accounts for the above agreements in accordance with ASC 470-10-25-2 which requires that cash received from an investor in exchange for the future payment of a specified percentage or amount of future revenue shall be classified as debt. The Company does not purport the arrangements to be a sale and the Company has significant continuing involvement in the generation of cash flows due to the investors.

#### NOTE 6 — NOTES PAYABLE

Balance December 31, 2014	\$ 300,000
Additions	-
Payments	-
Balance December 31, 2015	<u>\$ 300,000</u>

On July 5, 2012, the Company signed an unsecured Promissory note in the amount of \$300,000 bearing 10% interest per annum and payable on demand. No payments were made on the note during the years ended December 31, 2015 and 2014. The Company has recorded accrued interest of \$104,712 and \$74,712 for the years ended December 31, 2015 and 2014, respectively related to this note. The Company expensed \$30,000 and \$31,275 for interest related to this note for the years ended December 31, 2015 and 2014, respectively.

#### NOTE 7 — CONVERTIBLE DEBT

On December 7, 2015, the Company entered into a subscription agreement with an investor to sell up to \$7,000,000 in convertible promissory notes of the Company. The promissory note, bears interest on the unpaid balance at a rate of 10% per annum, becomes due and payable on December 7, 2016 and may be prepaid, without penalty, at any time. Pursuant to the subscription agreement, the Company issued a convertible note to the Investor in the amount of \$3,164,000. At any time prior to the maturity date, the investor has the right, at its option, to convert some or all of the convertible note into common shares. The convertible note has a conversion price of \$0.25 per share. The outstanding principal amount and all accrued interest are mandatorily and automatically converted into common stock, at the conversion price, upon the average market price of the Common Stock being greater than or equal to the conversion price for twenty trading days. The Company completed this offering in reliance on Section 4(a)(2) or Rule 504, 505 or 506 of the Securities Act of 1933.

As of December 31, 2015, the Company recorded \$3,164,000 as Convertible note in non current liabilities and accrued \$21,671 of interest in other current liabilities in its consolidated balance sheets. Subsequent to year end, the convertible note was automatically converted into 12,656,000 shares of common stock after the average common stock price was equal to or greater than the conversion price for twenty trading days.

#### NOTE 8 — LOANS FROM RELATED PARTY

On December 31, 2011, the Company and the Company's CEO, signed an unsecured Revolving Promissory Note in the amount of \$2,120,623 with an interest rate of 10% per annum. The CEO has the right at any time to demand that all outstanding principal and accrued interest be repaid with a ten day notice to the Company. During the years ended December 31, 2015 and 2014, respectively, the CEO loaned the Company \$2,797,000 and \$166,000 and was repaid \$3,267,000 and \$2,096,855 of principal. During the years ended December 31, 2015 and 2014, \$340,050 and \$368,709 was expensed in interest. The Company recorded accrued interest of \$1,126,057 and \$786,007 in current liabilities on its Consolidated balance sheets as of December 31, 2015 and 2014, respectively.

On October 31, 2014, the Company entered into a Loan and Security agreement in the amount of \$50,000 with Nicholas Stanham, currently a director of the Company. The loan bears interest of 10% per annum and matured on August 31, 2015. Pursuant to the terms of the agreement, the Company exercised its right to extend the maturity date and accrue interest at 1.25% over the stated interest rate on the loan. On March 29, 2016, the Company entered into a subscription agreement with Mr. Stanham to convert the principal and interest of the loan to 222,560 shares of Common Stock of the Company.

#### NOTE 9 — LICENSING AGREEMENTS - RELATED PARTY

The Company has entered into a ten year licensing agreement between Dolphin Entertainment Inc., a related party, and Dolphin Digital Media Inc. Under the license, the Company is authorized to use Dolphin Entertainment's brand properties in connection with the creation, promotion and operation of subscription based Internet social networking websites for children and young adults. The license requires that the Company pays to Dolphin Entertainment, Inc. royalties at the rate of fifteen percent of net sales from performance of the licensed activities. The Company did not use any of the brand properties related to this agreement and as such, there was no royalty expense for the years ended December 31, 2015 and 2014.

## NOTE 10 — STOCKHOLDERS' DEFICIT

### A) Preferred Stock

The Company's Articles of Incorporation authorize the issuance of 10,000,000 shares of \$0.001 par value 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.

As of December 31, 2015 and 2014, the Company had 1,042,753 of preferred shares issued and outstanding which had no determinable market value. Each share of preferred stock is convertible into four shares of common stock and do not have any voting rights.

On October 14, 2015, the Company amended its Articles of Incorporation to designate 4,000,000 preferred shares as "Series B Convertible Preferred Stock" with a \$0.10 par value. Each share of Series B is convertible, at the holders request, into nineteen shares of common stock. Holders of Series B do not have any voting rights.

On October 16, 2015, the Company and T Squared Partners LP entered into a Preferred Stock Exchange Agreement whereby 1,042,753 of Series A preferred shares will be exchanged for 1,000,000 shares of Series B after certain conditions are met. The exchange had not taken place as of December 31, 2015.

### B) Common Stock

The Company's Articles of Incorporation authorize the issuance of 200,000,000 shares at \$0.015 par value. 10,000,000 shares have been designated for an Employee Incentive Plan. As of December 31, 2015 and 2014, no awards were issued related to this plan.

As of December 31, 2015 and 2014, the Company had 81,892,352, shares issued and outstanding.

### C) Noncontrolling Interest

On May 21, 2012, Dolphin Digital Media, Inc. entered into an agreement with a note holder to form Dolphin Kids Club LLC. Under the terms of the agreement, Dolphin converted \$1,500,000 of notes payable and received an additional \$1,500,000 during the year ended December 31, 2012 for a 25% member interest in the newly formed entity. Dolphin holds the remaining 75% and thus controlling interest in the entity. The purpose of this entity is to create and operate online Kids Clubs for selected charitable, educational and civic organizations. The agreement encompasses Kids Clubs created between January 1, 2012 and December 31, 2016. It is a "gross revenue agreement" and Dolphin Digital Media, Inc. will be responsible for paying all associated operating expenses. Revenues from the Dolphin Kids Clubs LLC attributable to the noncontrolling interest were \$17,440 and \$4,750 for the years ended December 31, 2015 and 2014. Per the terms of the Operating agreement, the revenues of the kids clubs are distributed equally to the members until the noncontrolling member is paid \$3,000,000. Based on the revenues earned from the kids clubs during the year ended December 31, 2015, the Company recorded in other current liabilities \$33,006 attributable to the noncontrolling member.

In accordance with ASC 810-20, Dolphin Kids Clubs LLC is consolidated in the Company's financial statements. Amounts attributable to the noncontrolling interest will follow the provisions in the contractual arrangement. Noncontrolling interest is presented as a separate component of shareholders' equity. As of December 31, 2015 and 2014, the Company recorded a noncontrolling interest of \$2,977,809 and \$2,995,250 respectively on its consolidated balance sheets for the 25% interest in Dolphin Kids Clubs LLC.

## NOTE 11 — WARRANTS

A summary of warrants issued, exercised and expired during the years ended December 31, 2015 and 2014, is as follows:

	Shares	Weighted Avg. Exercise Price
<b>Warrants:</b>		
Balance outstanding at December 31, 2014	21,000,000	\$ 0.17
Issued	-	-
Exercised	-	-
Expired	-	-
Balance outstanding at December 31, 2015	21,000,000	\$ 0.17



On March 10, 2010, T Squared Investments, LLC was issued Warrant "E" for 7,000,000 shares of Dolphin Digital Media, Inc. ("DPDM") at an exercise price of \$0.25 per share with an expiration date of December 31, 2012. T Squared Investments LLC can continually pay the Company an amount of money to reduce the exercise price of Warrant "E" until such time as the exercise price of Warrant "E" is effectively \$0.0001 per share. Each time a payment by T Squared Investments LLC is made to DPDM, a side letter will be executed by both parties that states the new effective exercise price of Warrant "E" at that time. At such time when T Squared Investments LLC has paid down Warrant "E" to an exercise price of \$0.0001 per share or less, T Squared Investments LLC shall have the right to exercise Warrant "E" via a cashless provision and hold for six months to remove the legend under Rule 144. During the years ended December 31, 2010 and 2011, T Squared Investments LLC paid down a total of \$1,625,000 and the current exercise price is \$0.0179.

During the year ended December 31, 2012, T Squared Investments LLC agreed to amend a provision in the Preferred Stock Purchase agreement dated May 2011 that required the Company to obtain consent from T Squared Investments LLC before issuing any common stock below the existing conversion price as defined in the agreement. As a result, the Company has extended the expiration date of Warrant "E" (described above) to September 13, 2015 and on September 13, 2012, the Company issued 7,000,000 warrants to T Squared Investments LLC (Warrant "F") with an exercise price of \$0.25 per share. T Squared Investments LLC can continually pay the Company an amount of money to reduce the exercise price of Warrant "F" until such time as the exercise price of Warrant "F" is effectively \$0.0001 per share. At such time, T Squared Investments LLC will have the right to exercise Warrant "F" via a cashless provision and hold for six months to remove the legend under Rule 144 of the Securities Act of 1933. T Squared Investments LLC did not make any payments during the years ended December 31, 2014 and 2013 to reduce the exercise price of the warrants. The Company agreed to extend the warrants until December 31, 2018 with substantially the same terms as herein discussed.

On September 13, 2012, the Company sold 7,000,000 warrants to an unrelated party with an exercise price of \$0.25 per share and expiring on September 13, 2015 for \$35,000. The holder can continually pay the Company an amount of money to reduce the exercise price of the warrants until such time as the exercise price is effectively \$0.0001 per share. At such time, the holder will have the right to exercise the warrants via a cashless provision and hold for six months to remove the legend under Rule 144 of the Securities Act of 1933. The Company recorded the \$35,000 as Additional paid in capital. The holder of the warrants did not make any payments during the years ended December 31, 2014 and 2013 to reduce the exercise price of the warrants. The Company agreed to extend the warrants until December 31, 2018 with substantially the same terms as herein discussed.

None of the warrants were included in computing diluted earnings per share because the effect was anti-dilutive.

#### **NOTE 12— RELATED PARTY TRANSACTIONS**

On September 7, 2012, the Company entered into an employment agreement with its CEO. The employment agreement is effective January 1, 2012 and will continue for an initial term of three years, thereafter, subject to a two year renewal at the option of the CEO. As per the terms of the agreement, the CEO informed the Company on December 31, 2014, that he would renew his employment agreement for a period of two years commencing January 1, 2015. The agreement states that the Executive will receive annual compensation of \$250,000 plus bonus. In addition, the CEO is entitled to an annual discretionary bonus as determined by the Company's Board of Directors. The Executive is eligible to participate in all of the Company's benefit plans offered to its employees. As part of his agreement, he received a \$1,000,000 signing bonus in 2012 that is recorded in accrued compensation on the consolidated balance sheets. Any compensation due to the Executive under this agreement and unpaid and accrued by the Company will accrue interest on the principal amount at a rate of 10% per annum from the date of this agreement until it is paid. The agreement includes provisions for disability, termination for cause and without cause by the Company, voluntary termination by executive and a non-compete clause. The Company accrued \$2,000,000 and \$1,750,000 of compensation as Accrued compensation and \$523,145 and \$336,633 of interest in Other current liabilities on its consolidated balance sheets as of December 31, 2015 and 2014, respectively, in relation to this agreement. For the years ended December 31, 2015 and 2014, the Company accrued and expensed as interest \$186,513 and \$161,513 related to this agreement.

During 2013, the Company entered into an agreement with a related party to provide services of its management team and back office. The Company provided the related party with a development team to source new projects, production executives to develop scripts, approve budgets and hire and liaise with the production team on individual projects during the production and post-production phases, an accounting and finance team to provide accounting services and tax compliance, legal support and domestic and international sales and sales support. The Company also provided office space in Los Angeles and Miami. The arrangement was the term beginning April 1, 2013 through December 31, 2014 for an annual fee of \$2,000,000. For the year ended December 31, 2014, the Company recorded revenues in the amount of \$2,000,000 related to this agreement. The agreement was not renewed as the related party no longer required these services.

The Company has 14,000,000 warrants outstanding with T-Squared Investments LLC, a related party which owns 23% of the fully diluted common shares. The warrants have an exercise price of \$0.25 and expire December 31, 2018. T-Squared Investments, LLC paid down a total of \$1,625,000 to reduce the exercise price on the warrants and as a result 7,000,000 warrants have an exercise price of \$.0179. Note 11 details the terms of these warrants.

During 2015, the Company agreed to pay a related party, Dolphin Entertainment, Inc. \$250,000 for a script that it had developed for a web series that the Company produced during the year ended December 31, 2015. As of December 31, 2015, the Company recorded an accrual of \$250,000 in other current liabilities on its consolidated balance sheets.

On October 14, 2015, the Company and DDM Merger Sub, Inc. ("Merger Subsidiary"), a wholly owned subsidiary of the Company, entered into a merger agreement with Dolphin Films, Inc. and Dolphin Entertainment, Inc. both entities owned by a related party. Pursuant to the Merger Agreement, Merger Subsidiary agreed to merge with and into Dolphin Films (the "Merger") with Dolphin Films surviving the Merger. As a result of the Merger, the Company will acquire Dolphin Films. As consideration for the Merger, the Company will issue 2,300,000 shares of Series B Convertible Preferred Stock, par value \$0.10 per share, and 1,000,000 shares of Series C Convertible Preferred Stock, par value \$0.001 per share (the "Merger Consideration") to Dolphin Entertainment. The Series C Convertible Preferred Stock will be a new designation of preferred shares effectuated by an amendment to the Company's Articles of Incorporation. The merger was contingent on shareholder approval that was obtained by a majority shareholder vote in its annual shareholder meeting on February 22, 2016.

In connection with the Merger, on October 16, 2015, the Company and T Squared Partners LP ("T Squared") entered into a Preferred Stock Exchange Agreement pursuant to which the Company agreed to issue 1,000,000 shares of Series B Convertible Preferred Stock to T Squared in exchange for 1,042,753 shares of Series A Convertible Preferred Stock, previously issued to T Squared. The exchange of shares of Series B Convertible Preferred Stock for shares of Series A Convertible Preferred Stock will take place at the effective time of the Merger, which is when the plan of merger to be filed by the parties with the Secretary of State of the State of Florida becomes effective.

On October 19, 2015, the Company filed Articles of Amendment to its Articles of Incorporation to designate its Series B Convertible Preferred Stock, par value \$0.10 per share. Each share of Series B Convertible Preferred Stock is exercisable into nineteen shares of common stock of the Company. The Series B Convertible Preferred Stock has a liquidation value of \$0.10 per share, has dividend rights on parity with the Company's common stock and has no voting rights.

