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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, 2016

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Emerging Growth Company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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: $33,243,780

Indicate the number of shares outstanding of the registrant's common stock as of April 17, 2017: 18,755,865

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2017 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, 2016, 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. (“We”,“Dolphin” or the “Company”) is dedicated to the production of high-quality digital and motion picture 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. We also seek to develop online kids clubs.

On March 7, 2016, we acquired Dolphin Films, Inc., a Florida corporation (“Dolphin Films”), and a content producer of motion pictures, from Dolphin Entertainment, Inc. (“Dolphin Entertainment”), an entity wholly owned by our President, Chairman and Chief Executive Officer (“CEO”), Mr. O’Dowd. See Note 4 for additional information regarding the merger whereby we acquired Dolphin Films (the “Dolphin Films Acquisition”).

On May 9, 2016, we filed Articles of Amendment to our Amended Articles of Incorporation to effectuate a 1-to-20 reverse stock split, as approved by our Board of Directors and a majority of our shareholders. The reverse stock split became effective on May 10, 2016.

On March 30, 2017, we completed the acquisition of 42West, LLC, a Delaware limited liability company, (“42West”), and an entertainment public relations agency offering talent publicity, strategic communications and entertainment content marketing (the “42West Acquisition”). As consideration in the 42West Acquisition, we paid approximately $18.7 million in shares of common stock of the Company, par value $0.015 (the “Common Stock”), based on the Company’s 30-trading-day average stock price prior to the closing date of $4.61 per share (less certain working capital and closing adjustments, transaction expenses, and payments of indebtedness), plus the potential to earn up to an additional $9.3 million in shares of Common Stock. As a result, we (i) issued 1,230,280 shares of Common Stock on the closing date, (ii) will issue (a) 344,550 shares of Common Stock to certain employees within 30 days of the closing date, (b) 118,655 shares of Common Stock as bonuses during 2017 and (c) approximately 1,961,821 shares of Common Stock on January 2, 2018 and (iii) may issue approximately 1,963,126 shares of Common Stock based on the achievement of specified financial performance targets over a three-year period as set forth in the Membership Purchase Agreement (the “Consideration”). Because the 42West Acquisition was completed during 2017, the financial condition and results of operations presented herein are those of Dolphin and its subsidiaries prior to the completion of the acquisition, and do not include the financial conditions and results of operations of 42West.

Leslee Dart, Amanda Lundberg and Allan Mayer, each a former owner of 42West (the “Principal Sellers”), have each entered into employment agreements with the Company and will continue as employees of the Company for a three-year term after the closing date of the 42West Acquisition. The non-executive employees of 42West are expected to be retained as well. In connection with the 42West Acquisition, on March 30, 2017, the Company entered into put agreements (the “Put Agreements”) with each of the sellers. Pursuant to the terms and subject to the conditions set forth in the Put Agreements, the Company has granted the sellers the right, but not obligation, to cause the Company to purchase up to an aggregate of 2,374,187 of their shares of Common Stock received as Consideration for a purchase price equal to $4.61 per share during certain specified exercise periods set forth in the Put Agreements up until December 2020.

Dolphin Digital Studios

Dolphin Digital Studios is our digital entertainment division which creates original content to premiere online, in the form of “web series”. Dolphin Digital Studios is instrumental in producing and distributing our web series and sourcing financing for our digital media projects.

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 Films

Dolphin Films is a content producer of motion pictures. In 2016, we released our motion picture, *Max Steel*. 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 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.

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 goal is also 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 finance our motion pictures with funds from investors and the financing from international licensing agreements for the motion 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 five 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 was released in 2016.

In 2016, we entered into a co-production agreement for a new digital project showcasing favorite restaurants of NFL players throughout the country. Pursuant to the agreement, we were responsible for financing 50% of the project's budget and are entitled to 50% of the profits. In addition, we were responsible for (a) producing; (b) negotiating and contracting the talent; (c) securing locations; (d) preparing the production and delivery schedules; (e) identifying and securing digital distribution; (f) soliciting and negotiating advertising and sponsorships; (g) legal and business affairs and (h) managing and maintaining the production account. The web series is still in production and we anticipate that it will be produced and available for distribution in the third quarter of 2017.

Distribution

Our digital productions for advertiser supported video-on-demand ("AVOD") platforms have premiered on online platforms such as Hulu and Yahoo!. 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 online distribution.

Similar to distribution of digital productions described above, the economic life of motion pictures is comprised of different phases. The motion picture is initially distributed in theaters. A successful motion picture may remain in theaters for several months, after which 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"), SVOD, 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. Typically, we enter into an agreement with a distributor to place our films in theatres for a distribution fee. Pursuant to the agreement, the distribution fee varies depending on whether we provide our own Prints and Advertising ("P&A") financing or whether the distributor finances the P&A.

In 2016, we obtained the P&A financing necessary for the distribution and marketing costs associated with our motion picture, *Max Steel*, and the film was released domestically on October 14, 2016. The motion picture did not perform as well as expected domestically, however, we secured approximately $8.2 million in international distribution agreements. As part of our domestic distribution arrangement, we still have the ability to derive revenues from the ancillary markets described above, although the amount of revenue derived from such channels is typically commensurate with the performance of the film in the domestic box office.

Financing

We have financed our acquisition of the rights to certain digital projects and motion picture productions through a variety of financing structures including equity finance agreements, subscription agreements and loan and security agreements.

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. Our distribution and marketing costs were financed through financing obtained from a lender.

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 kids club memberships, established “brands” in the children’s space seek to expand their existing online audience through the promotion of original content supplied and/or sourced by Dolphin Digital Studios. We expect that premium entertainment offerings such as original web series, 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. We expect this will 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.

Additionally, our online kids clubs encourage 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 clubs offer 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 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.

In September 2016, we terminated, by mutual accord our 2013 agreement with United Way Worldwide pursuant to which we created an online kids club to promote the organization’s philanthropic philosophy and encourage literacy in elementary school age children. We have retained the trademark to the online kids club and will continue to operate the site. In February 2017, we also terminated our 2012 agreement with US Youth Soccer Association, Inc. pursuant to which we created, designed and hosted the US Youth Soccer Clubhouse website.

We operate our online kids club activities through our wholly-owned subsidiary, Dolphin Kids Club LLC (“Dolphin Kids Club”). Until December 2016, 25% of Dolphin Kids Club was owned by KCF Investments, LLC (“KCF”). Our agreement with KCF encompassed kids clubs created between January 1, 2012 and December 31, 2016 and was a “gross revenue agreement” in which we were responsible for paying all associated operating expenses. On December 29, 2016, we purchased KCF’s 25% membership interest in Dolphin Kids Club and, as a result, we are the sole member of that entity.

42West

42West is an entertainment public relations agency offering talent publicity, strategic communications and entertainment content marketing. In addition, it provides brand marketing and digital marketing services. Prior to its acquisition, 42West was the largest independently-owned public relations firm in the entertainment industry. Among other benefits, we anticipate that the 42West acquisition will strengthen and complement our current digital and motion picture business, while expanding and diversifying our operations. We expect that having marketing expertise in-house will allow Dolphin to review a prospective project's marketing potential prior to making a production commitment. Furthermore, for each project greenlit for production, a comprehensive marketing plan can potentially be created prior to the start of principal photography, allowing for relevant marketing assets to be created while filming. Therefore, we believe the marketing of Dolphin projects can begin much sooner than the delivery of a finished film or series.

42West's public relations and marketing professionals develop and execute marketing and publicity strategies for hundreds of movies and television shows as well as for individual actors, filmmakers, recording artists, and authors. Specifically, 42West provides services in the following areas:

Talent

42West focuses on creating and implementing strategic communication campaigns for performers and entertainers, including television and film stars, recording artists, authors, models, athletes, and theater actors. 42West's talent roster includes Oscar- and Emmy-winning actors and Grammy-winning singers and musicians and New York Times best-selling authors. Its services in this area include ongoing strategic counsel, media relations, studio, network, charity, corporate liaison and event and tour support.

Entertainment Marketing

42West provides marketing direction, public relations counsel and media strategy for productions (including theatrical films, DVD and VOD releases, television programs, and online series) as well as content producers ranging from individual filmmakers and creative artists to production companies, film financiers, DVD distributors, and other entities. Its capabilities include worldwide studio releases, independent films, television programming and web productions. In addition, 42West provides entertainment marketing services in connection with film festivals, awards campaigns, event publicity and red carpet management.

Targeted Marketing

42West also provides marketing and publicity services that are tailored to reach diverse audiences. Their clients include major studios and independent producers for whom they create strategic multicultural marketing campaigns and provide strategic guidance aimed at reaching diverse audiences.

Strategic Communications

42West's strategic communications team advises high-profile individuals and companies faced with sensitive situations or looking to raise, reposition, or rehabilitate their public profiles. It also helps studios and filmmakers deal with controversial movies.

Much of the team's activities involve orchestrating high-stakes communications campaigns in response to sensitive, complex situations. 42West also helps companies define objectives, develop messaging, create brand identities, and construct long-term strategies to achieve specific goals, as well as manage functions such as media relations or internal communications on a day-to-day basis. The strategic communications team focuses on strategic communications counsel, corporate positioning, brand enhancement, media relations, reputation and issues management, litigation support and crisis management and communications. Its clients include major studios and production companies, record labels, sports franchises, media conglomerates, technology companies, philanthropic organizations, talent guilds, and trade associations as well as a wide variety of high-profile individuals, ranging from major movie and pop stars to top executives and entrepreneurs.

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*, *Hiding*, *South Beach* and *Max Steel* and one for *Jack of all Tastes*.

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 motion 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.

Our newly acquired business, 42West operates in a highly competitive marketing industry. It competes against other public relations and marketing communications companies as well as numerous independent and niche agencies to win new clients and maintain existing client relationships. 42West is widely regarded as one of the nation’s leading entertainment public relations and marketing communications agency, representing many of the world’s best loved and most acclaimed entertainment personalities and brands.

Employees

As of April 17, 2017, we have 97 full-time employees in our operations, including 81 employees from our newly acquired business, 42West. We 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 media projects or 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. 42West has offices located at 600 3rd Avenue, 23rd Floor, New York, New York, 10016 and 1840 Century Park East, Suite 700, Los Angeles, California 90067.

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. 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.

You may also read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, and you may obtain information on the operation of the Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. In addition, the SEC maintains an Internet website, www.sec.gov, that contains reports, proxy and information statements and other information that we file electronically with 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, 2016 and 2015, 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, 2016 and 2015 and our levels of working capital as of December 31, 2016 and 2015. 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 to fund our operating expenses through loans and additional sales of our Common Stock, securities convertible into our Common Stock, debt securities or a combination of such financing alternatives; however, there can be no assurance that we will be successful in raising any necessary additional capital. 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 and could be forced to liquidate.

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

We have a history of net losses and may be unable to generate sufficient revenue to achieve profitability in the future. For the fiscal year ended December 31, 2016, our net losses were $37,189,679. Our accumulated deficit was $99,812,204 at December 31, 2016. Our ability to generate net profit in the future will depend on our ability to successfully produce and commercialize multiple web series and films, as no single project is likely to generate sufficient revenue to cover our operating expenses. If we are unable to generate net 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.