#### NOTE 13 — INCOME TAXES

Income tax expense (benefit) is as follows:

	December 31,	
	2015	2014
Current income tax expense (benefit)		
Federal	\$ -	\$ -
State	-	-
	\$ -	\$ -
Deferred income tax expense (benefit)		
Federal	\$ (1,354,370)	\$ (662,621)
State	(202,112)	7,645
	\$ (1,556,482)	\$ (654,976)
Change in valuation allowance (benefit)		
Federal	\$ 1,354,370	\$ 662,621
State	202,112	(7,645)
	1,556,482	654,976
Income tax expense	\$ -	\$ -

At December 31, 2015 and 2014, the Company had deferred tax assets and liabilities as a result of temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax values at December 31, 2015 and 2014, are as follows:

	December 31,	
	2015	2014
Deferred tax assets:		
Current:		
Accrued expenses	\$ 184,726	\$ 74,625
Interest expense	726,575	441,321
Deferred Rent	11,251	16,223
Accrued compensation	779,967	646,900
Other expenses	3,649	3,571
Valuation Allowance	<u>(1,698,981)</u>	<u>(1,175,443)</u>
Long Term:		
Capitalized costs	829,108	\$ 856,820
Capitalized production costs	219,657	0
Charitable contributions	319,091	230,614
Net operating losses and credits	5,170,093	4,444,294
Valuation Allowance	<u>(6,531,007)</u>	<u>(5,498,063)</u>
Total deferred tax assets	\$ 14,130	\$ 40,862
Deferred tax liability:		
Current:		
Prepaid expenses	(3,784)	(4,198)
Long term:		
Fixed assets	(10,346)	(12,540)
Capitalized production costs	0	(24,124)
Total net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2015, the Company has approximately \$14,175,000 of net operating loss carryforwards for U.S. federal income tax purposes that begin to expire in 2028. Additionally, the Company has approximately \$8,580,000 of net operating loss carryforwards for Florida state income tax purposes that begin to expire in 2029 and approximately \$1,025,000 of California net operating loss carryforwards that begin to expire in 2032. In assessing the ability to realize the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. Management believes it is more likely than not that the deferred tax asset will not be realized and has recorded a net valuation allowance of \$8,229,988 and \$6,673,506 as of December 31, 2015 and 2014, respectively.

The Company did not have any income tax expense or benefit for the years ended December 31, 2015 and 2014. A reconciliation of the federal statutory tax rate with the effective tax rate from continuing operations follows:

	2015	2014
Federal statutory tax rate	(34.0)%	(34.0)%
Permanent items affecting tax rate	0.8%	0.6%
State income taxes, net of federal income tax benefit	(3.3)%	(1.0)%
Change in Deferred Rate	(1.2)%	0.0%
Return to Provision Adjustment	0.2%	0.0%
Miscellaneous items	(1.0)%	0.2%
Change in valuation allowance	38.5%	34.2%
Effective tax rate	0.00%	0.00%

As of December 31, 2015 and 2014, the Company does not have any material unrecognized tax benefits and accordingly has not recorded any interest or penalties related to unrecognized tax benefits. The Company does not believe that unrecognized tax benefits will significantly change within the next twelve months. The Company and its subsidiaries file federal, Florida and California income tax returns. These returns remain subject to examination by taxing authorities for all years after December 31, 2011.

#### NOTE 14— LEASES

On November 1, 2011, the Company entered into a 60 month lease agreement for office space in Miami with an unrelated party. On June 1, 2014, the Company entered into a 62 month lease agreement for office space in Los Angeles, California. The monthly rent is \$13,746 with annual increases of 3% for years 1-3 and 3.5% for the remainder of the lease. The Company is also entitled to four half months of free rent over the life of the agreement.

#### Lease Payments

Future minimum payments for operating leases in effect at December 31, 2015 were as follows:

2016	\$	244,762
2017		178,570
2018		184,820
2019		110,446
2020		-
Thereafter		-
Total	\$	718,598

Rent expense for the years ended December 31, 2015 and 2013 was \$226,212 and \$201,602, respectively.

## NOTE 15 — COMMITMENTS AND CONTINGENCIES

### Litigation

In or about January 25, 2010, an action was filed by Tom David against Winterman Group Limited, Dolphin Digital Media (Canada) Ltd., Malcolm Stockdale and Sara Stockdale in the Superior Court of Justice in Ontario (Canada) alleging breach of a commercial lease and breach of a personal guaranty. On or about March 18, 2010, Winterman Group Limited, Malcolm Stockdale and Sara Stockdale filed a Statement of Defense and Crossclaim. In the Statement of Defense, Winterman Group Limited, Malcolm Stockdale and Sara Stockdale deny any liability under the lease and guaranty. In the Crossclaim filed against Dolphin Digital Media (Canada) Ltd., Winterman Group Limited, Malcolm Stockdale and Sara Stockdale seek contribution or indemnity against Dolphin Digital Media (Canada) Ltd. alleging that Dolphin Digital Media (Canada) agreed to relieve Winterman Group Limited, Malcolm Stockdale and Sara Stockdale from any and all liability with respect to the lease or the guaranty. On or about March 19, 2010, Winterman Group Limited, Malcolm Stockdale and Sara Stockdale filed a Third Party Claim against the Company seeking contribution or indemnity against the Company, formerly known as Logica Holdings, Inc., alleging that the Company agreed to relieve Winterman Group Limited, Malcolm Stockdale and Sara Stockdale from any and all liability with respect to the lease or the guaranty. The Third Party Claim was served on the Company on April 6, 2010. On or about April 1, 2010, Dolphin Digital Media (Canada) filed a Statement of Defense and Crossclaim. In the Statement of Defense, Dolphin Digital Media (Canada) denied any liability under the lease and in the Crossclaim against Winterman Group Limited, Malcolm Stockdale and Sara Stockdale, Dolphin Digital Media (Canada) seeks contribution or indemnity against Winterman Group Limited, Malcolm Stockdale and Sara Stockdale alleging that the leased premises were used by Winterman Group Limited, Malcolm Stockdale and Sara Stockdale for their own use. On or about April 1, 2010, Dolphin Digital Media (Canada) also filed a Statement of Defense to the Crossclaim denying any liability to indemnify Winterman Group Limited, Malcolm Stockdale and Sara Stockdale. The ultimate results of these proceedings against the Company cannot be predicted with certainty. On or about March 12, 2012, the Court served a Status Notice on all the parties indicating that since more than (2) years had passed since a defence in the action had been filed, the case had not been set for trial and the case had not been terminated, the case would be dismissed for delay unless action was taken within ninety (90) days of the date of service of the notice. The Company has not filed for a motion to dismiss and no further action has been taken in the case. The ultimate results of these proceedings against the Company could result in a loss ranging from 0 to \$325,000. On March 23, 2012, Dolphin Digital Media (Canada) Ltd filed for bankruptcy in Canada. The bankruptcy will not protect the Company from the Third Party Claim filed against it. However, the Company has not accrued for this loss because it believes that the claims against it are without substance and it is not probable that they will result in loss. During the years ended December 31, 2015 and 2014, the Company has not received any other notifications related to this action.

### Tax Filings

For the year ended December 31, 2011, the Company accrued \$120,000 for estimated penalties associated with not filing certain information returns. The penalties per return are \$10,000 per entity per year. We received notification from the Internal Revenue Service concerning information returns for the year ended December 31, 2009. The Company responded with a letter stating reasonable cause for the noncompliance and requested that penalties be abated. During 2012, we received a notice stating that the reasonable cause had been denied. The Company decided to pay the penalties and not appeal the decision for the 2009 Internal Revenue Service notification. There is no associated interest expense as the tax filings are for information purposes only and would not result in further income taxes to be paid by the Company. The Company made payments in the amount of \$40,000 during the year ended December 31, 2012 related to these penalties and \$80,000 remains accrued. The Company has not received any other notifications related to these returns during the years ended December 31, 2014 and 2013. During the year ended December 31, 2014, the Company determined that the Statute of limitations for penalties to be assessed for not filing certain information returns on a timely basis had expired. As such, the Company recorded \$40,000 of other income and reduced its accrued liability related to these tax filings.

### Kids Club

In February 2012, the Company entered into a five year agreement with US Youth Soccer Association, Inc. to create, design and host the US Youth Soccer Clubhouse website. During 2012, the Company hired a third party to begin building the US Soccer Clubhouse website at a cost of \$125,000. The first two installments of \$25,000 each were paid during 2012 and remaining payments were made monthly over a two year period once the website was delivered. The Company expensed the payments since it cannot reasonably estimate future cash flows or revenues from the website development.

In January 2013, the Company entered into an agreement with a worldwide philanthropic organization to create an online kids club to promote the organizations philanthropic philosophy and encourage literacy programs. Effective July 1, 2015, the two parties agreed to amend and restate the agreement. The agreement is for a period of three years from the effective date and will automatically renew for successive terms of three years unless terminated by either party with written notice at least 180 day prior to the expiration of the initial or any subsequent term. The Company is responsible for the creation and marketing of the website, developing and managing the sponsorship package, and hiring of certain employees to administer the program. Each school sponsorship package is \$10,000 with the Company earning \$1,250. The remaining funds are used for program materials and the costs of other partners.

The Company recorded revenues of \$69,761 and \$19,002 during the years ended December 31 2015 and 2014, respectively, related to these agreements.

#### Incentive Compensation Plan

During the year ended December 31, 2012, the Company's Board of Directors approved an Incentive Compensation Plan. The plan was enacted as a way of attracting and retaining exceptional employees and consultants by enabling them to share in the long term growth and financial success of the Company. The plan will be administered by the Board of Directors or a committee designated by the board. As part of an increase in authorized shares approved by the Board of Directors in 2012, 10,000,000 common shares were designated for this plan. No awards have been issued and, as such, the Company has not recorded any liability or equity related to this plan for the years ended December 31, 2015 and 2014.

#### **NOTE 16 – SUBSEQUENT EVENTS**

Subsequent to year end, the Company received \$270,000 in loans from our CEO and we repaid \$31,666 of those loans.

On December 7, 2015, the Company entered into a subscription agreement with an investor pursuant to which the Company issued a convertible note ("Convertible Note") to the Investor in the amount of \$3,164,000. Pursuant to the terms of the Convertible note, a triggering event occurred on February 5, 2016. As such, the entire principal amount of the Convertible Note mandatorily and automatically converted into twelve million, six hundred, fifty six thousand (12,656,000) share of common stock of the Company. No accrued interest was outstanding under the convertible note.

On February 22, 2016, the Company held its 2015 Annual Meeting of Shareholders ("Annual Meeting"). At the Annual Meeting, the shareholders voted and approved (i) Agreement and Plan of Merger between Dolphin Digital Media, Inc., DDM Merger Sub, Inc., Dolphin Films, Inc. and Dolphin Entertainment, Inc. including the issuance of 2,300,000 shares of Series B Convertible Preferred Stock and 1,000,000 shares of Series C Convertible Preferred Stock as consideration for the Merger, (ii) amendment to the Company's Articles of Incorporation to create Series C Convertible Preferred Stock and to increase the number of authorized shares of Common Stock from 200,000,000 to 400,000,000 shares, (iii) the election of five director nominees; and (iv) the ratification of BDO USA LLP as the Company's independent registered public accounting firm for the 2015 fiscal year.

On February 22, 2016, the Board of Directors of the Company approved a 1-for-20 reverse stock split of the Company's common stock. On March 10, 2016, Mr. O'Dowd, President, Chairman and CEO of the Company, and holder of approximately 52% of the Company's common stock, gave written consent to the reverse stock split as approved by the Board of Directors. The Company filed a preliminary information statement on Schedule 14-C with the SEC and expects to effectuate the reverse stock split during the second quarter of 2016.

On March 4, 2016, the Company entered into a subscription agreement (the "Subscription Agreement") with Dolphin Entertainment, Inc., ("Dolphin Entertainment") holder of that certain outstanding promissory note dated December 31, 2011 (the "Note") issued by the Company to Dolphin Entertainment. Pursuant to the terms of the Subscription Agreement, the Company and Dolphin Entertainment agreed to convert the \$3,073,410 aggregate amount of principal and interest outstanding under the Note into shares of common stock of the Company, par value \$0.015 per share (the "Common Stock"). On March 4, 2016, Dolphin Entertainment converted the principal balance of the Note, together with accrued interest, into an aggregate of 12,293,640 shares of Common Stock at \$0.25 per share as payment in full of the Note and accrued interest.

On March 7, 2016 the Company, DDM Merger Sub, Inc., a Florida corporation and a direct wholly-owned subsidiary of the Company ("Merger Subsidiary"), Dolphin Entertainment and Dolphin Films, Inc., a Florida corporation and a direct wholly-owned subsidiary of Dolphin Entertainment ("Dolphin Films"), completed their previously announced merger (the "Merger") contemplated by the Agreement and Plan of Merger, dated October 14, 2015 (the "Merger Agreement"). Pursuant to the terms of the Merger Agreement, Merger Subsidiary merged with and into Dolphin Films (the "Merger") with Dolphin Films surviving the Merger. As a result of the Merger, the Company acquired Dolphin Films. At the effective time of the Merger, each share of Dolphin Films' common stock, par value \$1.00 per share, issued and outstanding, was converted into the right to receive the consideration for the Merger (the "Merger Consideration"). The Company issued 2,300,000 shares of Series B Convertible Preferred Stock, par value \$0.10 per share, and 1,000,000 shares of Series C Convertible Preferred Stock, par value \$0.001 per share to Dolphin Entertainment as the Merger Consideration.

On March 29, 2016, the Company entered into ten individual subscription agreements (the "Subscription Agreements") with each of ten subscribers (the "Subscribers"). The Subscribers were holders of outstanding promissory notes of the Company, issued pursuant to certain Loan and Security Agreements in 2014 and 2015 (the "Notes"). Pursuant to the terms of the Subscription Agreements, the Company and the Subscribers agreed to convert the \$2,883,377 aggregate amount of principal and interest outstanding into an aggregate of 11, 533,508 shares of common stock at \$0.25 per share as payment in full of each of the Notes. One of the note holders is a director of the Company and was issued 222,569 shares of common stock in payment of a \$50,000 note and \$5,630 of interest.

**AMENDED ARTICLES OF INCORPORATION**

**OF**

**DOLPHIN DIGITAL MEDIA, INC.**

**(Conformed copy incorporating all amendments through February 23, 2016)**

**ARTICLE I.**

**Name, Principal Place of Business and**

**Registered Agent and Office**

The name of the Corporation is Dolphin Digital Media, Inc. The principal place of business and mailing address of this Corporation shall be 2151 Le Jeune Road, Suite 150-Mezzanine, Coral Gables, Florida 33134.

The street address of the registered office of this Corporation is Dolphin Digital Media, Inc., 2151 Le Jeune Road, Suite 150-Mezzanine, Coral Gables, Florida 33134. The name of the registered agent of this Corporation at such address is Mirta A. Negrini.

**ARTICLE II.**

**Purpose and Powers**

The purpose for which the Corporation is organized is to engage in or transact any and all lawful activities or business for which a corporation may be incorporated under the laws of the State of Florida. The Corporation shall have all of the corporate powers enumerated in the Florida Business Corporation Act.

**ARTICLE III.**

**Capital Stock**

**A. AUTHORIZED SHARES**

The total number of shares of all classes of stock that the Corporation shall have the authority to issue is Four Hundred Ten Million (410,000,000) shares, of which Four Hundred Million (400,000,000) shares shall be Common Stock, par value \$0.015 per share ("Common Stock") and Ten Million (10,000,000) shares shall be Preferred Stock, having a par value of \$0.001 per share ("Preferred Stock"). The Board of Directors is expressly authorized to provide for the classification and reclassification of any unissued shares of Common Stock or Preferred Stock and the issuance thereof in one or more classes or series without the approval of the stockholders of the Corporation. Of the Preferred Stock, 1,042,753 have been designated Series A Convertible Preferred Stock, par value \$0.001 per share, 4,000,000 have been designated Series B Convertible Preferred Stock, par value \$0.10 per share, and 1,000,000 have been designated Series C Convertible Preferred Stock, par value \$0.001 per share.

**B. PROVISIONS RELATING TO COMMON STOCK**

1. Relative Rights. The Common Stock shall be subject to all of the rights, privileges, preferences and priorities of the Preferred Stock as set forth in the certificate of designations filed to establish the respective series of Preferred Stock. Except as provided in this Article III.B, each share of Common Stock shall have the same relative rights and shall be identical in all respects as to all matters.

2. Voting Rights. Each holder of shares of Common Stock shall be entitled to attend all special and annual meetings of the stockholders of the Corporation. On all matters upon which stockholders are entitled or permitted to vote, every holder of Common Stock shall be entitled to cast one (1) vote in person or by proxy for each outstanding share of Common Stock standing in such holder's name on the transfer books of the Corporation. Holders of Common Stock shall not possess cumulative voting rights. Except as otherwise provided in these Articles of Incorporation or by applicable law, the holders of shares of Common Stock shall vote subject to any voting rights which may be granted to holders of Preferred Stock.

3. Dividends. Whenever there shall have been paid, or declared and set aside for payment, to the holders of shares of any class of stock having preference over the Common Stock as to the payment of dividends, the full amount of dividends and of sinking fund or retirement payments, if any, to which such holders are respectively entitled in preference to the Common Stock, and any class or series of stock entitled to participate therewith as to dividends, shall be entitled to receive dividends, when, as, and if declared by the Board of Directors, out of any assets legally available for the payment of dividends thereon.

4. Dissolution, Liquidation, Winding Up. In the event of any dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, the holders of record of the Common Stock then outstanding, and all holders of any class or series of stock entitled to participate therewith, in whole or in part, as to distribution of assets, shall become entitled to participate equally on a per share basis in the distribution of any assets of the Corporation remaining after the Corporation shall have paid or provided for payment of all debts and liabilities of the Corporation, and shall have paid, or set aside for payment, to the holders of any class of stock having preference over the Common Stock in the event of dissolution, liquidation or winding up, the full preferential amounts (if any) to which they are entitled.

### C. PREFERRED STOCK

1. Issuance, Designations, Powers, etc. The Board of Directors expressly is authorized, subject to limitations prescribed by the Florida Business Corporation Act and the provisions of these Articles of Incorporation, to provide, by resolution for the issuance from time to time of the shares of Preferred Stock in one or more series, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and other rights of the shares of each such series and to fix the qualifications, limitations and restrictions thereon, including, but without limiting the generality of the foregoing, the following:

- (a) The number of shares constituting that series and the distinctive designation of that series;
- (b) The dividend rate on the shares of that series, whether dividends shall be cumulative, and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series;
- (c) Whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;
- (d) Whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;
- (e) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;
- (f) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;
- (g) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of that series; and
- (h) Any other relative powers, preferences, and rights of that series, and qualifications, limitations or restrictions on that series.

2. Dissolution, Liquidation, Winding Up. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of Preferred Stock of each series shall be entitled to receive only such amount or amounts as shall have been fixed by the resolution or resolutions of the Board of Directors providing for the issuance of such series.



**D. PROVISIONS RELATING TO SERIES A CONVERTIBLE PREFERRED STOCK**

Section 1. Definitions. Capitalized terms used and not otherwise defined herein that are defined in the Purchase Agreement (as defined below) shall have the meanings given such terms in the Purchase Agreement. For the purposes hereof, the following terms shall have the following meanings:

“Bankruptcy Event” means any of the following events: (a) the Company or any Significant Subsidiary (as such term is defined in Rule 1.02(s) of Regulation S-X) thereof commences a case or other proceeding under any bankruptcy, reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction relating to the Company or any Significant Subsidiary thereof; (b) there is commenced against the Company or any Significant Subsidiary thereof any such case or proceeding that is not dismissed within 60 days after commencement; (c) the Company or any Significant Subsidiary thereof is adjudicated insolvent or bankrupt or any order of relief or other order approving any such case or proceeding is entered; (d) the Company or any Significant Subsidiary thereof suffers any appointment of any custodian or the like for it or any substantial part of its property that is not discharged or stayed within 60 days; (e) the Company or any Significant Subsidiary thereof makes a general assignment for the benefit of creditors; (f) the Company or any Significant Subsidiary thereof calls a meeting of its creditors with a view to arranging a composition, adjustment or restructuring of its debts; or (g) the Company or any Significant Subsidiary thereof, by any act or failure to act, expressly indicates its consent to, approval of or acquiescence in any of the foregoing or takes any corporate or other action for the purpose of effecting any of the foregoing.

“Commission” means the Securities and Exchange Commission.

“Common Stock” means the Company’s common stock, par value \$.015 per share, and stock of any other class into which such shares may hereafter have been reclassified or changed.

“Common Stock Equivalents” means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Conversion Date” shall have the meaning set forth in Section “Conversion Ratio” shall have the meaning set forth in Section “Conversion Value” shall have the meaning set forth in Section 6(a).

“Conversion Ratio” shall have the meaning set forth in Section 6(a).

“Conversion Shares” means, collectively, the shares of Common Stock into which the shares of Series A Preferred Stock are convertible in accordance with the terms hereof.

“Conversion Value” shall have the meaning set forth in Section 6(a). “Exchange Act” means the Securities Exchange Act of 1934, as amended. “Holder” shall have the meaning given such term in Section 2 hereof.

“Junior Securities” means the Common Stock and all other equity or equity equivalent securities of the Company other than those securities that are explicitly senior in rights or liquidation preference to the Series A Preferred Stock.

“Original Issue Date” shall mean December 31, 2010.

“Person” means a Company, an association, a partnership, a limited liability company, a business association, an individual, a government or political subdivision thereof or governmental agency.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Series A Preferred Stock” shall have the meaning set forth in Section 2.

“Subsidiary” shall mean a Company, limited liability company, partnership, joint venture or other business entity of which the Company owns beneficially or of record more than 49% of the equity interest.

“Trading Day” means a day on which the Common Stock is traded on a Trading Market.

“Trading Market” means the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question : the Nasdaq SmallCap Market, the New York Stock Exchange, the Nasdaq National Market or the OTC Bulletin Board.

“Transaction Documents” shall have the meaning set forth in the Purchase Agreement.

Section 2. Designation, Amount and Par Value. The series of preferred stock shall be designated as the Company’s Series A Convertible Preferred Stock (the “Series A Preferred Stock” or “Preferred Stock”) and the number of shares so designated shall be 1,042,753 (each a “Holder” and collectively, the “Holders”). Each share of Series A Preferred Stock shall have a par value of \$0.001 per share. Capitalized terms not otherwise defined herein shall have the meaning given such terms in Section 1 hereof.

Section 3. Dividends. No dividends shall be payable with respect to the Series A Preferred Stock.

Section 4. Voting Rights. The Series A Preferred Stock shall have no voting rights. However, so long as any shares of Series A Preferred Stock are outstanding, the Company shall not, without the affirmative approval of the Holders of the shares of the Series A Preferred Stock then outstanding, (a) alter or change adversely the powers, preferences or rights given to the Series A Preferred Stock or alter or amend this Certificate of Designation, (b) authorize or create any class of stock ranking as to dividends or distribution of assets upon a Liquidation (as defined in Section 5) senior to or otherwise pari passu with the Series A Preferred Stock, or any of preferred stock possessing greater voting rights or the right to convert at a more favorable price than the Series A Preferred Stock, (c) amend its certificate or articles of incorporation or other charter documents in breach of any of the provisions hereof, (d) increase the authorized number of shares of Series A Preferred Stock, or (e) enter into any agreement with respect to the foregoing.

Section 5. Liquidation. Upon any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary (a “Liquidation”), the Holders shall be entitled to receive out of the assets of the Company, whether such assets are capital or surplus, for each share of Series A Preferred Stock an amount equal to \$1.00 (the “Liquidation Value”) before any distribution or payment shall be made to the holders of any Junior Securities, and if the assets of the Company shall be insufficient to pay in full such amounts, then the entire assets to be distributed to the Holders shall be distributed among the Holders ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full.

Section 6. Conversion.

a. Conversions at Option of Holder. Each share of Series A Preferred Stock shall be initially convertible (subject to the limitations set forth in Section 6(c)), into Four (4) shares of Common Stock (as adjusted as provided below, the “Conversion Ratio”) at the option of the Holders, at any time and from time to time from and after the Original Issue Date. Holders shall effect conversions by providing the Company with the form of conversion notice attached hereto as Exhibit A (a “Notice of Conversion”) as fully and originally executed by the Holder, together with the delivery by the Holder to the Company of the stock certificate(s) representing the number of shares of Series A Preferred Stock so converted, with such stock certificates being duly endorsed in full for transfer to the Company or with an applicable stock power duly executed by the Holder in the manner and form as deemed reasonable by the transfer agent of the Common Stock. Each Notice of Conversion shall specify the number of shares of Series A Preferred Stock to be converted, the number of shares of Series A Preferred Stock owned prior to the conversion at issue, the number of shares of Series A Preferred Stock owned subsequent to the conversion at issue, the stock certificate number and the shares of Series A Preferred Stock represented thereby which are accompanying the Notice of Conversion, and the date on which such conversion is to be effected, which date may not be prior to the date the Holder delivers such Notice of Conversion and the applicable stock certificates to the Company by overnight delivery service (the “Conversion Date”). If no Conversion Date is specified in a Notice of Conversion, the Conversion Date shall be the Trading Day immediately following the date that such Notice of Conversion and applicable stock certificates are received by the Company. The calculations and entries set forth in the Notice of Conversion shall control in the absence of manifest or mathematical error. Shares of Series A Preferred Stock converted into Common Stock in accordance with the terms hereof shall be canceled and may not be reissued. The initial value of the Series A Preferred Stock on the Conversion Date shall be equal to \$0.25 per share (as adjusted pursuant to Section 7 or otherwise as provided herein, the “Conversion Value”). If the initial Conversion Value is adjusted pursuant to Section 7 or as otherwise provided herein, the Conversion Ratio shall likewise be adjusted and the new Conversion Ratio shall equal the Liquidation Value divided by the new Conversion Value. Thereafter, subject to any further adjustments in the Conversion Value, each share of Series A Preferred Stock shall be initially convertible into that number of shares of Common Stock equal to the new Conversion Ratio.

b. Automatic Conversion Upon Change of Control. All of the outstanding shares of Series A Preferred Stock shall be automatically converted into the Conversion Shares upon the close of business on the business day immediately preceding the date fixed for consummation of any transaction resulting in a Change of Control of the Company (an "Automatic Conversion Event"). A "Change in Control" means a consolidation or merger of the Company with or into another company or entity in which the Company is not the surviving entity, the sale of all or substantially all of the assets of the Company to another company or entity not controlled by the then existing stockholders of the Company in a transaction or series of transactions or a tender or exchange is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property. The Company shall not be obligated to issue certificates evidencing the Conversion Shares unless certificates evidencing the shares of Series A Preferred Stock so converted are either delivered to the Company or its transfer agent or the holder notifies the Company or its transfer agent in writing that such certificates have been lost, stolen, or destroyed and executes an agreement satisfactory to the Company to indemnify the Company from any loss incurred by it in connection therewith. Upon the conversion of the Series A Preferred Stock pursuant to this Section 6(b) (i), the Company shall promptly send written notice thereof, by hand delivery or by overnight delivery, to the holder of record of all of the Series A Preferred Stock at its address then shown on the records of the Company, which notice shall state that certificates evidencing shares of Series A Preferred Stock must be surrendered at the office of the Company (or of its transfer agent for the Common Stock, if applicable).

c. Beneficial Ownership Limitation. Except as provided in Section 6(b) above, the Company shall not effect any conversion of the Series A Preferred Stock, and the Holder shall not have the right to convert any portion of the Series A Preferred Stock to the extent that after giving effect to such conversion, the Holder (together with the Holder's affiliates), as set forth on the applicable Notice of Conversion, would beneficially own in excess of 9.9% of the number of shares of the Common Stock outstanding immediately after giving effect to such conversion. For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder and its affiliates shall include the number of shares of Common Stock issuable upon conversion of the Series A Preferred Stock with respect to which the determination of such sentence is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (A) conversion of the remaining, nonconverted shares of Series A Preferred Stock beneficially owned by the Holder or any of its affiliates, so long as such shares of Series A Preferred Stock are not convertible within sixty (60) days from the date of such determination, and (B) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including the Warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its affiliates, so long as such other securities of the Company are not exercisable nor convertible within sixty (60) days from the date of such determination. For purposes of this Section 6(c), in determining the number of outstanding shares of Common Stock, the Holder may rely on the number of outstanding shares of Common Stock as reflected in the most recent of the following: (A) the Company's most recent quarterly reports, Form 10-Q, Form 10-QSB, Annual Reports, Form 10-K, or Form 10-KSB, as the case may be, as filed with the Commission under the Exchange Act (B) a more recent public announcement by the Company or (C) any other written notice by the Company or the Company's transfer agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of the Holder, the Company shall within two (2) Trading Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including the Series A Preferred Stock, by the Holder or its affiliates since the date as of which such number of outstanding shares of Common Stock was publicly reported by the Company. This Section 6(c) may be waived or amended only with the consent of the Holders of all of the Series A Preferred Stock and the consent of the holders of a majority of the shares of outstanding Common Stock of the Company who are not Affiliates. For the purpose of the immediately preceding sentence, the term "Affiliate" shall mean any person: (a) that directly or indirectly, through one or more intermediaries controls, or is controlled by, or is under common control with the Company, or (b) who beneficially owns any shares of Series A Preferred Stock. For purposes of this Section 6(c), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act.