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 film or digital media content require a significant amount of capital. The budget for the projects we plan to produce will require between $6 and $8 million to produce. In addition, if our distributor does not provide the funds for the distribution and marketing of our film, we will require additional capital to distribute and market the film. We estimate distribution and marketing fees to be approximately $10,000 per theatrical screen. 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.

Our success is primarily dependent on audience acceptance of our films and digital media productions, which is extremely difficult to predict and, therefore, inherently risky.

We cannot predict the economic success of any of our films because the revenue derived from the distribution of a film (which does not necessarily directly correlate with the production or distribution costs incurred) depends primarily upon its acceptance by the public, which cannot be accurately predicted. The economic success of a film also depends upon the public's acceptance of competing films, the availability of alternative forms of entertainment and leisure-time activities, general economic conditions and other tangible and intangible factors, all of which can change and cannot be predicted with certainty.

The economic success of a film is largely determined by our ability to produce content and develop stories and characters that appeal to a broad audience and by the effective marketing of the film. The theatrical performance of a film is a key factor in predicting revenue from post-theatrical markets. If we are unable to accurately judge audience acceptance of our film content or to have the film effectively marketed, the commercial success of the film will be in doubt, which could result in costs not being recouped or anticipated profits not being realized. Moreover, we cannot assure you that any particular feature film will generate enough revenue to offset its distribution, fulfillment services and marketing costs, in which case we would not receive any revenues for such film from our distributors.

In addition, changing consumer tastes affect our ability to predict which digital media 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 media 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.

We may incur significant write-offs if our feature films and other projects do not perform well enough to recoup production, marketing, distribution and other costs.

We are required to amortize capitalized production costs over the expected revenue streams as we recognize revenue from our films or other projects. The amount of production costs that will be amortized each quarter depends on, among other things, how much future revenue we expect to receive from each project. Unamortized production costs are evaluated for impairment each reporting period on a project-by-project basis. If estimated remaining revenue is not sufficient to recover the unamortized production costs, the unamortized production costs will be written down to fair value. In any given quarter, if we lower our previous forecast with respect to total anticipated revenue from any individual feature film or other project, we may be required to accelerate amortization or record impairment charges with respect to the unamortized costs, even if we have previously recorded impairment charges for such film or other project. For example, in the year ended December 31, 2016, we recorded a $2 million impairment of the capitalized production costs for our feature film, *Max Steel*. Such impairment charges have had and in the future could have, a material adverse impact on our business, operating results and financial condition.

In the past, we purchased several scripts and project ideas for our digital media productions totaling approximately $0.6 million that failed to generate interest among distributors or advertisers. As a result of the write off of the costs incurred in purchasing such scripts and project ideas, our operating results were negatively impacted.

Our business is currently substantially dependent upon the success of a limited number of film releases and digital media productions each year and the unexpected delay or commercial failure of any one of them could have a material adverse effect on our financial results and cash flows.

We generally expect to release one to two feature films and one digital production in the next year. The unexpected delay in release or commercial failure of just one of these films or digital media productions could have a significant adverse impact on our results of operations and cash flows in both the year of release and in the future. Historically, feature films that are successful in the domestic theatrical market are generally also successful in the international theatrical and ancillary markets, although each film is different and there is no way to guarantee such results. If our films fail to achieve domestic box office success, their success in the international box office and ancillary markets and our business, results of operations and financial condition could be adversely affected. Further, we can make no assurances that the historical correlation between results in the domestic box office and results in the international box office and ancillary markets will continue in the future. If our feature films do not perform well in the domestic or international theatrical markets and ancillary markets, or our digital media productions do not perform as anticipated, the failure of any one of these could a material adverse effect on our financial results and cash flows.

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

There are substantial financial risks relating to production, completion and release of web series and films. Actual costs may exceed their budgets due to factors such as labor disputes, unavailability of a star performer, equipment shortages, disputes with production teams or adverse weather conditions, any of which 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 receive a fixed producer's fee for our services plus a portion of any project income. However to the extent that delays or cost overruns result in us not completing the web series or film 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.

Our management has determined that our disclosure controls and procedures are not effective and we have identified material weaknesses in our internal controls over financial reporting.

In connection with the preparation of our financial statements for the years ended December 31, 2016 and 2015, our management concluded that our disclosure controls and procedures are not effective and 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, 2016, we concluded that our disclosure control and procedures and internal controls over financial reporting were 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.

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 distributors to distribute our films and their failure to perform or promote our films could negatively impact our ability to generate revenues and have a material adverse effect on our operating results.

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

We generally do not control the timing and manner in which our distributors distribute our films; their decisions regarding the timing of release and promotional support are important in determining success. Any decision by those distributors not to distribute or promote one of our films or to promote our competitors' films or related products to a greater extent than they promote ours could have a material adverse effect on our business, cash flows and operating results.

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 media productions. Pursuant to these revenue share provisions, we will earn a portion of advertising revenues once our digital media 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.

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 media productions to attract our target viewer audiences, lack of future demand for our digital media 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 success depends on the services of our CEO.

Our success greatly depends on the skills, experience and efforts of our CEO, Mr. O'Dowd. We have entered into an employment agreement with Mr. O'Dowd, however, this agreement cannot assure us of his continued services. If Mr. O'Dowd resigns or becomes unable to continue in his present role and is not adequately replaced, the loss of his services could have a material adverse effect on our business, operating results or financial condition.

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.

Risks Related to the Industry

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

The popularity and commercial success of our digital media productions and films depends on many factors including, but not limited to, the key talent involved, the timing of release, the promotion and marketing of the digital media production or film, the quality and acceptance of other competing productions 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 media production or film, its critical acclaim and the breadth, timing and format of its initial release. We cannot predict the impact of such factors on any digital media production or film, and many are factors that are beyond our control. As a result of these factors and many others, our digital media productions and films may not be as successful as we anticipate, and as a result, our results of operations may suffer.

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 media and motion picture content, as well as for advertisement dollars. 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.

As a small independent producer we 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 film 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, develop, produce, advertise and distribute digital media and motion picture content.

We must successfully respond to rapid technological changes and alternative forms of delivery or storage to remain competitive.

The entertainment industry continues to undergo significant developments as advances in technologies and new methods of product delivery and storage, and certain changes in consumer behavior driven by these developments emerge. New technologies affect the demand for our content, the manner in which our content is distributed to consumers, the sources and nature of competing content offerings and the time and manner in which consumers acquire and view our content. We and our distributors must adapt our businesses to shifting patterns of content consumption and changing consumer behavior and preferences through the adoption and exploitation of new technologies. If we cannot successfully exploit these and other emerging technologies, it could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

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.

Others may assert intellectual property infringement claims or liability claims for digital media or film 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 web series, stories, characters, other entertainment or intellectual property. In addition, as distributors of digital media and film content, we may face potential liability for such claims as defamation, invasion of privacy, negligence, copyright or trademark infringement 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. 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 digital media productions 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

We have recently issued, and may in the future issue, a significant amount of equity securities and, as a result, your ownership interest in the Company has been, and may in the future be, substantially diluted and your investment in our Common Stock could suffer a material decline in value.

From January 1, 2016 to April 17, 2017, the number of shares of our Common Stock issued and outstanding has increased from 4,094,618 (adjusted for a 20:1 reverse stock split on May 10, 2016) to 18,755,865 shares. Of this amount, approximately 5,665,760 shares of Common Stock have been issued in private placements as payment to certain holders of the Company's debt pursuant to debt exchange agreements. Consequently, we have not received any cash proceeds in connection with such issuances of Common Stock. In addition, 1,525,000 shares of Common Stock were issued in private placements pursuant to subscription agreements. Generally, these subscription agreements and debt exchange agreements provide for past or future purchases of, or exchanges of debt for, our Common Stock at a price of $5.00 per share which, upon each exercise or exchange thus far, has been below the market price of our Common Stock. In addition, during 2016, the Company issued Warrants G, H, I, J and K. Warrants G, H and I are exercisable for an aggregate of 2,500,000 shares of Common Stock at exercise prices ranging from $5.00 to $7.00 per share. Warrants J and K were issued in exchange for debt and to purchase the remaining membership interests in Dolphin Kids Club and were exercised for an aggregate of 2,340,000 shares of Common Stock at an exercise price of $0.15 per share. Furthermore, as consideration for our recent 42West Acquisition, we (i) issued 1,230,280 shares of Common Stock on the closing date, (ii) will issue (a) 344,550 shares of Common Stock to certain employees within 30 days of the closing date, (b) 118,655 shares of Common Stock as bonuses during 2017 and (c) approximately 1,961,821 shares of Common Stock on January 2, 2018 and (iii) may issue approximately 1,963,126 shares of Common Stock based on the achievement of specified financial performance targets over a three-year period. As a result of these issuances, your ownership interest in the Company has been, and may in the future be, substantially diluted. The market price for our Common Stock has been volatile in the past, and these issuances could cause the price of our Common Stock to fluctuate substantially in the future. In addition, we have historically experienced significantly low trading volumes. Once restricted stock issued in the private placements and in the 42West Acquisition becomes freely tradable, these current or future shareholders may decide to trade their shares of Common Stock and, if our stock is thinly traded, this could have a material adverse effect on its market price.

In the near term, we will need to raise additional capital and may seek to do so by conducting one or more private placements of equity securities, securities convertible into equity securities or debt securities, selling additional securities in a registered public offering, or through a combination of one or more of such financing alternatives. Such issuances of additional securities would further dilute the equity interests of our existing shareholders, perhaps substantially, and may further exacerbate any or all of the above risks.

The Series C Convertible Preferred Stock has anti-dilution protections and super voting rights that may adversely affect our shareholders.

For a period of five years from March 7, 2016, the date of issuance, the Series C Convertible Preferred Stock will have 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) 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 was approximately 53% of the shares of Common Stock outstanding. As a result, your ownership interests may be further diluted.

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 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.

As long as we are an issuer of "penny stock," we are subject to penny stock regulations and the protection provided by the federal securities laws relating to forward-looking statements does not apply to us, which could subject us to potentially costly legal action.

Broker-dealer practices in connection with transactions in penny stocks are regulated by certain penny stock rules adopted by the SEC. Penny stocks generally are equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, broker-dealers who sell these securities to persons other than established customers and accredited investors (generally, those persons with assets in excess of $1,000,000 or annual income exceeding $200,000 to $300,000 together with their spouse), must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. Consequently, these requirements may have the effect of reducing the level of trading activity, if any, in the secondary market for a security that is or becomes subject to the penny stock rules. To the extent our stock price falls below $5.00 per share, we are subject to the penny stock rules, and consequently, our shareholders will find it more difficult to sell their shares. Consequently, the penny stock regulations could have a material adverse effect on our business prospects, financial condition and results of operation. In addition, 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 shareholders 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.

Risks Related to Acquisitions

We are subject to risks associated with acquisitions and we may not realize the anticipated benefits of such acquisitions.

We have in the past completed acquisitions, and may in the future engage in discussions and activities with respect to possible acquisitions, intended to complement or expand our business, some of which may be significant transactions for us. For example, in March 2016, we acquired Dolphin Films, a content producer of motion pictures, and on March 30, 2017 we acquired 42West, a full-service entertainment marketing agency. Identifying suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to identify suitable candidates or complete acquisitions in a timely manner, on a cost-effective basis or at all.