d. Mechanics of Conversion.

i. Delivery of Certificate Upon Conversion. Except as otherwise set forth herein, not later than three Trading Days after each Conversion Date (the "Share Delivery Date"), the Company shall deliver to the Holder (A) a certificate or certificates which, after the Effective Date, shall be free of restrictive legends and trading restrictions (other than those required by the Purchase Agreement) representing the number of shares of Common Stock being acquired upon the conversion of shares of Series A Preferred Stock, and (B) a bank check in the amount of accrued and unpaid dividends (if the Company has elected or is required to pay accrued dividends in cash). After the Effective Date, the Company shall, upon request of the Holder, deliver any certificate or certificates required to be delivered by the Company under this Section electronically through the Depository Trust Company or another established clearing Company performing similar functions. If in the case of any Notice of Conversion such certificate or certificates are not delivered to or as directed by the applicable Holder by the third Trading Day after the Conversion Date, the Holder shall be entitled to elect by written notice to the Company at any time on or before its receipt of such certificate or certificates thereafter, to rescind such conversion, in which event the Company shall immediately return the certificates representing the shares of Series A Preferred Stock tendered for conversion.

ii. Obligation Absolute. The Company's obligations to issue and deliver the Conversion Shares upon conversion of Series A Preferred Stock in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the Holder in connection with the issuance of such Conversion Shares. In the event a Holder shall elect to convert any or all of its Series A Preferred Stock, the Company may not refuse conversion based on any claim that such Holder or anyone associated or affiliated with the Holder of has been engaged in any violation of law, agreement or for any other reason, unless, an injunction from a court, on notice, restraining and or enjoining conversion of all or part of this Series A Preferred Stock shall have been sought and obtained and the Company posts a surety bond for the benefit of the Holder in the amount of 150% of the Conversion Value of Series A Preferred Stock outstanding, which is subject to the injunction, which bond shall remain in effect until the completion of arbitration/litigation of the dispute and the proceeds of which shall be payable to such Holder to the extent it obtains judgment. In the absence of an injunction precluding the same, the Company shall issue Conversion Shares upon a properly noticed conversion.

iii. Reservation of Shares Issuable Upon Conversion. The Company covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock solely for the purpose of issuance upon conversion of the Series A Preferred Stock, each as herein provided, free from preemptive rights or any other actual contingent purchase rights of persons other than the Holders, not less than such number of shares of the Common Stock as shall (subject to any additional requirements of the Company as to reservation of such shares set forth in the Purchase Agreement) be issuable (taking into account the adjustments and restrictions of Section 7) upon the conversion of all outstanding shares of Series A Preferred Stock. The Company covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly and validly authorized, issued and fully paid, non-assessable and, if the Conversion Shares Registration Statement is then effective under the Securities Act, registered for public sale in accordance with such Conversion Shares Registration Statement Fractional Shares. Upon a conversion hereunder, the Company shall not be required to issue stock certificates representing fractions of shares of the Common Stock.

iv. Transfer Taxes. The issuance of certificates for shares of the Common Stock on conversion of the Series A Preferred Stock shall be made without charge to the Holders thereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificate, provided that the Company shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holder of such shares of Series A Preferred Stock so converted and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

a. Stock Dividends and Stock Splits. If the Company, at any time while the Series A Preferred Stock is outstanding : (A) shall pay a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in- shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company pursuant to this Series A Preferred Stock), (B) subdivide outstanding shares of Common Stock into a larger number of shares, (C) combine (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issue by reclassification of shares of the Common Stock any shares of capital stock of the Company, then the Conversion Value shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding before such event and of which the denominator shall be the number of shares of Common Stock outstanding after such event. Any adjustment made pursuant to this Section shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b. Subsequent Equity Sales. Until October 31, 2012, the Company shall be prohibited from effecting or entering into an agreement to effect any Subsequent Financing involving a "Variable Rate Transaction" or an "MFN Transaction" (each as defined below). The term "Variable Rate Transaction" shall mean a transaction in which the Company issues or sells (i) any debt or equity securities that are convertible into, exchangeable or exercisable for, or include the right to receive additional shares of Common Stock either (A) at a conversion, exercise or exchange rate or other price that is based upon and/or varies with the trading prices of or quotations for the shares of Common Stock at any time after the initial issuance of such debt or equity securities, or (B) with a conversion, exercise or exchange price that is subject to being reset at some future date after the initial issuance of such debt or equity security or upon the occurrence of specified or contingent events directly or indirectly related to the business of the Company or the market for the Common Stock exclusive in all cases of stock splits, stock dividends, recapitalization and other similar rights. The term "MFN Transaction" shall mean a transaction in which the Company issues or sells any securities in a capital raising transaction or series of related transactions which grants to an investor the right to receive additional shares based upon future transactions of the Company on terms more favorable than those granted to such investor in such offering. Any Purchaser shall be entitled to obtain injunctive relief against the Company to preclude any such issuance, which remedy shall be in addition to any right to collect damages. Notwithstanding the foregoing, this Section 7(b) shall not apply in respect of an Exempt Issuance, except that no Variable Rate Transaction or MFN Transaction shall be an Exempt Issuance.

c. Pro Rata Distributions. If the Company, at any time while Series A Preferred Stock is outstanding, shall distribute to all holders of Common Stock (and not to Holders) evidences of its indebtedness or assets or rights or warrants to subscribe for or purchase any security, then in each such case the Conversion Value shall be determined by multiplying such Conversion Value in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the VWAP determined as of the record date mentioned above, and of which the numerator shall be such VWAP on such record date less the then fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors in good faith. In either case the adjustments shall be described in a statement provided to the Holders of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

d. Calculations. All calculations under this Section 7 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Company, and the description of any such shares of Common Stock shall be considered on issue or sale of Common Stock. For purposes of this Section 7, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) actually issued and outstanding.

e. Notice to Holders.

i. Adjustment to Conversion Price. Whenever the Conversion Value is adjusted pursuant to any of this Section 7, the Company shall promptly mail to each Holder a notice setting forth the Conversion Value after such adjustment and setting forth a brief statement of the facts requiring such adjustment. If the Company issues a variable rate security, despite the prohibition thereon in the Purchase Agreement, the Company shall be deemed to have issued Common Stock or Common Stock Equivalents at the lowest possible conversion or exercise price at which such securities may be converted or exercised in the case of a Variable Rate Transaction (as defined in the Purchase Agreement), or the lowest possible adjustment price in the case of an MFN Transaction (as defined in the Purchase Agreement).

ii. Notices of Other Events. If (A) the Company shall declare a dividend (or any other distribution) on the Common Stock; (B) the Company shall declare a redemption of the Common Stock; (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock; (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; then in each case, the Company shall cause to be filed at each office or agency maintained for the purpose of conversion of the Series A Preferred Stock, and shall cause to be mailed to the Holders at their last addresses as they shall appear upon the stock books of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification; provided, that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice.

Section 8. Miscellaneous.

a. Notices. Any and all notices or other communications or deliveries to be provided by the Holders hereunder, including, without limitation, any Notice of Conversion, shall be in writing and delivered personally, by facsimile, sent by a nationally recognized overnight courier service, addressed to the Company, at the address provided in the Purchase Agreement, facsimile number (212) 671-1403, Attn: c/o T Squared Capital LLC, 1325 Sixth Avenue, Floor 28, New York, New York 10019, Attn: Thomas M. Suave or such other address or facsimile number as the Company may specify for such purposes by notice to the Holders delivered in accordance with this Section. Any and all notices or other communications or deliveries to be provided by the Company hereunder shall be in writing and delivered personally, by facsimile sent by a nationally recognized overnight courier service addressed to each Holder at the facsimile telephone number or address of such Holder appearing on the books of the Company or if no such facsimile telephone number or address appears, at the principal place of business of the Holder. Any notice or other communication or deliveries hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section prior to 5:30 p.m. (New York City time) (ii) the date after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section later than 5:30 p.m. (New York City time) on any date and earlier than 11:59 p.m. (New York City time) on such date, (iii) the second Business Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given.

b. Lost or Mutilated Preferred Stock Certificate. If a Holder's Series A Preferred Stock certificate shall be mutilated, lost, stolen or destroyed, the Company shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated certificate, or in lieu of or in substitution for a lost, stolen or destroyed certificate, a new certificate for the shares of Series A Preferred Stock so mutilated, lost, stolen or destroyed but only upon receipt of evidence of such loss, theft or destruction of such certificate of the ownership thereof and identity if requested, all reasonably satisfactory to the Company.

c. Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

d. Headings. Title headings contained herein are for convenience only, do not constitute a part of this Certificate of Designations and shall not be deemed to limit or affect any of the provisions hereof.

## **E. PROVISIONS RELATING TO SERIES B CONVERTIBLE PREFERRED STOCK**

1. Designation and Amount. There shall be a series of Preferred Stock that shall be designated as “ Series B Convertible Preferred Stock,” and the number of shares constituting such series shall be 4,000,000. The number of shares constituting the Series B Convertible Preferred Stock may be increased or decreased by resolution of the Board of Directors; provided, however, that no decrease shall reduce the number of shares of Series B Convertible Preferred Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

### 2. Definitions.

Unless the context otherwise requires, each of the terms defined in this Section 2 shall have, for all purposes of this Certificate of Designation, the meaning herein specified (with terms defined in the singular having comparable meanings when used in the plural):

“Articles of Incorporation” means the Company’s Articles of Incorporation, as in effect on the date of this Certificate of Designation.

“Board of Directors” means the Board of Directors of the Company.

“Business Day” means a day other than a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or required by law to close.

“By-Laws” means the Company’s By-Laws, as amended, as in effect on the date of this Certificate of Designation.

“Capital Stock” means any and all shares, interests, participations or other equivalents in the equity interest (however designated) in the Company.

“Common Share Equivalents” means securities, options, warrants, derivatives, debt instruments or other rights convertible into, or exercisable or exchangeable for, or entitling the holder thereof to receive directly or indirectly, Common Stock.

“Common Stock” means the common stock, \$0.015 par value per share, of the Company or any other Capital Stock into which such shares of common stock shall be reclassified or changed.

“Common Stock Transfer Agent” has the meaning set forth in Section 6(c) hereof.

“Company’s Organizational Documents” means the Articles of Incorporation, this Certificate of Designations, any other certificate of designations issued pursuant to the Articles of Incorporation, and the By-Laws.

“Conversion Number” has the meaning set forth in Section 6(a) hereof.

“Conversion Shares” has the meaning set forth in Section 6(a) hereof.

“Converted Shares” has the meaning set forth in Section 6(b) hereof.

“Converting Shares” has the meaning set forth in Section 6(b) hereof.

“Holder” means the record holders of the shares of Series B Convertible Preferred Stock, as shown on the books and records of the Company.

“Junior Stock” has the meaning set forth in Section 3 hereof.

“Liquidation Event” means (i) any voluntary or involuntary liquidation, dissolution or winding-up of the Company, (ii) the consummation of a merger or consolidation in which the stockholders of the Company prior to such transaction own less than a majority of the voting securities of the entity surviving such transaction, or (iii) the sale, distribution or other disposition of all or substantially all of the Company’s assets.

“Liquidation Preference” has the meaning set forth in Section 5(a) hereof.

“Market Price” means the last reported sale price of the Common Stock on the primary U.S. national securities exchange, automated quotation system or inter-dealer quotation system upon which the Common Stock is then traded or quoted.

“Parity Stock” has the meaning set forth in Section 3 hereof.

“Person” includes all natural persons, corporations, business trusts, limited liability companies, associations, companies, partnerships, joint ventures and other entities, as well as governments and their respective agencies and political subdivisions.

“Senior Stock” has the meaning set forth in Section 3 hereof.

“Series B Convertible Preferred Stock” has the meaning set forth in Section 1 hereof.

“Stated Value” means \$0.10 per share of Series B Convertible Preferred Stock, as may be adjusted for any stock split, reverse stock split, dividend or similar event relating to the Series B Convertible Preferred Stock.

“Transfer Agent” means the entity designated from time to time by the Company to act as the registrar and transfer agent for the Series B Convertible Preferred Stock or, if no entity has been so designated to act in such capacity, the Company.

### 3. Ranking.

The Series B Convertible Preferred Stock shall, with respect to rights on the liquidation, winding-up and dissolution of the Company (as provided in Section 5 below), rank (a) senior to all classes of Common Stock and to each other class of Capital Stock or series of Preferred Stock established hereafter by the Board of Directors the terms of which expressly provide that such class ranks junior to the Series B Convertible Preferred Stock as to rights on the liquidation, winding-up and dissolution of the Company (collectively referred to as the “Junior Stock”), (b) on a parity with each other class of Capital Stock or series of Preferred Stock established hereafter by the Board of Directors with the written consent of the Holders of at least a majority of the outstanding shares of Series B Convertible Preferred Stock, the terms of which expressly provide that such class or series ranks on a parity with the Series B Convertible Preferred Stock as to rights on the liquidation, winding-up and dissolution of the Company (collectively referred to as the “Parity Stock”) and (c) junior to any future class of Preferred Stock established hereafter by the Board of Directors, the terms of which expressly provide that such class ranks senior to the Series B Convertible Preferred Stock as to rights on the liquidation, winding-up and dissolution of the Company (collectively referred to as the “Senior Stock”).

The Series B Convertible Preferred Stock shall, with respect to rights to dividends (as provided in Section 4 below), rank on a parity with each class of Common Stock.

### 4. Dividends.

The Company shall not declare, pay or set aside any dividends on shares of Common Stock (other than dividends on shares of Common Stock payable solely in shares of Common Stock) unless (in addition to the obtaining of any consents required elsewhere in the Company’s Organizational Documents) the Holders simultaneously receive a dividend on each outstanding share of Series B Convertible Preferred Stock in an amount equal to that dividend per share of Series B Convertible Preferred Stock as would equal the product of the dividend payable on each share of Common Stock and the number of shares of Common Stock then issuable upon conversion of one share of Series B Convertible Preferred Stock, in each case calculated on the record date for determination of holders entitled to receive such dividend and without regard to any limitation on conversion set forth in Section 6(b) hereof.