Even if we complete an acquisition, we may not realize the anticipated benefits of such transaction. Our recent acquisitions have required, and any similar future transactions may also require, significant efforts and expenditures, including with respect to integrating the acquired business with our historical business. We may encounter unexpected difficulties, or incur unexpected costs, in connection with acquisition activities and integration efforts, which include:

- diversion of management attention from managing our historical core business;
- potential disruption of our historical core business or of the acquired business;
- the strain on, and need to continue to expand, our existing operational, technical, financial and administrative infrastructure;
- inability to achieve synergies as planned;
- challenges in controlling additional costs and expenses in connection with and as a result of the acquisition;
- dilution to existing shareholders from the issuance of equity securities;
- becoming subject to adverse tax consequences or substantial depreciation;
- difficulties in assimilating employees and corporate cultures or in integrating systems and controls;
- difficulties in anticipating and responding to actions that may be taken by competitors;
- difficulties in realizing the anticipated benefits of the transaction;
- inability to generate sufficient revenue from acquisitions to offset the associated acquisition costs;
- potential loss of key employees, key clients or other partners of the acquired business as a result of the change of ownership; and
- the assumption of and exposure to unknown or contingent liabilities of the acquired businesses.

If any of our acquisitions do not perform as anticipated for any of the reasons noted above or otherwise, there could be a negative impact on our results of operations and financial condition.

Any due diligence by us in connection with potential future acquisition may not reveal all relevant considerations or liabilities of the target business, which could have a material adverse effect on our financial condition or results of operations.

We intend to conduct such due diligence as we deem reasonably practicable and appropriate based on the facts and circumstances applicable to any potential acquisition. The objective of the due diligence process will be to identify material issues which may affect the decision to proceed with any one particular acquisition target or the consideration payable for an acquisition. We also intend to use information revealed during the due diligence process to formulate our business and operational planning for, and our valuation of, any target company or business. While conducting due diligence and assessing a potential acquisition, we may rely on publicly available information, if any, information provided by the relevant target company to the extent such company is willing or able to provide such information and, in some circumstances, third party investigations.

There can be no assurance that the due diligence undertaken with respect to an acquisition, including the Dolphin Films Acquisition or the 42West Acquisition, will reveal all relevant facts that may be necessary to evaluate such acquisition including the determination of the price we may pay for an acquisition target or to formulate a business strategy. Furthermore, the information provided during due diligence may be incomplete, inadequate or inaccurate. As part of the due diligence process, we will also make subjective judgments regarding the results of operations, financial condition and prospects of a potential target. For example, the due diligence we conducted in connection with the Dolphin Films Acquisition and the 42West Acquisition may not have been complete, adequate or accurate and may not have uncovered all material issues and liabilities to which we are now subject. If the due diligence investigation fails to correctly identify material issues and liabilities that may be present in a target company or business, or if we consider such material risks to be commercially acceptable relative to the opportunity, and we proceed with an acquisition, we may subsequently incur substantial impairment charges or other losses.

In addition, following an acquisition, including the Dolphin Films Acquisition and the 42West Acquisition, we may be subject to significant, previously undisclosed liabilities of the acquired business that were not identified during due diligence and which could contribute to poor operational performance, undermine any attempt to restructure the acquired company or business in line with our business plan and have a material adverse effect on our financial condition and results of operations.

Claims against us relating to any acquisition may necessitate our seeking claims against the seller for which the seller may not indemnify us or that may exceed the seller's indemnification obligations.

As discussed above, there may be liabilities assumed in any acquisition that we did not discover or that we underestimated in the course of performing our due diligence. Although a seller generally will have indemnification obligations to us under an acquisition or merger agreement, these obligations usually will be subject to financial limitations, such as general deductibles and maximum recovery amounts, as well as time limitations, as was the case in the 42West Acquisition. We cannot assure you that our right to indemnification from any seller will be enforceable, collectible or sufficient in amount, scope or duration to fully offset the amount of any undiscovered or underestimated liabilities that we may incur. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition and operating results.

Risks Related to the 42West Business

Our business could be adversely affected if we fail to retain the Principal Sellers ,other key employees and the clients they represent

The success of the 42West business substantially depends on our ability to retain the services of the Principal Sellers.. If we lose the services of one or more of these individuals, our ability to successfully implement our business plan with respect to the newly acquired business and the value of our common stock could be materially adversely affected. Although we entered into three-year employment agreements with each of the Principal Sellers in connection with the 42West Acquisition, there can be no assurance that they will serve the term of their employment agreements or choose to remain with us following the expiration of such terms. In addition, the employees of 42West, and their skills and relationships with clients, are among 42West's most valuable assets. An important aspect of the business' competitiveness is its ability to retain these key employees. If 42West fails to hire and retain a sufficient number of these key employees, it may have a material adverse effect on our overall business and results of operations.

42West's talent roster currently includes some of the best known and most highly respected members of the entertainment community in addition to major studios and networks, corporations and well-known consumer brands. These clients often form highly loyal relationships with certain public relations and marketing professionals rather than with a particular firm. The employment agreements with the Principal Sellers currently contain non-competition provisions that will prevent the Principal Sellers from continuing to provide services to such clients should they leave the Company , however, clients are free to engage other public relations and marketing professionals and there can be no assurance that they will choose to remain with our Company. The success of the 42West Acquisition, therefore, depends on our ability to continue to successfully maintain such client relationships should the Principal Sellers or other key employees leave our Company. If we are unable to retain the current 42West clients or attract new clients, we may lose all of the benefits of the acquisition which would materially adversely affect our business and results of operations.

42West operates in a highly competitive industry.

The entertainment marketing business is highly competitive. 42West must compete with other agencies, and with other providers of entertainment marketing services, in order to maintain existing client relationships and to win new clients. The client's perception of the quality of an agency's creative work and the agency's reputation are critical factors in determining its competitive position.

The success of the 42West business depends on its ability to consistently and effectively deliver marketing and public relations services to its clients.

42West's success depends on its ability to effectively and consistently staff and execute client engagements to achieve the clients' unique personal or professional goals. 42West works to design customized communications or publicity campaigns tailored to the particular needs and objectives of particular projects. In some of its engagements, 42West relies on other third parties to provide some of the services to its clients, and we cannot guarantee that these third parties will effectively deliver their services or that we will have adequate recourse against these third parties in the event they fail to effectively deliver their services. Other contingencies and events outside of our control may also impact 42West's ability to provide its services. 42West's failure to effectively and timely staff, coordinate and execute its client engagements may adversely impact existing client relationships, the amount or timing of payments from clients, its reputation in the marketplace and ability to secure additional business and our resulting financial performance. In addition, our contractual arrangements with our clients may not provide us with sufficient protections against claims for lost profits or other claims for damages.

If we are unable to adapt to changing client demands, social and cultural trends or emerging technologies, we may not remain competitive and our business, revenues and operating results could suffer.

We operate in an industry characterized by rapidly changing client expectations, marketing technologies, and social mores and cultural trends that impact our target audiences. The entertainment industry continues to undergo significant developments as advances in technologies and new methods of message delivery and consumption emerge. These developments drive changes in our target audiences' behavior to which we must adapt in order to reach our target audiences. In addition, our success depends on our ability to anticipate and respond to changing social mores and cultural trends that impact the entertainment industry and our target audiences. We must adapt our business to these trends, as well as shifting patterns of content consumption and changing behaviors and preferences of our target audiences, through the adoption and exploitation of new technologies. If we cannot successfully exploit emerging technologies or if the marketing strategies we choose misinterpret cultural or social trends and prove to be incorrect or ineffective, any of these could have a material adverse effect on our business, financial condition, operating results, liquidity and prospects.

A significant labor dispute in our clients' industries could have a material adverse effect on our business.

An industry-wide strike or other job action by or affecting the Writers Guild, Screen Actors Guild or other major entertainment industry union could reduce the supply of original entertainment content, which would in turn reduce the demand for our talent and entertainment marketing services. An extensive work stoppage would affect feature film production as well as television and commercial production and could have a material adverse effect on our clients and the motion picture production industry in general. For example, on November 5, 2007, the Writers Guild declared a strike affecting the script writing for television shows and films. The strike, which lasted until February 12, 2008, significantly affected the entertainment industry which consequently, had a material adverse impact on revenue generated by public relations and entertainment marketing agencies. Contracts between entertainment industry unions and the Alliance of Motion Picture and Television Producers ("AMPTP") expire from time to time. The failure to finalize and ratify a new agreement with the AMPTP or the failure to enter into new commercial contracts upon expiration of the current contracts could lead to a strike or other job action. Any such severe or prolonged work stoppage could have an adverse effect on the television and/or motion picture production industries and could severely impair our clients' prospects. Any resulting decrease in demand for our talent and entertainment marketing and other public relations services would have a material adverse effect on our cash flows and results of operations.

Clients may terminate or reduce their relationships with us on short notice.

42West's entertainment clients may choose to reduce their relationships with us, on a relatively short time frame and for any reason and can terminate their contracts with us with 30 days' notice. If a significant number of the 42West clients were to terminate their relationships with us, this could have a material adverse effect upon our business and results of operations.

42West's ability to generate new business from new and existing clients may be limited.

To increase its revenues, 42West needs to obtain additional clients or generate demand for additional services from existing clients. 42West's ability to generate initial demand for its services from new clients and additional demand from existing clients is subject to such clients' and potential clients' requirements, trends in the entertainment industry, financial conditions, strategic plans and internal resources of corporate clients, as well as the quality of 42West's employees, services and reputation. To the extent 42West cannot generate new business from new and existing clients due to these limitations, the ability of 42West to grow its business, and of the Company to increase its revenues, will be limited.

42West's revenues are susceptible to declines as a result of unfavorable economic conditions.

Economic downturns often severely affect the marketing services industry. Some of our corporate clients may respond to weak economic performance by reducing their marketing budgets, which are generally discretionary in nature and easier to reduce in the short-term than other expenses related to operations. In addition, economic downturns could lead to reduced public demand for varying forms of entertainment for which we are engaged to provide public relations and media strategy and promotional services. Such reduced demand for our services could have a material adverse effect on our revenues and results of operations.

42West relies on information technology systems and could face cybersecurity risks.

42West relies on information technologies and infrastructure to manage its business, including digital storage of marketing strategies and client information and delivery of digital marketing services. The incidence of malicious technology-related events, such as cyberattacks, computer hacking, computer viruses, worms or other destructive or disruptive software, denial of service attacks or other malicious activities is on the rise worldwide. Power outages, equipment failure, natural disasters (including extreme weather), terrorist activities or human error may also affect our systems and result in disruption of our services or loss or improper disclosure of personal data, business information or other confidential information.

Likewise, data privacy breaches, as well as improper use of social media, by employees and others may pose a risk that sensitive data, such as personally identifiable information, strategic plans and trade secrets, could be exposed to third parties or to the general public. 42West also utilizes third parties, including third-party "cloud" computing services, to store, transfer or process data, and system failures or network disruptions or breaches in the systems of such third parties could adversely affect its reputation or business. Any such breaches or breakdowns could expose us to legal liability, be expensive to remedy, result in a loss of clients or clients' proprietary information and damage our reputation. Efforts to develop, implement and maintain security measures are costly, may not be successful in preventing these events from occurring and require ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated.

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 1to 3 and 3.5% for the remainder of the lease.

Our newly acquired subsidiary, 42West leases 12,505 square feet of office space located at 600 Third Avenue, 23rd Floor, New York, NY 10016, at a monthly rate of $67,735 with increases every three years. In addition, 42West leases 12,139 square feet of office space at 1840 Century Park East, Suite 700, Los Angeles, CA 90067 at a base rate of $36,417 (commencing on 2/1/14), with annual increases of 3% per year. 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 Markets Pink Sheets under the symbol "DPDM". The high and low bid information for each quarter since January 1, 2015, as quoted on the OTC, is as follows:

Quarter	High Bid	Low Bid
Fourth Quarter 2016	$ 6.75	$ 3.20
Third Quarter 2016	$ 7.25	$ 4.00
Second Quarter 2016	$ 8.27	$ 5.40
First Quarter 2016	$ 7.60	$ 1.60
Fourth Quarter 2015	$ 5.00	$ 0.60
Third Quarter 2015	$ 1.00	$ 0.60
Second Quarter 2015	$ 1.20	$ 0.80
First Quarter 2015	$ 1.00	$ 0.80

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 April 17, 2017, an aggregate of 18,755,865 shares of our Common Stock were issued and outstanding and were owned by approximately 300 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 13, 2012, our Board of Directors approved an Incentive Compensation Plan (the "Plan"), which was approved by the majority of our shareholders on September 19, 2012. 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 is administered by the Board of Directors or a committee designated by the Board of Directors. The Board of Directors has designated 10,000,000 shares of Common Stock for this plan. No awards have been issued under the plan since its adoption.

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. We also seek to develop online kids clubs. On March 7, 2016, we acquired Dolphin Films, a content producer of motion pictures, from Dolphin Entertainment, an entity wholly owned by our President, Chairman and CEO, Mr. O'Dowd. See Note 4 for additional information regarding the Dolphin Films Acquisition. The following management discussion is based on financial information that has been retrospectively adjusted as if the merger had occurred from the first date of financial information presented. All financial information has been retrospectively adjusted at the historical values of Dolphin Films, as the merger was between entities under common control.

On May 9, 2016, we filed Articles of Amendment to our Articles of Incorporation with the Secretary of State of the State of Florida to effectuate a 1-to-20 reverse stock split. The reverse stock split was effective as of May 10, 2016. The reverse stock split was approved by our Board of Directors and a majority of our shareholders. Shares of Common Stock have been retrospectively adjusted to reflect the reverse stock split in the following management discussion.

On March 30, 2017, we acquired 42West, an entertainment public relations agency offering talent publicity, strategic communications and entertainment, content marketing. As consideration for the 42West Acquisition, we paid approximately $18.7 million in shares of Common Stock, based on the Company's 30-trading-day average stock price prior to the closing date of $4.61 per share (less certain working capital and closing adjustments, transaction expenses and payments of indebtedness), plus the potential to earn up to an additional $9.3 million in shares of Common Stock. As a result, we (i) issued 1,230,280 shares of Common Stock on the closing date and (ii) will issue (a) 344,550 shares of Common Stock to certain employees within 30 days of the closing date, (b) 118,655 shares of Common Stock as bonuses during 2017 and (c) approximately 1,961,821 shares of Common Stock on January 2, 2018. In addition, we may issue up to 1,963,126 shares of Common Stock based on the achievement of specified financial performance targets over a three-year period. Prior to its acquisition, 42West was the largest independently-owned public relations firm in the entertainment industry. Among other benefits, we anticipate that the 42West Acquisition will strengthen and complement our current digital and motion picture business, while expanding and diversifying our operations. Having marketing expertise in-house will allow Dolphin to review any prospective project's marketing potential prior to making a production commitment.

The Principal Sellers have each entered into employment agreements with us and will continue as employees of the Company for a three-year term after the closing date of the 42West Acquisition. The nonexecutive employees of 42West are expected to be retained as well. In connection with the 42West Acquisition, we granted the sellers the right, but not the obligation, to cause the Company to purchase up to an aggregate of 2,374,187 of their shares of Common Stock received as Consideration for a purchase price equal to $4.61 per share during certain specified exercise periods up until December 2020.

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, 2016 and 2015, our accumulated deficit as of December 31, 2016 and 2015 and our level of working capital. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. Management is planning to raise any necessary additional funds through loans and additional sales of our Common Stock, securities convertible into our Common Stock, debt securities or a combination of such financing alternatives; however, there can be no assurance that we will be successful in raising any necessary additional loans or capital. Such issuances of additional securities would further dilute the equity interests of our existing shareholders, perhaps substantially.

Revenues

During 2016, our primary source of revenue was from the release of our motion picture, *Max Steel*. During 2015, we derived revenue through (1) the online distribution rights of our web series *South-Beach – Fever* and international distribution rights to our motion picture *Believe* and (2) a portion of fees obtained from the sale of memberships to online kids clubs. The table below sets forth the components of revenue for the years ended December 31, 2016 and 2015:

	For the year ended December 31,	
Revenues:	**2016**	**2015**
Production and distribution	99.7%	98.0%
Membership	0.3%	2.0%
Total revenue	100.0%	100.0%

Dolphin Digital Studios

During 2016, we entered into a co-production agreement to produce *Jack of all Tastes*, a digital project that showcases favorite restaurants of NFL players. The show was produced during 2016 throughout several cities in the US and we anticipate that it will be available for distribution during the third quarter of 2017. We are currently sourcing distribution platforms in which to release projects currently in production and those for which we have the rights and which we intend to produce. We earn production and online distribution revenue solely through the following:

- 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 2016, we began production of our new web series but it had not been completed as of December 31, 2016. In addition, we concentrated our efforts in identifying potential distribution partners.

- Initial Distribution/Advertising Revenue: We earn revenues from the distribution of online content on 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 Hulu, where we distributed our web series, *South Beach - Fever* during the third and fourth quarters of 2015.

- 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 SVOD. No revenues from this source have been derived during the years ended December 31, 2016 and 2015. We intend to source potential secondary distribution partners for our web series, *South Beach - Fever* once our agreement with the initial distributor expires.

Dolphin Films

During the year ended December 31, 2016 and 2015, we derived revenues from Dolphin Films primarily through the domestic and international distribution of our motion picture *Max Steel* and international distribution of the motion picture titled *Believe*.

The production of the motion picture *Max Steel* was completed during 2015 and released in the United States on October 14, 2016. The motion picture did not perform as well as expected domestically but we have secured approximately $8.2 million in international distribution agreements. Unamortized film costs are to be tested for impairment whenever events or changes in circumstances indicate that the fair value of the film may be less than its unamortized costs. We determined that *Max Steel's* domestic performance was an indicator that the capitalized production costs may need to be impaired. We used a discounted cash flow model to help determine the fair value of the capitalized production costs and determined that the carrying value of the capitalized production costs was below the fair value and recorded an impairment of $2 million.

Revenues from the motion picture *Max Steel*, were, and are expected to be generated from the following sources:

- Theatrical – Theatrical revenues were derived from the domestic theatrical release of motion pictures licensed to a U.S. theatrical distributor that has existing agreements with theatrical exhibitors. The financial terms negotiated with its U.S. theatrical distributor provided that we receive a percentage of the box office results, after related distribution fees.

- International – International revenues were and are expected to be derived through license agreements with international distributors to distribute our motion pictures in an agreed upon territory for an agreed upon time. Several of the international distribution agreements were contingent on a domestic wide release that occurred on October 14, 2016.

- Other – Dolphin Films' U.S. theatrical distributor has existing output arrangements for the distribution of productions to home entertainment, VOD, PPV, EST, SVOD and free and pay television markets. The revenues expected to be derived from these channels are based on the performance of the motion picture in the domestic box office. We anticipate the revenues from these channels will be received in 2017 or thereafter.

Project Development and Related Services

We have a development team that dedicates a portion of its time and resources to sourcing scripts for future developments. The scripts can be for either digital or motion picture productions. During 2015, we acquired the rights to a script for a motion picture that we intend to produce in the fourth quarter of 2017. We also identified and acquired two other scripts that we believe would appeal to one of our target demographics. We have not yet determined if these projects would be produced for digital or theatrical distribution.

Online Kids Clubs

We 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 shared in a portion of the membership fees as outlined in our agreements with the respective entities. During the year ended December 31, 2016, we terminated, by mutual accord the agreement with United Way Worldwide. We have retained the trademark to the online kids club and will continue to operate the site. During the year ended December 31, 2016, pursuant to the terms of the agreement, we notified US Youth Soccer that we did not intend to renew our agreement with them that terminated on February 1, 2017. For the years ended December 31, 2016 and 2015, we did not record significant revenues from the online kids clubs. We operate our online kids club activities through our subsidiary, Dolphin Kids Clubs, LLC ("Dolphin Kids Clubs"). On December 29, 2016, we entered into a purchase agreement to acquire the remaining 25% membership interest in Dolphin Kids Clubs and as a result, Dolphin Kids Clubs became our wholly owned subsidiary. As consideration for the purchase of the 25% membership interest, we issued Warrant J that can be exercised to acquire shares of our Common Stock at a purchase price of $0.015 per share. (See note 10 of the financial statements for further discussion on the warrants)

Expenses

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

Direct 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. Included within direct costs are immaterial impairments for any of our projects. Capitalized production costs are recorded at the lower of their cost, less accumulated amortization and tax incentives, or fair value. If estimated remaining revenue is not sufficient to recover the unamortized capitalized production costs for that title, the unamortized capitalized production costs will be written down to fair value. Material impairments would be recorded as a separate item on our statement of operations.

Distribution and marketing expenses include the costs of theatrical, prints and advertising ("P&A") and of DVD/Blu-ray duplication and marketing. Theatrical P&A includes the costs of the theatrical prints delivered to theatrical exhibitors and the advertising and marketing cost associated with the theatrical release of the picture. DVD/Blu-ray duplication represents the cost of the DVD/Blu-ray product and the manufacturing costs associated with creating the physical products. DVD/Blu-ray marketing costs represent the cost of advertising the product at or near the time of its release.

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

Legal and professional fees include fees paid to our attorneys, fees for public relations consultants, fees for general business consultants and fees paid to our sales agent for back office services.