### 5. Liquidation Preference.

(a) Except as otherwise provided in Section 6(g), upon any Liquidation Event, each Holder shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders, on account of each share of Series B Convertible Preferred Stock held by such Holder, (i) prior to the holders of any class or series of Common Stock and Junior Stock, (ii) pro rata with the holders of any Parity Stock and (iii) after the holders of any Senior Stock, an amount (such amount, the “Liquidation Preference”) equal to the Stated Value.

(b) Except as otherwise provided in Section 6(g), upon any Liquidation Event, after the payment of the Liquidation Preference the remaining assets of the Company available for distribution to its stockholders shall be distributed among the Holders and the holders of the shares of Capital Stock, pro rata, based on the number of shares held by each such holder, treating for this purpose all such securities as if they had been converted to Common Stock pursuant to the terms of this Certificate of Designation (or any other applicable certificate of designation) immediately prior to such Liquidation Event without regard to any limitation on conversion set forth in Section 6(b) hereof.

### 6. Conversion.

(a) Right to Convert. Subject to the provisions of Section 6(b) hereof, each Holder shall have the right, upon the delivery of a written notice to the Company, to convert any share of Series B Convertible Preferred Stock held by it into that number of fully paid and nonassessable shares of Common Stock (“Conversion Shares”) equal to the Conversion Number at the time in effect. Any Holder may convert all or less than all of the shares of Series B Convertible Preferred Stock held by it at any time. Any Holder’s conversion of shares of Series B Convertible Preferred Stock under this Section 6(a) shall not be effective unless such Holder has also complied with the provisions set forth in Section 6(b) hereof at the time of delivery of its aforesaid written notice to the Company. The initial “Conversion Number” per share of Series B Convertible Preferred Stock shall be nineteen (19); provided, however, that the Conversion Number in effect from time to time shall be subject to adjustment as provided hereinafter.



(b) Conversion Procedures. Each conversion of shares of Series B Convertible Preferred Stock into shares of Common Stock shall be effected by the surrender of the certificate(s) evidencing the shares of Series B Convertible Preferred Stock to be converted (the "Converting Shares") at the principal office of the Company (or such other office or agency of the Company as the Company may designate by notice in writing to the Holders of the Series B Convertible Preferred Stock) at any time during its usual business hours, together with written notice by the holder of such Converting Shares, (i) stating that the Holder desires to convert the Converting Shares, or a specified number of such Converting Shares, evidenced by such certificate(s) into shares of Common Stock (the "Converted Shares"), and (ii) giving the name(s) (with addresses) and denominations in which the Converted Shares should either be registered with the Company's transfer agent and registrar for the Common Stock (the "Common Stock Transfer Agent") on its records in book-entry form under The Direct Registration System or certificated, and, in either case, instructions for the delivery of a statement evidencing book-entry ownership of the Converted Shares or the certificates evidencing the Converted Shares. Upon receipt of the notice described in the first sentence of this Section 6(b), together with the certificate(s) evidencing the Converting Shares, the Company shall be obligated to, and shall, cause to be issued and delivered in accordance with such instructions, as applicable, either (x) a statement from the Common Stock Transfer Agent evidencing ownership of the Converted Shares, registered in the name of the Holder or its designee on the Common Stock Transfer Agent's records in book-entry form under The Direct Registration System or (y) certificate(s) evidencing the Converted Shares and, if applicable, a certificate (which shall contain such applicable legends, if any, as were set forth on the surrendered certificate(s)) representing any shares which were represented by the certificate(s) surrendered to the Company in connection with such conversion but which were not Converting Shares and, therefore, were not converted. All or some Converted Shares so issued whether in book-entry form under the Direct Registration System or in certificated form may be subject to restrictions on transfer as required by applicable federal and state securities laws. Any such Converted Shares subject to restrictions on transfer under applicable federal and state securities laws shall be encumbered by stop transfer orders and restrictive legends (or equivalent encumbrances). Such conversion, to the extent permitted by law, shall be deemed to have been effected as of the close of business on the date on which such certificate(s) shall have been surrendered and such written notice shall have been received by the Company unless a later date has been specified by such Holder, and at such time the rights of the Holder of such Converting Shares as such Holder shall cease, and the Person(s) in whose name or names the Converted Shares are to be issued either in book-entry form or certificated form, as applicable, upon such conversion shall be deemed to have become the holder(s) of record of the Converted Shares.

(c) Effect of Conversion. Upon the issuance of the Converted Shares in accordance with Section 6, such shares shall be deemed to be duly authorized, validly issued, fully paid and non-assessable.

(d) Adjustments for Common Stock Dividends and Distributions. If the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, in each such event the Conversion Number then in effect shall be increased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by multiplying the Conversion Number then in effect by a fraction (i) the numerator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution and (ii) the denominator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date. To the extent an adjustment is made in respect of the foregoing pursuant to Section 6(e) or the Holder actually receives the dividend to which any such adjustment relates, an adjustment shall not be made pursuant to this Section 6(d).

(e) Conversion Number Adjustments for Subdivisions, Combinations or Consolidations of Common Stock.

(i) In the event the Company should at any time or from time to time fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of shares of Common Stock entitled to receive a dividend or other distribution payable in additional Common Share Equivalents, without payment of any consideration by such holder for additional Common Share Equivalents (including the additional Common Stock issuable upon conversion, exchange or exercise thereof), then, as of such record date (or the date of such dividend, distribution, split or subdivision if no record date is fixed), the Conversion Number then in effect shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each such share of such Series B Convertible Preferred Stock shall be increased in proportion to such increase of outstanding shares of Common Stock and shares issuable with respect to Common Share Equivalents.

(ii) If the number of shares of Common Stock outstanding at any time is decreased by a combination, consolidation, reclassification or reverse stock split of the outstanding shares of Common Stock or other similar event, then, following the record date of such combination, the Conversion Number then in effect shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each such share of such Series B Convertible Preferred Stock shall be decreased in proportion to such decrease in outstanding shares of Common Stock.

(f) Recapitalizations. If at any time or from time to time there shall be a recapitalization of the Common Stock (other than a subdivision, combination, merger or sale of assets transaction provided for elsewhere in this Section 6), provision shall be made so that the Holders shall thereafter be entitled to receive upon conversion of the Series B Convertible Preferred Stock the number of shares of Capital Stock or other securities or property of the Company to which a holder of Common Stock would have been entitled on recapitalization. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 6 with respect to the rights of the Holders after the recapitalization to the end that the provisions of this Section 6 (including adjustment of the Conversion Number then in effect and the number of shares issuable upon conversion of the Series B Convertible Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(g) Mergers and Other Reorganizations. If at any time or from time to time there shall be a reclassification of the Common Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section 6) or a merger or consolidation of the Company with or into another entity or the sale of all or substantially all of the Company's properties and assets to any other Person, then, as a part of and as a condition to the effectiveness of such reclassification, merger, consolidation or sale, lawful and adequate provision shall be made so that the Holders shall thereafter be entitled to receive upon conversion of the Series B Convertible Preferred Stock the number of shares of Capital Stock or other securities or property, if any, of the Company or of the successor entity resulting from such reclassification, merger or consolidation or sale, to which a holder of Common Stock deliverable upon conversion would have been entitled in connection with such reclassification, merger, consolidation or sale. In any such case, appropriate provision shall be made with respect to the rights of the Holders after the reclassification, merger, consolidation or sale to the end that the provisions of this Section 6 (including, without limitation, provisions for adjustment of the Conversion Number and the number of shares purchasable upon conversion of the Series B Convertible Preferred Stock) shall thereafter be applicable, as nearly as may be, with respect to any shares of Capital Stock, securities or property to be deliverable thereafter upon the conversion of the Series B Convertible Preferred Stock.

Each Holder, upon the occurrence of a reclassification, merger or consolidation of the Company or the sale of all or substantially all its assets and properties, as such events are more fully set forth in the first paragraph of this Section 6(g), shall have the option of electing treatment of its shares of Series B Convertible Preferred Stock under either this Section 6(g) or Section 5 hereof, notice of which election shall be submitted in writing to the Company at its principal offices no later than ten (10) days before the effective date of such event, provided that any such notice of election shall be effective if given not later than fifteen (15) days after the date of the Company's notice pursuant to Section 6(h) hereof with respect to such event, and, provided, further, that if any Holder fails to give the Company such notice of election, the provisions of this Section 6(g) shall govern the treatment of such Holder's shares of Series B Convertible Preferred Stock

upon the occurrence of such event.

(h) Notices of Record Date. In the event (i) the Company fixes a record date to determine the holders of Common Stock who are entitled to receive any dividend or other distribution, or (ii) there occurs any capital reorganization of the Company, any reclassification or recapitalization of the Common Stock of the Company, any merger or consolidation of the Company, or any voluntary or involuntary dissolution, liquidation or winding up of the Company, the Company shall mail to each Holder at least ten (10) days prior to the record date specified therein, a notice specifying (a) the date of such record date for the purpose of such dividend or distribution and a description of such dividend or distribution, (b) the date on which any such reorganization, reclassification, consolidation, merger, dissolution, liquidation or winding up is expected to become effective, and (c) the time, if any, that is to be fixed, as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock or other securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, dissolution, liquidation or winding up.

(i) No Impairment. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Section 6 and in the taking of all such actions as may be necessary or appropriate in order to protect the conversion rights of the Holders against impairment.

(j) Fractional Shares and Certificate as to Adjustments. In lieu of any fractional shares to which a Holder would otherwise be entitled upon conversion, the Company shall pay cash equal to such fraction multiplied by the Market Price of one share of Common Stock, as determined in good faith by the Board of Directors. Whether or not fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of Series B Convertible Preferred Stock of each Holder at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

Upon the occurrence of each adjustment or readjustment of the Conversion Number of any share of Series B Convertible Preferred Stock pursuant to this Section 6, the Company, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each Holder a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request at any time of any Holder, furnish or cause to be furnished to such Holder a like certificate setting forth (A) such adjustment and readjustment, (B) the Conversion Number at the time in effect, and (C) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of such Holder's shares of Series B Convertible Preferred Stock. The provisions of Section 6(d), (e), (f) and (g) shall apply to any transaction and successively to any series of transactions that would require any adjustment pursuant thereto.

(k) Reservation of Stock Issuable Upon Conversion. The Company shall at all times reserve and keep available out of its authorized but unissued Common Stock, solely for the purpose of effecting the conversion of the shares of the Series B Convertible Preferred Stock (taking into account the adjustments required by this Section 6), such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series B Convertible Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series B Convertible Preferred Stock, in addition to such other remedies as shall be available to the Holders, the Company will, as soon as is reasonably practicable, take all such action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

7. Voting Rights. Holders of Series B Convertible Preferred Stock shall have no voting rights except as required by law, including but not limited to the FBCA, and as expressly provided in this Certificate of Designation.

8. Reissuance of Shares of Series B Convertible Preferred Stock.

Shares of Series B Convertible Preferred Stock that have been issued and reacquired in any manner, including shares purchased, redeemed, converted or exchanged, shall (upon compliance with any applicable provisions of the FBCA) be permanently retired or cancelled and shall not under any circumstances be reissued. The Company shall from time to time take such appropriate action as may be required by applicable law to reduce the authorized number of shares of Series B Convertible Preferred Stock by the number of shares that have been so reacquired.

10. Notices.

Any and all notices, consents, approval or other communications or deliveries required or permitted to be provided under this Certificate of Designation shall be in writing and shall be deemed given and effective on the earliest of (a) the date of receipt, if such notice, consent, approval or other communication is delivered by hand (with written confirmation of receipt) or via facsimile to the Company or the Holders, as applicable, at the facsimile number specified in the register of Holders of Series B Convertible Preferred Stock maintained by the Transfer Agent prior to 5:00 p.m. (New York City time) on a Business Day, (b) the next Business Day after the date of receipt, if such notice, consent, approval or other communication is delivered via facsimile to the Company or the Holder, as applicable, at the facsimile number specified in the register of Holders of Series B Convertible Preferred Stock maintained by the Transfer Agent on a day that is not a Business Day or later than 5:00 p.m. (New York City time) on any Business Day, or (c) the third Business Day following the date of deposit with a nationally recognized overnight courier service for next Business Day delivery and addressed to the Company or the Holder, as applicable, at the address specified in the register of Holders of Series B Convertible Preferred Stock maintained by the Transfer Agent.

11. Headings.

The headings of the various sections and subsections hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

12. Severability of Provisions.

If any powers, preferences and relative, participating, optional and other special rights of the Series B Convertible Preferred Stock and the qualifications, limitations and restrictions thereof set forth in this Certificate of Designation (as it may be amended from time to time) is invalid, unlawful or incapable of being enforced by reason of any rule or law or public policy, all other powers, preferences and relative, participating, optional and other special rights of the Series B Convertible Preferred Stock and the qualifications, limitations and restrictions thereof set forth in this Certificate of Designation (as so amended) which can be given effect without the invalid, unlawful or unenforceable powers, preferences and relative, participating, optional and other special rights of the Series B Convertible Preferred Stock and the qualifications, limitations and restrictions thereof shall, nevertheless, remain in full force and effect, and no powers, preferences and relative, participating, optional or other special rights of the Series B Convertible Preferred Stock and the qualifications, limitations and restrictions thereof herein set forth shall be deemed dependent upon any other such powers, preferences and relative, participating, optional or other special rights of Preferred Stock and qualifications, limitations and restrictions thereof unless so expressed herein.

## F. PROVISIONS RELATING TO SERIES C CONVERTIBLE PREFERRED STOCK

1. Designation; Amount Limitation of Issuances. There shall be a series of Preferred Stock that shall be designated as "Series C Convertible Preferred Stock," and the number of shares constituting such series shall be 1,000,000. The number of shares constituting the Series C Convertible Preferred Stock may be increased or decreased by resolution of the Board of Directors; provided, however, that no decrease shall reduce the number of shares of Series C Convertible Preferred Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Company.

The Company may issue shares of Class C Preferred Stock only to an Eligible Class C Preferred Stock Holder, who may transfer such shares only to another Eligible Class C Preferred Stock Holder.

2. Definitions.

Unless the context otherwise requires, each of the terms defined in this Section 2 shall have, for all purposes of this Certificate of Designation, the meaning herein specified (with terms defined in the singular having comparable meanings when used in the plural):

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The Company may issue shares of Class C Preferred Stock only to an Eligible Class C Preferred Stock Holder, who may transfer such shares only to another Eligible Class C Preferred Stock Holder.