Other Income and Expenses

Other income and expenses consist primarily of (i) interest to Dolphin Entertainment, an entity owned by our CEO, in connection with loans made to the Company; (ii) interest payments related to the Loan and Security Agreements entered into to finance the production of certain digital content and motion pictures (iii) loss on extinguishment of debt (iv) amortization of loan fees, (v) warrant issuance expense and (vi) change in fair value of derivative liability. During the year ended December 31, 2016, we entered into agreements with certain debtholders, including Dolphin Entertainment, to convert an aggregate of $25,164,798 principal and interest into 5,032,960 shares of common stock at a price of $5.00 per share. The conversions occurred on days when the market price of the stock was between $6.00 and $6.99 per share. As a result, we recorded a loss on the extinguishment of the debt of approximately $6.3 million. In addition, we entered into (i) a Termination Agreement to terminate an Equity Finance Agreement, (ii) a Purchase Agreement for the acquisition of 25% membership interest of Dolphin Kids Clubs and (iii) a Debt Exchange Agreement to convert certain notes. As consideration for the three agreements, we issued Warrant J and Warrant K that entitle the warrant holder to purchase up to 2,340,000 shares of common stock at a price of $0.015 per share. As a result of the issuance of the shares, we recorded a loss on extinguishment of debt of approximately $3.3 million. In addition to Warrants J and K, we entered into a Warrant Purchase Agreement whereby we agreed to issue Warrants G, H and I in exchange for a $50,000 payment that was used to reduce the exercise price of Warrant E. The Warrant Purchase Agreement entitles the warrant holder to purchase shares of Common *S*tock as follows: (i) up to 1,500,000 shares of Common Stock prior to January 31, 2018, at $5.00 per share (ii) up to 500,000 shares of Common Stock at $6.00 per share prior to January, 31, 2019, and (iii) up to 500,000 shares of Common Stock at $7.00 per share prior to January 31, 2020. We determined that Warrants G, H, I, J, and K, collectively, (the “New Warrants”) should be accounted for as a derivative for which a liability is recorded in the aggregate and measured fair value in the consolidated balance sheets and changes in the fair value from one reporting period to the next are reported as income or expense. As a result of the issuance of the New Warrants, we recorded a warrant issuance expense of approximately $7.4 million and income of approximately, $2.2 million from changes in the fair value of the New Warrants from the dates of issuance through December 31, 2016.

Results of Operations

Year ended December 31, 2016 as compared to year ended December 31, 2015

Revenues

For the year ended December 31, 2016, we generated our revenue from (i) the domestic theatrical release and international distribution rights of our motion picture, *Max Steel* and (ii) portion of fees obtained from the sale of memberships to online kids clubs. By contrast, for the year ended December 31, 2015, we generated our revenue primarily from (i) online distribution of our web series, *South Beach – Fever* (ii) portion of fees obtained from the sale of memberships to online kids clubs and (iii) international distribution rights of our motion picture, *Believe*.

	For the year ended December 31,	
Revenues:	**2016**	**2015**
Production and distribution	$ 9,367,222	$ 3,031,073
Membership	28,403	69,761
Total revenue	$ 9,395,625	$ 3,100,834

Revenues from production and distribution increased by $6.3 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015, primarily due to the release of our motion picture *Max Steel* on October 14, 2016 and the recognition of domestic box office revenues and recognition of revenue from international licensing agreements of the motion picture. During the same period in 2015, we derived revenues from the online release of our web series, *South Beach – Fever* on Hulu.

Revenues from membership fees decreased by $0.04 million, for the year ended December 31, 2016 as compared to the year ended December 31, 2015 as a result of one individual that purchased memberships to the online kids club for a group of schools in Louisiana during the second quarter of 2015.

Expenses

For the years ended December 31, 2016 and 2015, our operating expenses were direct costs, distribution and marketing, selling, general and administrative expenses, legal and professional fees and payroll expenses.

	For the year ended December 31,	
Expenses:	**2016**	**2015**
Direct costs	$ 10,661,241	$ 2,587,257
Distribution and marketing	11,322,616	213,300
Selling, general and administrative	1,245,689	1,845,088
Legal and professional	2,405,754	2,392,556
Payroll	1,462,589	1,435,765
Total expenses	$ 27,097,889	$ 8,473,966

Direct costs increased by approximately $8.1 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015, mainly due to (i) amortization of capitalized production costs related to the release of our motion picture, *Max Steel*, (ii) a $2 million impairment of the capitalized production costs of *Max Steel* (iii) international sales agent fees paid for the distribution of our motion picture in international territories and (iv) the impairment of the cost of a script that we decided not to produce. During the year ended December 31, 2015, direct costs consisted primarily of (i) amortization of capitalized production costs for our web series, *South Beach – Fever* , (ii) a fee paid to our distributor in 2015 related to the release date of our motion picture and (iii) impairment of the costs of scripts that we do not intend to immediately produce.

Distribution and marketing expenses increased by approximately $11.1 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015, mainly due to costs associated with the distribution and marketing for the release of our motion picture, *Max Steel*.

Selling, general and administrative expenses decreased by approximately $0.6 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015, mainly due to a contract for international distribution back office services that ended on December 31, 2015 and was not renewed for 2016.

Legal and professional fees remained relatively consistent between the year ended December 31, 2016 and the year ended December 31, 2015. The majority of our professional fees are related to consulting fees and legal fees that would be considered in the normal course of business for our industry. During the year ended December 31, 2016, we incurred approximately $0.5 million of legal and consulting fees directly related to the release of our motion picture. By contrast during the year ended December 31, 2015, we incurred $0.5 million of fees for services rendered by our advertising and distribution broker related to our web series.

Payroll expenses increased by approximately $0.03 million the year ended December 31, 2016 as compared to the year ended December 31, 2015, mostly due to certain payroll costs capitalized during the production of our web series in 2015 and cost of living salary increases made at the beginning of 2016.

Other Income and expenses

	For the year ended December 31,	
Other Income and expenses:	**2016**	**2015**
Other income	$ 9,660	$ 96,302
Amortization of loan fees	(476,250)	-
Change in fair value of warrant liability	2,195,542	-
Warrant issuance expense	(7,372,593)	-
Loss on extinguishment of debt	(9,601,933)	-
Interest expense	(4,241,841)	(3,559,532)
Total	$ (19,487,415)	$ (3,463,230)

Interest expense increased by $0.7 million for the year ended December 31, 2016, as compared to the year ended December 31, 2015 and was directly related to , (i) interest related to the conversion of certain notes payable to shares of our common stock, and (ii) interest related to the production and distribution loans of our motion picture.

During the year ended December 31, 2016, we amortized approximately $0.5 million of certain loan fees related to the financing obtained for the distribution and marketing expenses for the release of *Max Steel*.

During the year ended December 31, 2016, we entered into Subscription Agreements, Termination Agreements and Debt Exchange Agreements, collectively (the “Conversion Agreements”) to convert debt into shares of our Common Stock or to warrants to purchase shares of our Common Stock. These Conversion Agreements resulted in a loss on extinguishment of debt in the aggregate amount of $9.6 million due to the difference in the price per share in the Conversion Agreement and the market price per share on the date of the conversion. The following details the various agreements:

(a) During the year ended December 31, 2016, we entered into thirteen individual agreements with parties to loan and security agreements under which we issued promissory notes to each of the parties. Pursuant to the terms of the debt exchange agreements, we converted an aggregate $3.75 million of principal and approximately $0.4 million of interest under the promissory notes into an aggregate of 840,910 shares of Common Stock at $5.00 per share as payment in full of each of the promissory notes. The market price per share was between $6.00 and $6.45 per share at the time of the conversions. As a result, we recorded a loss on extinguishment of debt related to these loan and security agreements of $0.9 million on our consolidated statement of operations.

(b) During the year ended December 31, 2016, we entered into three debt exchange agreements with parties to equity finance agreements. Pursuant to the terms of the agreements, we converted an aggregate $0.3 million of principal and interest into an aggregate of 66,200 shares of our Common Stock at $5.00 per share as payment in full for each equity finance agreement. The market price per share was between $6.25 and $6.75 per share at the time of the conversions. As a result, we recorded a loss on extinguishment of debt related to these equity finance agreements of $0.1 million on our consolidated statements of operations. During the year ended December 31, 2016, we also entered into a settlement agreement with a separate party to an equity finance agreement. Pursuant to the terms of the settlement agreement, we agreed to pay $0.2 million and recorded a loss on extinguishment of debt on our consolidated statement of operations of approximately $0.1 million related to this settlement agreement.

(c) During the year ended December 31, 2016, we entered into a debt exchange agreement with a party to a kids club agreement. Pursuant to the terms of the agreements, we converted $0.06 million on principal and interest into 12,000 shares of our Common Stock at $5.00 per share as payment in full of the kids club agreement. The market price per share was $6.75 per share at the time o f the conversion. As a result, we recorded $0.02 million of loss on extinguishment of debt on our consolidated statements of operations, related to this kids club agreement.

(d) During the year ended December 31, 2016, we entered into a subscription agreement with Dolphin Entertainment. Pursuant to the terms of the subscription agreement, we converted $3.0 million of principal and interest outstanding on a revolving promissory note into 614,682 shares of our Common Stock at a price of $5.00 per share. At the time of the conversion, market price per share of Common Stock was $6.00. As a result, we recorded a loss on the extinguishment of debt of $0.6 million on its condensed consolidated statement of operations for the year ended December 31, 2016.

(e) During the year ended December 31, 2016, we entered into various individual debt exchange agreements with parties to loan and security agreements under which we issued promissory notes to each of the parties. Pursuant to the debt exchange agreements, we agreed to convert an aggregate $17.9 million in principal and interest under the promissory notes into an aggregate of 3.6 million shares of Common Stock at a price of $5.00 per share as payment in full of each of the promissory notes. On the dates of conversion the market price per share of Common Stock was between $6.08 and $6.99 and as a result, we recorded a loss on the extinguishment of debt of $4.6 million our consolidated statements of operations.

(f) During the year ended December 31, 2016, we entered into a Termination Agreement and a Debt Exchange Agreement whereby we issued Warrants J and K that entitled the holder to purchase shares of our Common Stock at a price of $0.015. In exchange the warrant holder agreed to convert an aggregate of $6.5 million of debt. Warrant J entitles the warrant holder to purchase up to 170,000 shares of our Common Stock and Warrant K entitles the warrant holder to purchase up to 2,170,000 but also includes consideration for the purchase of a 25% interest in Dolphin Kids Clubs. We recorded loss on extinguishment of debt of $3.2 million related to these agreements.

In addition to the Warrants J and K discussed above, as previously described, we entered into a Warrant Purchase Agreement whereby we agreed to issue Warrants G, H and I. We recorded $7.4 million of warrant issuance expense with respect to Warrants G, H and I. All of the warrants issued during 2016 were recorded as a derivative liability. We recorded the warrants as their fair value on the date of issuance and will record any changes to fair value at each balance sheet date as a change in the fair value of a derivative liability on our consolidated statements of operation. For the year ended December 31, 2016, we recorded $2.2 million of a change in the fair value of the derivative liability.

Net Loss

Net loss was approximately $37.2 million or $(4.83) per Common Share, including a preferred stock deemed dividend of approximately $5.2 million for the year ended December 31, 2016 based on 8,778,193 weighted average shares outstanding as of December 31, 2016 and approximately $8.8 million or $(2.16) per share for the year ended December 31, 2015 based on 4,094,618 weighted average shares outstanding as of December 31, 2015. The increase in net loss between the years ended December 31, 2016 and 2015 was related to the factors discussed above.

Liquidity and Capital Resources

Cash Flows

Cash flows used in operating activities increased by approximately $7.9 million from approximately $(7.0) million used during the year ended December 31, 2015 to approximately $(14.9) million used during the year ended December 31, 2016. This increase was primarily due to the use of cash flows related to the release of our motion picture, *Max Steel* as follows: (i) distribution and marketing fees of approximately $11.3 million, (ii) $0.9 million of deposits used to pay certain distribution fees related to the release, and (iv) $1.4 million of accounts payable paid. These are offset by cash received for sales of the motion picture in the amount of $4.8 million, and tax incentives in the amount of $0.7 million. We also received $0.05 million from the sale of warrants.

Cash flows from investing activities decreased by approximately $1.2 million. This decrease was due to a provision in the *Max Steel* loan and security agreement that required us to keep as collateral, an account at the financial institution that provided the loan.

Cash flows from financing activities increased by approximately $5.4 million from approximately $9.1 million for year ended December 31, 2015 to approximately $13.2 million for year ended December 31, 2016. The increase is primarily due to financing for the distribution and marketing costs for the release of our motion picture and repayment of the production loan from proceeds received from the motion picture. In addition, during the year ended December 31, 2016, we entered into various subscription agreements for the sale of our Common Stock for a total of $7.5 million. In comparison, during the same period in prior year, we received $3.2 million from a convertible note payable and received $2.4 million more of advances from our CEO.

As of December 31, 2016 and 2015, we had cash available for working capital of approximately $0.6 million and approximately $2.4 million, respectively, and a working capital deficit of approximately $31.4 million and approximately $43.3 million, respectively.

As previously discussed, in connection with the 42West Acquisition, we may be required to purchase from the sellers up to an aggregate of 2,374,187 shares of Common Stock at a price of $4.61per share up until December 2020. Of that amount, we may be required to purchase up to 455,531 shares in 2017, for an aggregate of up to $2.1 million.

These factors, along with an accumulated deficit of $99.8 million, raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. In this regard, management is planning to raise any necessary additional funds through loans and additional issuances of our Common Stock, securities convertible into our Common Stock, debt securities or a combination of such financing alternatives. There is no assurance that we will be successful in raising additional capital. Such issuances of additional securities would further dilute the equity interests of our existing shareholders, perhaps substantially. We currently have the rights to several scripts that we intend to obtain financing to produce and release during 2017 and 2018. We will potentially earn a producer and overhead fee for each of these productions. There can be no assurances that such productions will be released or fees will be realized in future periods. We expect to begin to generate cash flows from our other sources of revenue, including the distribution of at least one web series that, as discussed earlier has gone into production and from our newly acquired subsidiary, 42West.

Financing Arrangements

Kids Club Agreements

During February 2011, we entered into two agreements with individual parties (each a “Kids Club Agreement”) for the development of a child fan club for the promotion of a local university and its collegiate athletic program (the “Group Kids Club”). Under each Kids Club Agreement, each party paid us $50,000 in return for the participation of future revenue generated by the Group Kids Club. Pursuant to the terms of each of the Kids Club Agreements, the amount invested by the individual investor was to be repaid by the Group Kids Club, with a specified percentage of the Group Kids Club’s net receipts, until the total investment was recouped. Each individual party was to recoup its investment with a percentage of net revenue based upon a fraction, the numerator of which was the amount invested ($50,000), and the denominator of which was $500,000 (the “Investment Ratio”). Thereafter, each individual party would share in a percentage of the net revenue of the Group Kids Club, in an amount equal to one half of the Investment Ratio. During 2015 and 2016, we made aggregate payments of $45,000 under one of the two Kids Clubs Agreements. On July 1, 2016, we agreed to terminate such Kids Club Agreement for (i) $10,000, plus (ii) the balance of the original investment ($5,000). We paid such individual party $15,000 on July 18, 2016 in full settlement of its obligations under such Kids Club Agreement, and the Kids Club Agreement for such party was terminated. On October 3, 2016, we entered into a debt exchange agreement and issued 12,000 shares of our Common Stock at an exchange price of $5.00 per share to terminate the remaining Kids Club Agreement for (i) $10,000 plus (ii) the original investment of $50,000. On the date of the exchange agreement, the market price of our Common Stock was $6.75 and we recorded a loss on extinguishment of debt in the amount of $21,000 on our consolidated statement of operations.

Equity Finance Agreements

During the years ended December 31, 2012 and 2011, we entered into Equity Finance Agreements (the "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 had the ability to share in the future revenues of the relevant web series, on a prorata basis, until the total equity investment was recouped and then would have shared at a lower percentage of the additional revenues. The Equity Finance Agreements stated that prior to December 31, 2012, we could utilize all, or any portion, of the total equity investment to fund any chosen production. Per the Equity Finance Agreements, we were entitled to a producer's fee, not to exceed $250,000, for each web series that it produced before calculating the share of revenues owed to the investors. We invested these funds in eleven projects. 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. Based on the gross producer's revenues for the productions to date and the amount of investor funds used to date, we were not required to pay the investors any amount in excess of the existing liability already recorded as of December 31, 2015. Two of the productions were completed and there was no producer gross revenue as defined in the Equity Finance Agreements. The remaining projects were impaired and there are no future projects planned with funds from the Equity Finance Agreements.

On June 23, 2016, we entered into a settlement agreement (the "Settlement") with one of the investors that had originally contributed $0.1 million. Pursuant to the terms of the Settlement, we made a payment of $0.2 million to the investor on June 24, 2016. On October 3, 2016, October 13, 2016 and October 27, 2016 we entered into debt exchange agreements with three investors to issue an aggregate amount of 66,200 shares of our Common Stock at an exchange price of $5.00 per share to terminate each of their Equity Finance Agreements for a cumulative original investment amount of $0.3 million. The market price of our Common Stock on the date of the debt exchange agreement was between $6.25 and $6.75 and, as such, we recorded a loss on extinguishment of debt on our consolidated statement of operations in the amount of $0.1 million.

On December 29, 2016, we entered into a Termination Agreement with the remaining investor of the Equity Finance Agreements, whereby we mutually agreed to terminate the Equity Finance Agreement in exchange for the issuance of Warrant K. Warrant K entitles the holder to purchase up to 170,000 shares of our Common Stock at a price of $0.015 prior to December 29, 2020. We recorded a loss on extinguishment of debt in the amount of $0.5 million on our consolidated statement of operations for the difference between the outstanding amount of the Equity Finance Agreement and the fair value of Warrant K.

Loan and Security Agreements

First Group Film Funding

During the years ended December 31, 2013 and 2014, we entered into various loan and security agreements with individual noteholders (the "First Loan and Security Noteholders") for an aggregate principal amount of notes of $11,945,219 to finance future motion picture projects (the "First Loan and Security Agreements"). During the year ended December 31, 2015, one of the First Loan and Security Noteholders increased its funding under its respective First Loan and Security Agreement for an additional $500,000 investment and we used the proceeds to repay $405,219 to another First Loan and Security Noteholder. Pursuant to the terms of the First Loan and Security Agreements, we issued notes that accrued interest at rates ranging from 11.25% to 12% per annum, payable monthly through June 30, 2015. During 2015, we exercised our option under the First Loan and Security Agreements, to extend the maturity date of these notes until December 31, 2016. In consideration of our exercise of the option to extend the maturity date, we were required to pay a higher interest rate, increasing 1.25% to a range between 12.50% and 13.25%. The First Loan and Security Noteholders, as a group, will receive our entire share of the proceeds from these projects, on a prorata basis, until the principal investment is repaid. Thereafter, the First Loan and Security Noteholders, as a group, would have the right to participate in 15% of our future profits from these projects (defined as our gross revenues of such projects less the aggregate amount of principal and interest paid for the financing of such projects) on a prorata basis based on each First Loan and Security Noteholder's loan commitment as a percentage of the total loan commitments received to fund specific motion picture productions.

On May 31, 2016 and June 30, 2016, we entered into various debt exchange agreements on substantially similar terms with certain of the First Loan and Security Noteholders to convert an aggregate of $11.3 million of principal and $1.8 million of interest into shares of Common Stock. Pursuant to the terms of such debt exchange agreements, we agreed to convert the debt at $5.00 per share and issued 2,630,298 shares of Common Stock. On May 31, 2016 the market price of a share of Common Stock was $6.99 and on June 30, 2016 it was $6.08. As a result, we recorded a loss on the extinguishment of debt on our consolidated statement of operations of $3.3 million for the year ended December 31, 2016.

Please see “Warrants” below for discussion of the remaining First Loan and Security Noteholder.

Web Series Funding

During the years ended December 31, 2014 and 2015, we entered into various loan and security agreements with individual noteholders (the “Web Series Noteholders”) for an aggregate principal amount of notes of $4.0 million which we used to finance production of our 2015 web series, *South Beach - Fever* (the “Web Series Loan and Security Agreements”). Under the Web Series Loan and Security Agreements, we issued promissory notes that accrued interest at rates ranging from 10% to 12% per annum payable monthly through August 31, 2015, with the exception of one note that accrued interest through February 29, 2016. During 2015, we exercised our option under the Web Series Loan and Security Agreements to extend the maturity date of these notes until August 31, 2016. In consideration for our exercise of the option to extend the maturity date, we were required to pay a higher interest rate, increasing 1.25% to a range between 11.25% and 13.25%. Pursuant to the terms of the Web Series Loan and Security Agreements, the First Loan and Security Noteholders, as a group, would have the right to participate in 15% of our future profits generated by the series (defined as our gross revenues of such series less the aggregate amount of principal and interest paid for the financing of such series) on a prorata basis based on each Web Series Noteholder's loan commitment as a percentage of the total loan commitments received to fund the series.

During the year ended December 31, 2016, we entered into thirteen individual agreements (the “Web Series Debt Exchange Agreements”) on substantially similar terms with the Web Series Noteholders. Pursuant to the terms of the Web Series Debt Exchange Agreements, we and each Web Series Noteholder agreed to convert an aggregate of $3.8 million of principal and $0.4 million of interest under the Web Series Loan and Security Agreements into an aggregate of 840,910 shares of Common Stock at $5.00 per share as payment in full of each of the notes issued under the Web Series Loan and Security Agreements. On the dates of the exchange, the market price of our Common Stock was between $6.00 and $6.45 per share. As a result, we recorded a loss on the extinguishment of debt on our consolidated statement of operations $0.9 million for the year ended December 31, 2016, related to this transaction.

Please see “Warrants” below for discussion of the remaining Web Series Noteholder.

Second Group Film Funding

During the year ended December 31, 2015, we entered into various loan and security agreements with individual noteholders (the “Second Loan and Security Noteholders”) for an aggregate principal amount of notes of $9.3 million to fund a new group of film projects (the “Second Loan and Security Agreements”). Of this amount, notes with an aggregate principal value of $8.8 million were issued in exchange for debt that had originally been incurred by Dolphin Entertainment, Inc., primarily related to the production and distribution of the motion picture, *Believe*. The remaining $0.5 million was issued as a note in exchange for cash. Pursuant to the Second Loan and Security Agreements, we issued notes that accrue interest at rates ranging from 11.25% to 12% per annum, payable monthly through December 31, 2016. We had the option to extend the maturity date of these notes until July 31, 2018. If we chose to exercise our option to extend the maturity date, we would be required to pay a higher interest rate, increasing 1.25% to a range between 11.25% and 13.25%. The Second Loan and Security Noteholders, as a group, will receive our entire share of the proceeds from these projects, on a prorata basis, until the principal investment is repaid. Thereafter, the Second Loan and Security Noteholders, as a group, would have the right to participate in 15% of our future profits from such projects (defined as our gross revenues of such projects less the aggregate amount of principal and interest paid for the financing of such projects) on a prorata basis based on each Second Loan and Security Noteholder’s loan commitment as a percentage of the total loan commitments received to fund specific motion picture productions.