2. Definitions.

Unless the context otherwise requires, each of the terms defined in this Section 2 shall have, for all purposes of this Certificate of Designation, the meaning herein specified (with terms defined in the singular having comparable meanings when used in the plural):

"Articles of Incorporation" means the Company's Articles of Incorporation, as in effect on the date of this Certificate of Designation.

"Board of Directors" means the Board of Directors of the Company.

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or required by law to close.

"By-Laws" means the Company's By-Laws, as amended, as in effect on the date of this Certificate of Designation.

"Capital Stock" means any and all shares, interests, participations or other equivalents in the equity interest (however designated) in the Company.

"Common Share Equivalents" means securities, options, warrants, derivatives, debt instruments or other rights convertible into, or exercisable or exchangeable for, or entitling the holder thereof to receive directly or indirectly, Common Stock.

"Common Stock" means the common stock, \$0.015 par value per share, of the Company or any other Capital Stock into which such shares of common stock shall be reclassified or changed.

"Common Stock Transfer Agent" has the meaning set forth in Section 6(c) hereof.

"Company's Organizational Documents" means the Articles of Incorporation, this Certificate of Designations, any other certificate of designations issued pursuant to the Articles of Incorporation, and the By-Laws.

"Conversion Number" has the meaning set forth in Section 6(a) hereof.

"Conversion Shares" has the meaning set forth in Section 6(b) hereof.

"Converted Shares" has the meaning set forth in Section 6(c) hereof.

"Converting Shares" has the meaning set forth in Section 6(c) hereof.

"Dilutive Issuance" has the meaning set forth in Section 6(i) hereof.

"Eligible Class C Preferred Stock Holder" means any of (i) Dolphin Entertainment, Inc., for so long as Bill O'Dowd continues to beneficially own at least 90% and serves at the board of directors or other governing entity, (ii) any other entity that Bill O'Dowd beneficially owns more than 90%, or a trust for the benefit of others, for which Bill O'Dowd serves as trustee and (iii) Bill O'Dowd individually.

"Holders" means the record holders of the shares of Series C Convertible Preferred Stock, as shown on the books and records of the Company.

"Junior Stock" has the meaning set forth in Section 3 hereof.

"Liquidation Event" means (i) any voluntary or involuntary liquidation, dissolution or winding-up of the Company, (ii) the consummation of a merger or consolidation in which the stockholders of the Company prior to such transaction own less than a majority of the voting securities of the entity surviving such transaction, or (iii) the sale, distribution or other disposition of all or substantially all of the Company's assets.

"Liquidation Preference" has the meaning set forth in Section 5(a) hereof.

"Market Price" means the last reported sale price of the Common Stock on the primary U.S. national securities exchange, automated quotation system or inter-dealer quotation system upon which the Common Stock is then traded or quoted.

"Optional Conversion Threshold" shall mean that the Company has accomplished, as determined by the vote of the majority of the independent directors of the Board in its sole discretion, 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 the majority of the independent directors of the Board based on the strategic plan approved by the Board.

"Parity Stock" has the meaning set forth in Section 3 hereof.

"Person" includes all natural persons, corporations, business trusts, limited liability companies, associations, companies, partnerships, joint ventures and other entities, as well as governments and their respective agencies and political subdivisions.

"Senior Stock" has the meaning set forth in Section 3 hereof.

"Series C Convertible Preferred Stock" has the meaning set forth in Section 1 hereof.

"Stated Value" means \$0.001 per share of Series C Convertible Preferred Stock, as may be adjusted for any stock split, reverse stock split, dividend or similar event relating to the Series C Convertible Preferred Stock.

"Transfer Agent" means the entity designated from time to time by the Company to act as the registrar and transfer agent for the Series C Convertible Preferred stock or, if no entity has been so designated to act in such capacity, the Company.

### 3. Ranking.

The Series C Convertible Preferred Stock shall, with respect to rights on the liquidation, winding-up and dissolution of the Company (as provided in Section 5 below), rank (a) senior to all classes of Common Stock, to the Series B Convertible Preferred and to each other class of Capital Stock or series of Preferred Stock established hereafter by the Board of Directors the terms of which expressly provide that such class ranks junior to the Series C Convertible Preferred Stock as to rights on the liquidation, winding-up and dissolution of the Company (collectively referred to as the "Junior Stock"), (b) on a parity with each other class of Capital Stock or series of Preferred Stock established hereafter by the Board of Directors as to rights on the liquidation, winding-up and dissolution of the Company (collectively referred to as the "Parity Stock") and (c) junior to any future class of Preferred Stock established hereafter by the Board of Directors, the terms of which expressly provide that such class ranks senior to the Series C Convertible Preferred Stock as to rights on the liquidation, winding-up and dissolution of the Company (collectively referred to as the "Senior Stock").

The Series C Convertible Preferred Stock shall, with respect to rights to dividends (as provided in Section 4 below), rank on a parity with each class of Common Stock.

4. Dividends.

The Company shall not declare, pay or set aside any dividends on shares of Common Stock (other than dividends on shares of Common Stock payable solely in shares of Common Stock) unless (in addition to the obtaining of any consents required elsewhere in the Company's Organizational Documents) the Holders simultaneously receive a dividend on each outstanding share of Series C Convertible Preferred Stock in an amount equal to that dividend per share of Series C Convertible Preferred Stock as would equal the product of the dividend payable on each share of Common Stock and the number of shares of Common Stock then issuable upon conversion of one share of Series C Convertible Preferred Stock, in each case calculated on the record date for determination of holders entitled to receive such dividend and without regard to any limitation on conversion set forth in Section 6(b) hereof.

5. Liquidation Preference.

(a) Except as otherwise provided in Section 6(h), upon any Liquidation Event, each Holder shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders, on account of each share of Series C Convertible Preferred Stock held by such Holder, (i) prior to the holders of any class or series of Common Stock and Junior Stock, (ii) pro rata with the holders of any Parity Stock and (iii) after the holders of any Senior Stock, an amount (such amount, the "Liquidation Preference") equal to the Stated Value.

(b) Except as otherwise provided in Section 6(h), upon any Liquidation Event, after the payment of the Liquidation Preference the remaining assets of the Company available for distribution to its stockholders shall be distributed first to satisfy any preference of any other Preferred Stock that was junior to the Series C Preferred Stock and then among the Holders and the holders of the shares of Capital Stock, pro rata, based on the number of shares held by each such holder, treating for this purpose all such securities as if they had been converted to Common Stock pursuant to the terms of this Certificate of Designation (or any other applicable certificate of designation) immediately prior to such Liquidation Event without regard to any limitation on conversion set forth in Section 6(b) hereof.

6. Conversion.

(a) Holder's Right to Convert. Upon the Board's determination that an Optional Conversion Threshold has been met, subject to the provisions of Section 6(c) hereof, each Holder shall have the right, upon the delivery of a written notice to the Company, to convert any share of Series C Convertible Preferred Stock held by it into that number of fully paid and nonassessable shares of Common Stock ("Conversion Shares") equal to the Conversion Number at the time in effect. Any Holder may convert all or less than all of the shares of Series C Convertible Preferred Stock held by it at any time after such determination. Any Holder's conversion of shares of Series C Preferred Stock under this Section 6(a) shall not be effective unless such Holder has also complied with the provisions set forth in Section 6(c) hereof at the time of delivery of its aforesaid written notice to the Company. The initial "Conversion Number" per share of Series C Convertible Preferred Stock shall be one (1); provided, however, that the Conversion Number in effect from time to time shall be subject to adjustment as provided hereinafter.

(b) Automatic Conversion. The Class C Preferred Stock shall automatically be converted upon the occurrence of any of the following events:

(i) Each outstanding share of Class C Preferred Stock which is transferred to any holder other than an Eligible Class C Preferred Stock Holder shall automatically convert into that number of fully paid and nonassessable Conversion Shares\_equal to the Conversion Number at the time in effect.

(ii) If the aggregate number of shares of Common Stock plus Conversion Shares (issuable upon conversion of the Class B Convertible Preferred Stock and the Class C Convertible Preferred Stock) held by the Eligible Class C Preferred Stock Holders in the aggregate constitute 10% or less of the sum of (x) the outstanding shares of Common Stock of the Company plus (y) all Conversion Shares held by the Eligible Class C Preferred Stock Holders, then each outstanding Class C Convertible Preferred Stock then outstanding will automatically convert into that number of fully paid and nonassessable Conversion Shares\_equal to the Conversion Number at the time in effect.

(ii) At such time as a Holder of Class C Preferred Stock ceases to be an Eligible Class C Preferred Stock Holder, each share of Class C Preferred Stock held by such person or entity shall immediately convert into that number of fully paid and nonassessable Conversion Shares\_equal to the Conversion Number at the time in effect.

(c) Conversion Procedures. Each conversion of shares of Series C Convertible Preferred Stock into shares of Common Stock shall be effected by the surrender of the certificate(s) evidencing the shares of Series C Convertible Preferred Stock to be converted (the "Converting Shares") at the principal office of the Company (or such other office or agency of the Company as the Company may designate by notice in writing to the Holders of the Series C Convertible Preferred Stock) at any time during its usual business hours, together with written notice by the holder of such Converting Shares, (i) stating that the Holder desires to convert the Converting Shares, or a specified number of such Converting Shares, evidenced by such certificate(s) into shares of Common Stock (the "Converted Shares"), and (ii) giving the name(s) (with addresses) and denominations in which the Converted Shares should either be registered with the Company's transfer agent and registrar for the Common Stock (the "Common Stock Transfer Agent") on its records in book-entry form under The Direct Registration System or certificated, and, in either case, instructions for the delivery of a statement evidencing book-entry ownership of the Converted Shares or the certificates evidencing the Converted Shares. Upon receipt of the notice described in the first sentence of this Section 6(c), together with the certificate(s) evidencing the Converting Shares, the Company shall be obligated to, and shall, cause to be issued and delivered in accordance with such instructions, as applicable, either (x) a statement from the Common Stock Transfer Agent evidencing ownership of the Converted Shares, registered in the name of the Holder or its designee on the Common Stock Transfer Agent's records in book-entry form under The Direct Registration System or (y) certificate(s) evidencing the Converted Shares and, if applicable, a certificate (which shall contain such applicable legends, if any, as were set forth on the surrendered certificate(s)) representing any shares which were represented by the certificate(s) surrendered to the Company in connection with such conversion but which were not Converting Shares and, therefore, were not converted. All or some Converted Shares so issued whether in book-entry form under the Direct Registration System or in certificated form may be subject to restrictions on transfer as required by applicable federal and state securities laws. Any such Converted Shares subject to restrictions on transfer under applicable federal and state securities laws shall be encumbered by stop transfer orders and restrictive legends (or equivalent encumbrances). Such conversion, to the extent permitted by law, shall be deemed to have been effected as of the close of business on the date on which such certificate(s) shall have been surrendered and such written notice shall have been received by the Company unless a later date has been specified by such Holder, and at such time the rights of the Holder of such Converting Shares as such Holder shall cease, and the Person(s) in whose name or names the Converted Shares are to be issued either in book-entry form or certificated form, as applicable, upon such conversion shall be deemed to have become the holder(s) of record of the Converted Shares.



(d) Effect of Conversion. Upon the issuance of the Converted Shares in accordance with Section 6, such shares shall be deemed to be duly authorized, validly issued, fully paid and non-assessable.

(e) Adjustments for Common Stock Dividends and Distributions. If the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, in each such event the Conversion Number then in effect shall be increased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by multiplying the Conversion Number then in effect by a fraction (i) the numerator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution and (ii) the denominator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date. To the extent an adjustment is made in respect of the foregoing pursuant to Section 6(f) or the Holder actually receives the dividend to which any such adjustment relates, an adjustment shall not be made pursuant to this Section 6(e).

(f) Conversion Number Adjustments for Subdivisions, Combinations or Consolidations of Common Stock.

(i) In the event the Company should at any time or from time to time fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of shares of Common Stock entitled to receive a dividend or other distribution payable in additional Common Share Equivalents, without payment of any consideration by such holder for additional Common Share Equivalents (including the additional Common Stock issuable upon conversion, exchange or exercise thereof), then, as of such record date (or the date of such dividend, distribution, split or subdivision if no record date is fixed), the Conversion Number then in effect shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each such share of such Series C Convertible Preferred Stock shall be increased in proportion to such increase of outstanding shares of Common Stock and shares issuable with respect to Common Share Equivalents.

(ii) If the number of shares of Common Stock outstanding at any time is decreased by a combination, consolidation, reclassification or reverse stock split of the outstanding shares of Common Stock or other similar event, then, following the record date of such combination, the Conversion Number then in effect shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each such share of such Series C Convertible Preferred Stock shall be decreased in proportion to such decrease in outstanding shares of Common Stock.

(g) Recapitalizations. If at any time or from time to time there shall be a recapitalization of the Common Stock (other than a subdivision, combination, merger or sale of assets transaction provided for elsewhere in this Section 6), provision shall be made so that the Holders shall thereafter be entitled to receive upon conversion of the Series C Convertible Preferred Stock the number of shares of Capital Stock or other securities or property of the Company to which a holder of Common Stock would have been entitled on recapitalization. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 6 with respect to the rights of the Holders after the recapitalization to the end that the provisions of this Section 6 (including adjustment of the Conversion Number then in effect and the number of shares issuable upon conversion of the Series C Convertible Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(h) Mergers and Other Reorganizations. If at any time or from time to time there shall be a reclassification of the Common Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section 6) or a merger or consolidation of the Company with or into another entity or the sale of all or substantially all of the Company's properties and assets to any other Person, then, as a part of and as a condition to the effectiveness of such reclassification, merger, consolidation or sale, lawful and adequate provision shall be made so that the Holders shall thereafter be entitled to receive upon conversion of the Series C Convertible Preferred Stock the number of shares of Capital Stock or other securities or property, if any, of the Company or of the successor entity resulting from such reclassification, merger or consolidation or sale, to which a holder of Common Stock deliverable upon conversion would have been entitled in connection with such reclassification, merger, consolidation or sale. In any such case, appropriate provision shall be made with respect to the rights of the Holders after the reclassification, merger, consolidation or sale to the end that the provisions of this Section 6 (including, without limitation, provisions for adjustment of the Conversion Number and the number of shares purchasable upon conversion of the Series C Convertible Preferred Stock) shall thereafter be applicable, as nearly as may be, with respect to any shares of Capital Stock, securities or property to be deliverable thereafter upon the conversion of the Series C Convertible Preferred Stock.