On May 31, 2016 and June 30, 2016, we entered into various debt exchange agreements on substantially similar terms with certain of the Second Loan and Security Noteholders to convert an aggregate of $4.0 million of principal and $0.3 million of interest into shares of the Common Stock. Pursuant to such debt exchange agreements, we agreed to convert the debt at $5.00 per share and issued 868,870 shares of Common Stock. On May 31, 2016, the market price of a share of the Common Stock was $6.99 and on June 30, 2016, it was $6.08. As a result, we recorded a loss on the extinguishment of debt on our consolidated statement of operations of $1.3 million for the year ended December 31, 2016.

Please see "Warrants" below for discussion of the remaining Second Loan and Security Noteholder.

Production Service Agreement

During 2014, we entered into a financing deal in the amount of $10.4 million to produce *Max Steel*. The loan is partially secured by international distribution agreements made prior to the commencement of principal photography and tax incentives. The agreement contains repayment milestones to be made during the year ended December 31, 2015, that if not met, accrue interest at a default rate of 8.5% per annum above the published base rate of HSBC. Pursuant to the terms of the agreement and due to delays in the release of the film, we have accrued $1.1million of interest. The film was released October 14, 2016 and delivery to the international distributors has begun. During the year ended December 31, 2016, an aggregate of $4.2 million was received from the international distributors and as tax incentives from the jurisdiction in which a portion of the film was produced. As of December 31, 2016, we had a balance on our consolidated balance sheet of $6.2 million related to this production service agreement.

Prints and Advertising Loan

On August 12, 2016, Dolphin Max Steel Holding, LLC, a wholly owned subsidiary of Dolphin Films, entered into a loan and security agreement (the ? P&A Loan?) providing for a $14.5 million non-revolving credit facility that matures on August 25, 2017. The proceeds of the credit facility were used to pay a portion of the print and advertising expenses of the domestic distribution of our feature film, *Max Steel*. To secure Max Steel Holding's obligations under the Loan and Security Agreement, we granted to the lender a security interest in bank account funds totaling $1,250,000 pledged as collateral. The loan is partially secured by a $4.5 million corporate guaranty from a party associated with the motion picture. The lender has retained a reserve of $1.5 million for loan fees and interest (the "Reserve"). Amounts borrowed under the credit facility accrue interest at either (i) a fluctuating per annum rate equal to the 5.5% plus a base rate or (ii) a per annum rate equal to 6.5% plus the LIBOR determined for the applicable interest period. As of December 31, 2016, we recorded $12.5 million, including the Reserve, related to this agreement. Approximately $11.0 million was recorded as distribution and marketing costs on our consolidated statement of operations for the year ended December 31, 2016, related to the release of the motion picture.

Production Service Agreement

During 2014, we entered into a financing deal in the amount of $10.4 million to produce *Max Steel*. The loan is partially secured by international distribution agreements made prior to the commencement of principal photography and tax incentives. The agreement contains repayment milestones to be made during the year ended December 31, 2015, that if not met, accrue interest at a default rate of 8.5% per annum above the published base rate of HSBC. Pursuant to the terms of the agreement and due to delays in the release of the film, we have accrued $1.1million of interest. The film was released October 14, 2016 and delivery to the international distributors has begun. During the year ended December 31, 2016, an aggregate of $4.2 million was received from the international distributors and as tax incentives from the jurisdiction in which a portion of the film was produced. As of December 31, 2016, we had a balance on our consolidated balance sheet of $6.2 million related to this production service agreement.

Subscription Agreements

Convertible Note Agreement

On December 7, 2015 we entered into a subscription agreement with an investor to sell up to $7 million in convertible promissory notes of the Company. Under the subscription agreement, we issued a convertible promissory note to the investor in the amount of $3,164,000 at a conversion price of $5.00 per share. The convertible promissory note was to bear interest on the unpaid balance at a rate of 10% per annum and became due and payable on December 7, 2016. The outstanding principal amount and all accrued interest were mandatorily and automatically convertible 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. On February 5, 2016, this triggering event occurred pursuant to the convertible note agreement. As such 632,800 shares of Common Stock were issued in satisfaction of the convertible note payable.

April 2016 Subscription Agreements

On April 1, 2016, we entered into substantially identical subscription agreements (the "April 2016 Subscription Agreements") with certain private investors, pursuant to which we issued and sold to the investors in a private placement (the "Placement") an aggregate of 1,075,000 shares (the "Initial Subscribed Shares") of Common Stock at a purchase price of $5.00 per share (the "Purchase Price"). The Placement provided us with $5,375,000 of aggregate gross proceeds. On March 31, 2016, we received $1,500,000, in advance for one of these agreements. The amount was recorded as noncurrent debt on our condensed consolidated balance sheet. Under the terms of the April 2016 Subscription Agreements, each investor has the option to purchase additional shares of Common Stock at the Purchase Price, not to exceed the number of such investor's Initial Subscribed Shares, during each of the second, third and fourth quarters of 2016 (each, a "Quarterly Subscription"). Pursuant to its April 2016 Subscription Agreement, one investor delivered notice of its election to exercise the Quarterly Subscription to purchase (i) 100,000 shares for an aggregate purchase price of $.5 million with shares issued on June 28, 2016 and (ii) 120,000 shares for an aggregate purchase price of $.6 million with shares issued on November 17, 2016.

June 2016 Subscription Agreements

On June 22, 2016 and June 30, 2016, we entered into two additional subscription agreements with two investors. Pursuant to the terms of the subscription agreements, we sold an aggregate of 70,000 shares of our Common Stock at a purchase price of $5.00 per share.

November 2016 Subscription Agreements

On November 15, November 16 and November 22, 2016, we entered into eight additional subscription agreements with four investors. Pursuant to the terms of the subscription agreements, we sold an aggregate of 135,000 shares of our Common Stock at a purchase price of $5.00 per share.

Warrants

On December 29, 2016, we entered into a debt exchange agreement (the "Exchange Agreement") with an investor that is a First Loan and Security Noteholder, a Web Series Noteholder and Second Loan and Security Agreement Noteholder, collectively (the "Investor"). At the time of the Exchange Agreement, the Investor was the holder of the following promissory notes:

Notes:	Outstanding Balance of Notes
First Loan and Security Note	$ 1,160,000
Web Series Note	340,000
Second Loan and Security Note	4,970,990
	$ 6,470,990

In addition to the Exchange Agreement, we entered into a purchase agreement with the same Investor to acquire 25% of the membership interest of Dolphin Kids Clubs to own 100% of the membership interest. Pursuant to the Exchange Agreement and the Purchase Agreement, we issued Warrant J that entitles the warrant holder to purchase shares up to 2,170,000 shares of our Common Stock at a price of $0.015 through December 29, 2020, its expiration date. We recorded a loss on extinguishment of debt $2.7 million on our consolidated statement of operations for the year ended December 31, 2016. The loss on extinguishment was calculated as the difference between the fair value of Warrant J and the outstanding debt under the notes described above.

42West Line of Credit

In 2008, 42West entered into a revolving line of credit with City National Bank, (the "Line of Credit). The purpose of the Line of Credit was to provide 42West with working capital as needed from time to time. The maximum amount that can be drawn on the Line of Credit is $1,500,000. The Line of Credit bears interest computed as the greater of (a) three and one half percent per year or (b) the prime rate of City National Bank less one quarter of one percent., provided that the rate per annum never exceed 16%. As of March 31, 2017. 42West has a balance of $0.5 million on the Line of Credit. The Line of Credit expires on April 30, 2017.

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 or feature films. These costs primarily consist of salaries, equipment and overhead costs, as well as the cost to acquire rights to scripts. Capitalized production costs are stated at the lower of cost, less accumulated amortization and tax credits, if applicable, or fair value. These costs are capitalized in accordance with Financial Accounting Standards Board ("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. Our management evaluates unamortized production costs for impairment whenever there is an event that may signal that the fair value of the unamortized production costs are below their carrying value. One example that may trigger this type of analysis is the under-performance in the domestic box office of a feature film. For digital productions this analysis may occur if we are unable to secure sufficient advertising revenue for our web series. We typically perform an impairment analysis using a discounted cash flow method. Any write-down resulting from an impairment analysis is included in direct costs within our consolidated statements of operations. For the year ended December 31, 2016 and 2015, we impaired approximately $2.1 and $0.6 million, respectively of capitalized production costs.

Revenue Recognition

Revenue from web series and feature films is 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 or feature film exists, the web series or feature film is complete in accordance with the terms of the contract, the customer can begin exhibiting or selling the web series or feature film, the fee is determinable and collection of the fee is reasonable. Revenues from licensing agreements for distribution in foreign territories typically includes a minimum guarantee with the possibility of sharing in additional revenues depending on the performance of the web series or feature film in that territory. Revenue for these types of arrangements are recorded when the web series or motion picture has been delivered and our obligations under the contract have been satisified.

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.

Warrant Liabilities and Related Fair Value Measurements

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

We classified the “G”, “H”, “I”, “J” and “K” warrants issued during 2016 as derivative liabilities, because they contain full-ratchet down round provisions and report the warrants on our consolidated balance sheets at fair value under the caption “warrant liability” and report changes in the fair value of the warrant liability on the consolidated statements of operations under the caption “change in fair value of warrant liability”.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Observable inputs are based on market data obtained from sources independent of 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, defined as follows:

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

We measured the “G”, “H”, “I”, “J” and “K” warrants we issued in 2016 at fair value in the consolidated financial statements as of and for the year ended December 31, 2016, using inputs classified as “level 3” of the fair value hierarchy. We develop unobservable “level 3” inputs using the best information available in the circumstances, which might include our own data, or when we believe inputs based on external data better reflect the data that market participants would use, we base our inputs on comparison with similar entities.

We select a valuation technique to measure “level 3” fair values that we believe is appropriate in the circumstances. In the case of measuring the fair value of the “G”, “H”, “I”, “J” and “K” warrants at December 31, 2016 and for the year then ended, d ue to the existence of the full ratchet down round provision, which creates a path-dependent nature of the exercise prices of the warrants, we decided a Monte Carlo Simulation model, which incorporates inputs classified as “level 3” was appropriate.

Key inputs used in the Monte Carlo Simulation model to determine the fair value of the “G”, “H”, “I”, “J” and “K” warrants at December 31, 2016 are as follows:

	As of December 31, 2016				
Inputs	Series G	Series H	Series I	Series J	Series K
Volatility (1)	63.6%	79.1%	70.8%	65.8%	65.8%
Expected term (years)	1.08	2.08	3.08	4	4
Risk free interest rate	.879%	1.223%	1.489%	1.699%	1.699%
Common stock price	$ 6.00	$ 6.00	$ 6.00	$ 6.00	$ 6.00
Exercise price	$ 5.00	$ 6.00	$ 7.00	$ .02	$ .02

(1) “Level 3” input.

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

Since derivative financial instruments, such as the “G”, “H”, “I”, “J” and “K” warrants, are initially and subsequently carried at fair values, the Company’s

income or loss will reflect the volatility in changes to these estimates and assumptions. The fair value of the warrants is most sensitive to changes at each valuation date in the Company's common stock price, the volatility rate assumption, and the exercise price, which could change if the Company were to do a dilutive future financing.