Each Holder, upon the occurrence of a reclassification, merger or consolidation of the Company or the sale of all or substantially all its assets and properties, as such events are more fully set forth in the first paragraph of this Section 6(h), shall have the option of electing treatment of its shares of Series C Convertible Preferred Stock under either this Section 6(h) or Section 5 hereof, notice of which election shall be submitted in writing to the Company at its principal offices no later than ten (10) days before the effective date of such event, provided that any such notice of election shall be effective if given not later than fifteen (15) days after the date of the Company's notice pursuant to Section 6(i) hereof with respect to such event, and, provided, further, that if any Holder fails to give the Company such notice of election, the provisions of this Section 6(h) shall govern the treatment of such Holder's shares of Series C Convertible Preferred Stock upon the occurrence of such event.

(i) Issuances of Common Stock. If the Company, prior to the fifth (5<sup>th</sup>) anniversary of the issuance of the first share of Series C Convertible Preferred Stock issues shares of Common Stock (but not upon the issuance of Common Stock Equivalents) either (i) upon the conversion or exercise of any instrument currently or hereafter issued (but not upon the conversion of the Series C Preferred Stock), (ii) upon the exchange of debt for shares of common stock or (iii) in a private placement (a "Dilutive Issuance"), then the Conversion Number shall be adjusted to equal then the Conversion Number shall be adjusted to equal the sum of the amounts created by each individual Dilutive Issuance, wherein for each Dilutive Issuance the amount is determined from the result of:

- 1) The Product of the number of shares of Common Stock owned by the Eligible Series C Preferred Holder upon the issuance of the first share of Series C Convertible Preferred Stock *divided by* the aggregate number of shares of Common Stock outstanding upon the issuance of the first share of Series C Convertible Preferred Stock;
- 2) Then this Product *Multiplied by* the individual Dilutive Issuance;
- 3) Then this Product *Divided by* the Amount Created When The Percentage Created in Step One is *Subtracted from* 100 percent;
- 4) Then this Product *Divided by* the number of shares of Series C Preferred Stock then outstanding.

(j) Notices of Record Date. In the event (i) the Company fixes a record date to determine the holders of Common Stock who are entitled to receive any dividend or other distribution, or (ii) there occurs any capital reorganization of the Company, any reclassification or recapitalization of the Common Stock of the Company, any merger or consolidation of the Company, or any voluntary or involuntary dissolution, liquidation or winding up of the Company, the Company shall mail to each Holder at least ten (10) days prior to the record date specified therein, a notice specifying (a) the date of such record date for the purpose of such dividend or distribution and a description of such dividend or distribution, (b) the date on which any such reorganization, reclassification, consolidation, merger, dissolution, liquidation or winding up is expected to become effective, and (c) the time, if any, that is to be fixed, as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock or other securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, dissolution, liquidation or winding up.

(k) No Impairment. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Section 6 and in the taking of all such actions as may be necessary or appropriate in order to protect the conversion rights of the Holders against impairment.

(l) Fractional Shares and Certificate as to Adjustments. In lieu of any fractional shares to which a Holder would otherwise be entitled upon conversion, the Company shall pay cash equal to such fraction multiplied by the Market Price of one share of Common Stock, as determined in good faith by the Board of Directors. Whether or not fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of Series C Convertible Preferred Stock of each Holder at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

Upon the occurrence of each adjustment or readjustment of the Conversion Number of any share of Series C Convertible Preferred Stock pursuant to this Section 6, the Company, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each Holder a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request at any time of any Holder, furnish or cause to be furnished to such Holder a like certificate setting forth (A) such adjustment and readjustment, (B) the Conversion Number at the time in effect, and (C) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of such Holder's shares of Series C Convertible Preferred Stock. The provisions of Section 6(e), (f), (g), (h) and (i) shall apply to any transaction and successively to any series of transactions that would require any adjustment pursuant thereto.

(m) Reservation of Stock Issuable Upon Conversion. The Company shall at all times reserve and keep available out of its authorized but unissued Common Stock, solely for the purpose of effecting the conversion of the shares of the Series C Convertible Preferred Stock (taking into account the adjustments required by this Section 6), such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series C Convertible Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series C Convertible Preferred Stock, in addition to such other remedies as shall be available to the Holders, the Company will, as soon as is reasonably practicable, take all such action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

7. Voting Rights. Each Holder, except as otherwise required under the FBCA or as set forth herein, shall be entitled or permitted to vote on all matters required or permitted to be voted on by the holders of Common Stock of the Company and shall be entitled to that number of votes equal to three votes for the number of whole shares of Common Stock into which such Holder's shares of the Series C Convertible Preferred Stock could then be converted, pursuant to the provisions of Section 6 hereof, at the record date for the determination of stockholders entitled to vote on such matter or, if no such record date is established, at the date such vote is taken or any written consent of stockholders is solicited. Except as otherwise expressly provided herein or as otherwise required by law, the Series C Convertible Preferred Stock and the Common Stock shall vote together (or render written consents in lieu of a vote) as a single class on all matters upon which the Common Stock is entitled to vote.

8. Reissuance of Shares of Series C Convertible Preferred Stock.

Shares of Series C Convertible Preferred Stock that have been issued and reacquired in any manner, including shares purchased, redeemed, converted or exchanged, shall (upon compliance with any applicable provisions of the FBCA) be permanently retired or cancelled and shall not under any circumstances be reissued. The Company shall from time to time take such appropriate action as may be required by applicable law to reduce the authorized number of shares of Series C Convertible Preferred Stock by the number of shares that have been so reacquired.

9. Notices.

Any and all notices, consents, approval or other communications or deliveries required or permitted to be provided under this Certificate of Designation shall be in writing and shall be deemed given and effective on the earliest of (a) the date of receipt, if such notice, consent, approval or other communication is delivered by hand (with written confirmation of receipt) or via facsimile to the Company or the Holders, as applicable, at the facsimile number specified in the register of Holders of Series C Convertible Preferred Stock maintained by the Transfer Agent prior to 5:00 p.m. (New York City time) on a Business Day, (b) the next Business Day after the date of receipt, if such notice, consent, approval or other communication is delivered via facsimile to the Company or the Holder, as applicable, at the facsimile number specified in the register of Holders of Series C Convertible Preferred Stock maintained by the Transfer Agent on a day that is not a Business Day or later than 5:00 p.m. (New York City time) on any Business Day, or (c) the third Business Day following the date of deposit with a nationally recognized overnight courier service for next Business Day delivery and addressed to the Company or the Holder, as applicable, at the address specified in the register of Holders of Series C Convertible Preferred Stock maintained by the Transfer Agent.

10. Headings.

The headings of the various sections and subsections hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

11. Severability of Provisions.

If any powers, preferences and relative, participating, optional and other special rights of the Series C Convertible Preferred Stock and the qualifications, limitations and restrictions thereof set forth in this Certificate of Designation (as it may be amended from time to time) is invalid, unlawful or incapable of being enforced by reason of any rule or law or public policy, all other powers, preferences and relative, participating, optional and other special rights of the Series C Convertible Preferred Stock and the qualifications, limitations and restrictions thereof set forth in this Certificate of Designation (as so amended) which can be given effect without the invalid, unlawful or unenforceable powers, preferences and relative, participating, optional and other special rights of the Series C Convertible Preferred Stock and the qualifications, limitations and restrictions thereof shall, nevertheless, remain in full force and effect, and no powers, preferences and relative, participating, optional or other special rights of the Series C Convertible Preferred Stock and the qualifications, limitations and restrictions thereof herein set forth shall be deemed dependent upon any other such powers, preferences and relative, participating, optional or other special rights of Preferred Stock and qualifications, limitations and restrictions thereof unless so expressed herein.

**ARTICLE IV.**

**Existence**

The Corporation shall exist perpetually unless sooner dissolved according to law.

**ARTICLE V.**

**Management of the Corporation**

The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and shareholders:

**A. BOARD OF DIRECTORS**

The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authority expressly conferred upon them by Statute or by these Articles of Incorporation or the Bylaws of the Corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation. A director shall hold office until the annual meeting of the shareholders or until his successors shall be elected and qualified, subject, however, to the director's prior death, resignation, retirement, disqualification or removal from office.

**B. SPECIAL MEETINGS CALLED BY BOARD OF DIRECTORS OR SHAREHOLDERS**

Special Meetings of Shareholders of the Corporation may be called by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption) (the "Full Board"), or by the holders of not less than forty percent (40%) of all the votes entitled to be cast on any issue at the proposed special meeting if such holders of stock sign, date and deliver to the Corporation's Secretary one or more written demands for the meeting describing the purpose or purposes for which the special meeting is to be held. The Bylaws of the Corporation shall fully set forth the manner in which Special Meetings of Shareholders of the Corporation may be called.

**ARTICLE VI.**

**Number of Directors**

The number of directors may be either increased or diminished from time to time in the manner provided in the Bylaws, but shall never be less than one (1).

**ARTICLE VII.**

**Indemnification**

Provided the person proposed to be indemnified satisfies the requisite standard of conduct for permissive indemnification by a corporation as specifically set forth in the applicable provisions of the Florida Business Corporation Act (currently, Section 607.0850(7) of the Florida Statutes), as the same may be amended from time to time, the Corporation shall indemnify its officers and directors, and may indemnify its employees and agents, to the fullest extent provided, authorized, permitted or not prohibited by the provisions of the Florida Business Corporation Act and the Bylaws of the Corporation, as the same may be amended and supplemented, from and against any and all of the expenses or liabilities incurred in defending a civil or criminal proceeding, or other matters referred to in or covered by said provisions, including advancement of expenses prior to the final disposition of such proceedings and amounts paid in settlement of such proceedings, both as to action in his or her official capacity and as to action in another capacity while an officer, director, employee or other agent. The indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any bylaw, agreement, vote of shareholders or Disinterested Directors or otherwise. Such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent, and shall inure to the benefit of the heirs and personal representatives of such a person. Except as otherwise required by law, an adjudication of liability shall not affect the right to indemnification for those indemnified.

**ARTICLE VIII.**

**Amendment**

The Corporation reserves the right to amend or repeal any provision contained in these Articles of Incorporation in the manner prescribed by the laws of the State of Florida and all rights conferred upon shareholders are granted subject to this reservation.



List of subsidiaries of Dolphin Digital Media, Inc. ("Dolphin").

NAME OF ENTITY	STATE OF INCORPORATION	EMPLOYER IDENTIFICATION NUMBER	PERCENTAGE OWNED BY DOLPHIN
HIDING DIGITAL PRODUCTIONS LLC	FLORIDA	N/A	100%
RED BOOK DIGITAL PRODUCTIONS LLC	FLORIDA	N/A	100%
CYBERGEDDON PRODUCTIONS LLC	FLORIDA	45-4716072	100%
HANK PRODUCTIONS LLC	FLORIDA	N/A	100%
BOTR PRODUCTIONS LLC	FLORIDA	46-2375665	100%
MILLENIUUM KISS PRODUCTIONS LLC	FLORIDA	46-2599979	100%
DOLPHIN SB PRODUCTIONS LLC	FLORIDA	47-2546805	100%
DOLPHIN KIDS CLUBS LLC	FLORIDA	46-2527415	75%
CLUB CONNECT LLC	FLORIDA	46-3543314	100% owned by Dolphin Kids Clubs LLC
DDM MERGER SUB INC	FLORIDA	N/A	100%
DOLPHIN FILMS INC	FLORIDA	90-0952885	100%

THE SECURITIES BEING SUBSCRIBED FOR PURSUANT TO THIS SUBSCRIPTION AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE. THE SECURITIES MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT AND SUCH STATE LAWS AS MAY BE APPLICABLE, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED. ADDITIONAL RESTRICTIONS ON TRANSFER OF THE SECURITIES ARE SET FORTH IN THIS SUBSCRIPTION AGREEMENT.

### SUBSCRIPTION AGREEMENT

THIS SUBSCRIPTION AGREEMENT (this "Agreement"), dated as of March 15, 2016, is by and between Dolphin Digital Media, Inc., a Florida corporation (the "Company"), and [\*] (the "Subscriber").

WHEREAS, the Subscriber is the holder of an outstanding promissory note of the Company, dated [\*] (the "Existing Note") in the aggregate principal amount of \$[\*], which is currently due and outstanding as of the date hereof (including accrued but unpaid interest), which Existing Note was issued pursuant to that certain Loan and Security Agreement, dated as of [\*], by and between the Company and the Subscriber (the "Loan and Security Agreement");

WHEREAS, the Company and the Subscriber have agreed, subject to the terms and conditions set forth herein, to convert the aggregate principal amount of the Existing Note into shares of common stock ("Common Stock") of the Company in order to improve the financial position of the Company (the "Conversion");

WHEREAS, the Company and the Subscriber have agreed to execute this Agreement to evidence their agreement with respect to the Conversion and the issuance of the Subscriber Shares;

WHEREAS, the Company and the Subscriber are executing and delivering this Agreement in reliance upon an exemption from securities registration afforded by the provisions of Section 4(a)(2) and/or Regulation D, as promulgated by the United States Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act").

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement hereby agree as follows:

#### SECTION 1. Subscription for Subscriber; Purchase Price.

1.1 Purchase. The Subscriber, intending to be legally bound, hereby irrevocably agrees to subscribe for the number of shares of Common Stock set forth on the signature page hereto (the "Subscriber Shares"). The parties agree that the number of Subscriber Shares has been determined in accordance with Section 1.2. This subscription is submitted to the Company in accordance with and subject to the terms and conditions described in this Agreement.

1.2 Conversion of Existing Note; Calculation of Number of Subscriber Shares. The number of Subscriber Shares being issued hereunder is determined in accordance with the following formula:

The aggregate amount outstanding under the Existing Note divided by \$ 0.25.

Based upon the foregoing, the number of Subscriber Shares being subscribed for hereunder shall be [\*].

1.3 Closing; Conditions to Closing. Closing on the purchase and sale of the Subscriber Shares shall be consummated on such date as the Company accepts the Subscriber's offer to purchase the Subscriber as evidenced by the Company's counter-execution of the signature page to this Agreement, and the satisfaction of each of the conditions to closing set forth below ("Closing"). On or prior to the date of each Closing, the following shall have occurred:

(a) The Subscriber shall have delivered to the Company a dated and executed signature page to this Agreement, with all blanks required to be completed by the Subscriber properly completed;

(b) The Subscriber shall have delivered to the Company a dated completed and signed Accredited Investor Questionnaire attached as Exhibit E hereto, with all blanks required to be completed by the Subscriber properly completed;

(c) The Subscriber shall have delivered to the Company the cancelled Existing Note;

(d) The Subscriber shall have delivered to the Company an acknowledgement of release of liens, attached as Exhibit C hereto; and

(e) Any other conditions to Closing set forth in this Agreement shall have been satisfied or waived.

SECTION 2. Representations, Warranties and Covenants of Company: The Company represents and warrants to the Subscriber that:

2.1 Organization and Standing. The Company is a corporation duly organized and validly existing under, and by virtue of, the laws of the State of Florida. The Company has the requisite corporate power to own and operate its properties and assets, and to carry on its business as presently conducted and as proposed to be conducted.

2.2 No Conflicts. This Agreement does not: (i) conflict with any provision of the Company's Articles of Incorporation or Bylaws, as each may have been amended from time to time to date; or (ii) result in a violation of any federal, state, local or foreign law, rule, regulation, order, judgment or decree (including Federal and state securities laws and regulations) applicable to the Company or by which any property or asset of the Company is bound or affected.

2.3 Authorization. The execution, delivery and performance of this Agreement by the Company has been duly authorized by all requisite corporate action, and constitutes the valid and binding obligations of the Company enforceable in accordance with its terms, subject as to enforcement of remedies to applicable bankruptcy, insolvency, reorganization, or similar laws relating to or affecting the enforcement of creditors' rights.

2.4 Capitalization. The authorized capital stock of the Company immediately upon the consummation of the transactions contemplated by the Subscription Agreement (assuming the conversion of all of the notes representing the Aggregate Commitment Amount (as defined in the Loan and Security Agreement) shall consist of:

(a) 5,000,000 shares of preferred stock (the "Preferred Stock") of which:

(1) 4,000,000 shares shall have been duly designated Series B Convertible Preferred Stock, all of which 3,300,000 are duly and validly issued and outstanding, fully paid and non-assessable, with no personal liability attaching to the ownership thereof;

(2) 1,000,000 shares shall have been duly designated Series C Convertible Preferred Stock, all of which shall be duly and validly issued and outstanding, fully paid and non-assessable, with no personal liability attaching to the ownership thereof;

(b) 400,000,000 shares shall have been duly designated as Common Stock, of which 94,548,352 shares are duly and validly issued and outstanding, fully paid and non-assessable, with no personal liability attaching to the ownership thereof; and

(c) 28,000,000 shares of Common Stock shall have been duly reserved for issuance upon exercise of warrants, and 62,700,000 shares of Common Stock shall have been duly reserved for issuance upon conversion of Preferred Stock.

SECTION 3. Representations, Warranties and Covenants of Subscriber. Subscriber represents and warrants to the Company that:

3.1 Own Account. The Existing Notes and the Subscriber Shares that the Subscriber would acquire upon conversion have been (or would be) acquired solely for its, his or her account and are not being (or would not be) purchased with a view to, or for resale in connection with, any distribution within the meaning of the Securities Act or related laws and regulations or any other applicable securities laws of any other jurisdiction (collectively, the "Securities Laws"). The Subscriber will not resell or offer to resell the Common Stock except in accordance with the terms of the Bylaws of the Company and in compliance with all applicable Securities Laws.

3.2 Organization and Standing of Subscriber. If the Subscriber is an entity, such Subscriber is a corporation, partnership or other entity duly incorporated or organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization and has the requisite corporate power to own its assets and to carry on its business.

3.3 Authorization and Power. The Subscriber has all requisite authority (and in the case of an individual, the capacity) to purchase the Subscriber Shares, and enter into this Subscription Agreement and to perform all the obligations required to be performed by the Subscriber hereunder and thereunder, and such purchase will not contravene any law, rule or regulation binding on the undersigned or any investment guideline or restriction applicable to the Subscriber.

3.4 No Conflicts. The execution, delivery and performance of this Agreement and the consummation by the Subscriber of the transactions contemplated hereby or relating hereto do not and will not (i) result in a violation of the Subscriber's charter documents or bylaws or other organizational documents (if the Subscriber is not an individual) or (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of any agreement or instrument or obligation to which the Subscriber is a party or by which its properties or assets are bound, or result in a violation of any law, rule, or regulation, or any order, judgment or decree of any court or governmental agency applicable to the Subscriber or its properties. The Subscriber is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement or to purchase the Subscriber Shares in accordance with the terms hereof.

3.5 Residence. The Subscriber is a resident of the state set forth on the signature page hereto and is not acquiring the Subscriber Shares as a nominee or agent otherwise for any other person.

3.6 No Reliance. The Subscriber confirms that it is not relying on any communication (written or oral) of the Company or any of its affiliates, as investment advice or as a recommendation to purchase the Subscriber Shares. It is understood that information and explanations related to the terms and conditions of the Subscriber Shares provided by the Company or any of its affiliates shall not be considered investment advice or a recommendation to purchase the Subscriber Shares, and that neither the Company nor any of its affiliates is acting or has acted as an advisor to the Subscriber in deciding to invest in the Subscriber Shares. The Subscriber acknowledges that neither the Company nor any of its affiliates has made any representation regarding the proper characterization of the Subscriber Shares for purposes of determining the undersigned's authority to invest in the Subscriber Shares.

3.7 Investment Experience.

(a) The Subscriber has such knowledge, skill and experience in business, financial and investment matters that it is capable of evaluating the merits and risks of an investment in the Subscriber Shares. The Subscriber has made its own legal, tax, accounting and financial evaluation of the merits and risks of an investment in Company.

(b) The Subscriber has had access to the legal, financial, tax and accounting information concerning the Company and the Subscriber Shares as it deems necessary to enable it to make an informed investment decision concerning the purchase of the Subscriber Shares.

(c) The Subscriber understands that neither the Subscriber Shares that the Subscriber is acquiring upon conversion of the Existing Note have not and will not be registered under the Securities Laws. The Subscriber understands that it, he or she has no rights whatsoever to request, and that the Company is under no obligation whatsoever to furnish, a registration of the Subscriber Shares under the Securities Laws.

(d) The Subscriber represents that the Subscriber is an “accredited investor”, as defined in Rule 501 promulgated under the Securities Act, which definition is attached as Exhibit A hereto and has accurately completed the Accredited Investor Questionnaire attached as Exhibit B hereto. The Subscriber also represents that the Subscriber has not been organized for the purpose of acquiring the Subscriber Shares.

(e) The Subscriber is aware that the Subscriber will have to make the payment of the Purchase Price through the surrender of the Existing Note. The Subscriber can bear the economic risk of losing its entire investment in the Company without impairing the Subscriber’s ability to provide for itself, himself or herself and/or his or her family (as applicable) in the same manner that the Subscriber would have been able to provide prior to making an investment in the Company.

3.8 Confidentiality. The Subscriber understands and hereby acknowledges and agrees that all of the information appearing herein and otherwise provided to the Subscriber in connection with the purchase of the Subscriber Shares made hereby is confidential and that the Subscriber and the Subscriber’s representatives and agents may not disclose such information to any person that is not a party to the transactions contemplated hereby.

3.9 No General Solicitation. The Subscriber acknowledges that neither the Company nor any other person offered to sell the Subscriber Shares to it by means of any form of general solicitation or advertising, including but not limited to: (a) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio or (b) any seminar or meeting whose attendees were invited by any general solicitation or general advertising.

3.10 Legend. The Subscriber understands that the Subscriber Shares to be purchased by it, him or her will be “restricted securities” as that term is defined in Rule 144 under the Securities Act and that the certificate(s), if any, representing the Subscriber Shares will bear a restrictive legend thereon in substantially the form that appears below:

**“THESE SHARES OF COMMON STOCK HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND THEY MAY NOT BE OFFERED, SOLD, PLEDGED, HYPOTHECATED, ASSIGNED OR TRANSFERRED EXCEPT (I) PURSUANT TO A REGISTRATION STATEMENT UNDER THE SECURITIES ACT WHICH HAS BECOME EFFECTIVE AND IS CURRENT WITH RESPECT TO THESE SECURITIES, OR (II) PURSUANT TO A SPECIFIC EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, BUT ONLY UPON THE HOLDER HEREOF FIRST HAVING OBTAINED THE WRITTEN OPINION OF COUNSEL TO THE ISSUER, OR OTHER COUNSEL, REASONABLY ACCEPTABLE TO THE ISSUER, THAT THE PROPOSED DISPOSITION IS CONSISTENT WITH ALL APPLICABLE PROVISIONS OF THE SECURITIES ACT AS WELL AS ANY APPLICABLE “BLUE SKY” OR OTHER SIMILAR SECURITIES LAW.”**

3.11 Additional Information. The Subscriber agrees to furnish any additional information requested by the Company or any of its affiliates to assure compliance with applicable U.S. federal and state securities laws in connection with the issuance of the Subscriber Shares.

3.12 Survival. The Subscriber understands that all representations and warranties and agreements hereunder shall survive execution and delivery of this Subscription Agreement and the issuance of the Subscriber Shares.

SECTION 4. Indemnification. The Subscriber agrees to indemnify, hold harmless, reimburse and defend the Company and each of the Company’s officers, directors, agents, attorneys, affiliates, and control persons against any claim, cost, expense, liability, obligation, loss or damage (including reasonable legal fees) of any nature, incurred by or imposed upon the Company or its successor or any such person which results, arises out of or is based upon any material misrepresentation by such Subscriber in this Agreement or in any Exhibits attached hereto, or other agreement delivered pursuant hereto.

SECTION 5. Amendments. This Agreement may not be modified or amended except pursuant to an instrument in writing signed by the Company and the Subscriber. No waiver of any provision this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any provision of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (regardless of whether similar), nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided.

SECTION 6. Headings. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed to be part of this Agreement.

SECTION 7. Severability. In case any provision contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

SECTION 8. Governing Law. This Agreement and any disputes or claims arising out of or in connection with its subject matter shall be governed by and construed in accordance with the laws of the State of Florida without regard to the rules of conflict of laws of such state that would cause the laws of another jurisdiction to apply. The parties hereto acknowledge and agree that venue and jurisdiction for any claim, suit or controversy related to or arising out of this Agreement shall lie in the state or federal courts located in Miami-Dade County, Florida. THE PARTIES HEREBY WAIVE THE RIGHT TO JURY TRIAL OF ANY MATTERS ARISING OUT OF THIS AGREEMENT OR THE CONDUCT OF THE RELATIONSHIP BETWEEN THEM.

SECTION 9. Notices. All notices, requests, demands or other communications to the respective parties hereto shall be in writing addressed to the respective parties and their respective addresses as follows:

to the Company, at:

2151 LeJeune Road  
Suite 150-Mezzanine  
Coral Gables, FL 33134  
United States  
Attention: William O'Dowd  
Facsimile: + 1 (305) 774-0405  
E-mail: billodowd@dolphindigitalmedia.com

to Subscriber at:

[\*]  
Attention: [\*]  
Facsimile: [\*]  
E-mail: [\*]

or to such address of which either party may subsequently give notice. All notices, requests, demands or other communications to the respective parties hereto shall be in writing addressed to the respective parties at their respective addresses shown beneath their signatures hereto. All such notices, requests, demands and communications described above and all other notices, demands, requests and other communications made in connection with this Agreement shall be effective and be deemed to have been received (i) if delivered by hand, upon personal delivery, (ii) if delivered by reputable overnight courier service, one business day after its delivery to such courier service with all charges prepaid (or charged to the account of the sender) and with receipt confirmed (by a record of receipt maintained) by such overnight courier, (iii) if delivered by United States mail upon the earlier of actual receipt and three business days after deposit, registered or certified mail, return receipt requested, with proper postage prepaid, (iv) if delivered by facsimile, upon sender's receipt of confirmation of proper transmission, and (v) if delivered by electronic transmission, upon transmission.



SECTION 10. Counterparts; Facsimile Signatures. This Agreement may be executed in one or more counterparts, each of which shall constitute an original, but all of which, taken together, shall constitute but one instrument. Facsimile or other electronically scanned and transmitted signatures shall be deemed originals for all purposes of this Agreement.

SECTION 11. Entire Agreement. This Agreement contains the entire understanding of the parties with respect to the matters covered herein and therein; and, except as specifically set forth herein or therein, neither the Company nor the Subscriber makes any representation, warranty, covenant or undertaking with respect to such matters.

SECTION 12. Fees and Expenses. Except as set forth in the Bylaws of the Company, each party hereto shall pay its respective fees and expenses related to the transactions contemplated by this Agreement.

SECTION 13. Parties. This Agreement is made solely for the benefit of and is binding upon the Company and the Subscriber, and no other person or entity shall acquire or have any right under or by virtue of this Agreement.

SECTION 14. Assignment. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and assigns. This Agreement and the rights of the Subscriber hereunder may be assigned by Subscriber only with the prior written consent of the Company. The Company may not assign this Agreement without the written consent of the Subscriber.

SECTION 15. Further Assurances. Each party agrees to cooperate fully with the other party hereto and to execute such further instruments, documents and agreements and to give such further written assurance as may be reasonably requested by the other party to evidence and reflect the transactions described herein and contemplated hereby and to carry into effect the intents and purposes of this Agreement.

*[Signature pages follow]*

The Subscriber hereby agrees to purchase [\*] shares of Common Stock in consideration of the payment in full of the Existing Note. Entered into as of the day and year below written:

Date: March 15 ,2016

**Subscriber**

[\*]

By:

Name: [\*]

Title: [\*]

Address:

[\*]

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IN WITNESS WHEREOF, the undersigned has executed this Agreement as of the date first above written.

**DOLPHIN DIGITAL MEDIA, INC**

By: \_\_\_\_\_

Name: William O'Dowd IV

Title: Chief Executive Officer

CHIEF EXECUTIVE OFFICER  
CERTIFICATION PURSUANT TO SECTION 302

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

1. I have reviewed this Report on Form 10-K of the Registrant;
2. Based on my knowledge, this Annual 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;
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 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: March 31, 2016

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

CHIEF FINANCIAL OFFICER  
CERTIFICATION PURSUANT TO SECTION 302

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

1. I have reviewed this Report on Form 10-K of the Registrant;
2. Based on my knowledge, this Annual 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;
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 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: March 31, 2016

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

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

In connection with the accompanying Report of Dolphin Digital Media, Inc. (the "Company") on Form 10-K for the year ended December 31, 2015, 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; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ William O'Dowd IV  
William O'Dowd IV  
Chief Executive Officer  
March 31, 2016

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

In connection with the accompanying Report of Dolphin Digital Media, Inc. (the "Company") on Form 10-K for the year ended December 31, 2015, 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; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Mirta A Negrini  
Mirta A Negrini  
Chief Financial Officer  
March 31, 2016