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, 2016 and 2015, 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 but are not limited to the following:

- our expectations regarding the potential benefits and synergies we can derive from the 42West Acquisition;
- our ability to generate new revenue streams through our new subsidiary, 42West;
- our expectations concerning our ability to derive future cash flows and revenues from the production, release and advertising of future web series on online platforms, and the timing of receipt of such cash flows and revenues;
- our expectations concerning the timing of production and distribution of a digital project showcasing favorite restaurants of NFL players, as well as future feature films and digital projects;
- our intention to source potential distribution partners for our web series, *South Beach – Fever,* and to enter into distribution agreements for future digital productions;
- our expectation that we will receive revenues from our motion picture, *Max Steel* from (i) international revenues expected to be derived through license agreements with international distributors and (ii) other secondary distribution revenues;
- our intention to use our purchased scripts for future motion picture and digital productions;
- our expectations to raise funds through sales of our Common Stock;
- our intention to borrow funds from our CEO, private investors and other lenders to produce our digital and motion picture projects;
- our expectations regarding the marketing potential and other benefits of our online kids clubs;

- our intention to implement improvements to address material weaknesses in internal control over financial reporting; and
- our expectations concerning the impact of recent Accounting Standards Updates on our financial position or results of operations.

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

- our inability to realize the anticipated benefits of the 42West Acquisition, including synergies and increased revenues;
- adverse trends and changes in the entertainment industry that could negatively impact 42West's operations and ability to generate revenues;
- unpredictability of the commercial success of our current and future web series and motion pictures;
- economic factors that adversely impact the entertainment industry, as well as advertising, production and distribution revenue in the online and motion picture industries;
- our ability to identify, produce and develop online digital entertainment and motion pictures that meet industry and customer demand;
- competition for talent and other resources within the industry and our ability to enter into agreements with talent under favorable terms;
- our ability to attract and retain the highly specialized services of the 42West executives and employees;
- availability of financing from our CEO and other investors under favorable terms to fund our digital and motion picture projects;
- our ability to adequately address material weaknesses in internal control over financial reporting;
- the ability of our online kids clubs to serve as a platform for sponsorship and other marketing opportunities thereby generating revenue; and
- our ability to accurately predict the impact of recent Accounting Standards Updates on our financial position or results of operations.

The foregoing list of important factors does not include all such factors, nor necessarily present them in order of importance. In addition, you should consult other disclosures made by the Company (such as in our other filings with the SEC or in Company press releases) for other factors that may cause actual results to differ materially from those projected by the Company. Please refer to Part I, Item 1A, Risk Factors of this 2016 Form 10-K for additional information regarding factors that could affect the Company's results of operations, financial condition and liquidity. 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:

	Page
Reports of Independent Registered Public Accounting Firms	F-1
Consolidated Balance Sheets as of December 31, 2016 and 2015	F-2
Consolidated Statements of Operations for the years ended December 31, 2016 and 2015	F-3
Consolidated Statements of Cash Flows for the years ended December 31, 2016 and 2015	F-4
Consolidated Statements of Changes in Stockholder's Deficit for the years ended December 31, 2016 and 2015	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, 2016. 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 31, 2016, 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, 2016, due to the following material weaknesses that were identified in previous years:

- In connection with the audit of our consolidated financial statements for the fiscal year ended December 31, 2016, 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, 2016, 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, 2016, 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

In order to remediate the material weaknesses in internal control over financial reporting, we intend to implement improvements during fiscal year 2017, 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.

- We plan to hire at least one additional person to ensure proper segregation of duties, reconciliation reviews, and quarter end reviews.

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

During the quarter ended December 31, 2016, 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.

None

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 2017Annual General Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2016 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 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 2017 Annual General Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2016 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 2017 Annual General Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2016 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 2017 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2016 and is incorporated herein by reference

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is incorporated by reference to our Proxy Statement for our 2017 Annual General Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2016 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

Exhibit No.	Description	Incorporated by Reference
2.1	Agreement and Plan of Merger by and among the Company, DDM Merger Sub, Inc., Dolphin Films, Inc. and Dolphin Entertainment, Inc. dated October 14, 2015.	Incorporated herein by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K, filed on October 19, 2015.
2.2	Membership Interest Purchase Agreement, dated as of March 30, 2017, by and among the Company and Leslee Dart, Amanda Lundberg, Allan Mayer and The Beatrice B. Trust.*	Filed herewith.
3.1(a)	Amended Articles of Incorporation of Dolphin Digital Media, Inc. (conformed copy incorporating all amendments through May 10, 2016).	Incorporated herein by reference to Exhibit 3.1(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016.
3.2	Bylaws of Dolphin Digital Media, Inc. dated December 3, 2014.	Incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on December 9, 2014.
4.1	Registration Rights Agreement, dated as of March 30, 2017 by and among the Company and Leslee Dart, Amanda Lundberg, Allan Mayer and the Beatrice B. Trust.	Filed herewith.
4.2	Warrant Purchase Agreement, dated November 4, 2016, between the Company and T Squared Partners LP.	Incorporated herein by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K, filed on November 10, 2016.
4.3	Form of Common Stock Purchase Warrant.	Incorporated herein by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K, filed on January 5, 2017.

10.1	Amendment to Preferred Stock Purchase Agreement, dated December 30, 2010, between the Company and T Squared Investment LLC.	Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on January 5, 2011.
10.2	Preferred Stock Exchange Agreement, dated October 16, 2015, between the Company and T Squared Partners LP.	Incorporated herein by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K, filed on October 19, 2015.
10.3	Executive Employment Agreement, dated September 13, 2012, between the Company and William O'Dowd.†	Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on November 19, 2012.
10.4	Executive Employment Agreement Letter of Extension, 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	Revolving Promissory Note, dated December 31, 2011, in favor of William O'Dowd.	Incorporated herein by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.
10.6	Form of Loan and Security Agreement.	Incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014.
10.7	Form of Equity Purchase Agreement.	Incorporated herein by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014.
10.8	Form of Subscription Agreement.	Incorporated herein by reference to Exhibit 10.8 to 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 to the Company's Current Report on Form 8-K, filed on December 15, 2015.
10.10	Form of Subscription Agreement.	Incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015.
10.11	Subscription Agreement dated March 4, 2016, between the Company and Dolphin Entertainment, Inc.	Incorporated herein by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K, filed on March 11, 2016.
10.12	Form of Subscription Agreement.	Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on April 7, 2016.
10.13	Form of Debt Exchange Agreement.	Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on June 3, 2016.
10.14	Form of Subscription Agreement.	Incorporated herein by reference to Exhibit 10.13 to the Company's Current Report on Form 8-K, filed on June 28, 2016.

10.15	2012 Omnibus Incentive Compensation Plan.†	Incorporated herein by reference to Annex B to the Definitive Information Statement on Schedule 14C filed with the SEC on September 28, 2012.
21.1	List of Subsidiaries of the Company.	Filed herewith.
31.1	Certification of Chief Executive Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.1	Certification of Chief Executive Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
32.2	Certification of Chief Financial Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished 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.

† Management contract or compensatory plan or arrangement.
* Schedules (and similar attachments) have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.

ITEM 16 FORM 10-K SUMMARY

None.

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.

Dated: April 17, 2017

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

Dated: April 17, 2017

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

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.

Dated: April 17, 2017

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

Dated: April 17, 2017

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

Dated: April 17, 2017

By: /s/ Michael Espensen
Michael Espensen
Director

Dated: April 17, 2017

By: /s/ Nelson Famadas
Nelson Famadas
Director

Dated: April 17, 2017

By: /s/ Nicholas Stanham
Nicholas Stanham
Director

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Dolphin Digital Media, Inc. and subsidiaries as of December 31, 2016 and 2015 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 financial statement presentation. 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, 2016 and 2015, 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 and has a net capital deficiency that raise substantial doubt about its 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.

/s/ BDO USA, LLP Certified Public Accountants
Miami, Florida
April 17, 2017

DOLPHIN DIGITAL MEDIA, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
As of December 31, 2016 and 2015

ASSETS	2016	2015[1]
Current		
Cash and cash equivalents	$ 662,546	$ 2,392,685
Restricted cash	1,250,000	-
Prepaid Expenses	-	72,518
Related party receivable	-	453,529
Accounts receivable	3,668,646	-
Other current assets	2,665,781	2,827,131
Total Current Assets	8,246,973	5,745,863
Capitalized production costs	4,654,013	15,170,768
Property and equipment	35,188	55,413
Deposits	1,261,067	397,069
Total Assets	$ 14,197,241	$ 21,369,113
LIABILITIES		
Current		
Accounts payable	$ 677,249	2,070,545
Other current liabilities	2,958,523	2,984,320
Warrant liability	14,011,254	-
Accrued compensation	2,250,000	2,065,000
Debt	18,743,069	37,331,008
Loan from related party	684,326	2,917,523
Deferred revenue	46,681	1,418,368
Note payable	300,000	300,000
Total Current Liabilities	39,671,102	49,086,764
Noncurrent		
Convertible note	-	3,164,000
Warrant liability	6,393,936	
Loan from related party	-	1,982,267
Total Noncurrent Liabilities	6,639,936	5,146,267
Total Liabilities	46,065,038	54,233,031
STOCKHOLDERS' DEFICIT		
Common stock, $0.015 par value, 400,000 shares authorized, 14,395,521 and 4,094,618 , respectively, issued and outstanding at December 31, 2016 and 2015	215,933	61,419
Preferred Stock , 10,000,000 shares authorized, Preferred Stock, Series A $0.001 par value, liquidation preference of 1,042,756, 1,043 share authorized, issued and outstanding at December 31, 2015. None were issued and outstanding at December 31, 2016	-	1,043
Preferred Stock, Series B, $0.10 par value, 4,000,000 authorized, 2,300,000 issued and outstanding at December 31, 2015, none were issued and outstanding at December 31, 2016	-	230,000
Preferred Stock, Series C, $0.001 par value, 1,000,000 shares authorized, 1,000,000 shares issued and outstanding at December 31, 2016 and 2015	1,000	1,000
Additional paid in capital	67,727,474	26,480,240
Accumulated deficit	(99,812,204)	(62,615,428)
Total Dolphin Digital Media, Inc. Deficit	(31,867,797)	(35,841,726)
Non-controlling interest	-	2,977,808
Total Stockholders' Deficit	(31,867,797)	(32,863,918)
Total Liabilities and Stockholders' Deficit	$ 14,197,241	$ 21,369,113

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

[1] Financial information has been retrospectively adjusted for the acquisition of Dolphin Films, Inc. See Notes 1 and 4

DOLPHIN DIGITAL MEDIA, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the years ended December 31, 2016 and 2015

	2016	2015[1]
Revenues:		
Production and distribution	$ 9,367,222	$ 3,031,073
Membership	28,403	69,761
Total Revenue:	9,395,625	3,100,834
Expenses:		
Direct costs	10,661,241	2,587,257
Distribution and marketing	11,322,616	213,300
Selling, general and administrative	1,245,689	1,845,088
Legal and professional	2,405,754	2,392,556
Payroll	1,462,589	1,435,765
Loss before other income (expense)	(17,702,264)	(5,373,132)
Other Income(Expense)		
Other income	9,660	96,302
Amortization of loan fees	(476,250)	-
Change in fair value of warrant liability	2,195,542	-
Warrant issuance expense	(7,372,593)	-
Loss on extinguishment of debt	(9,601,933)	-
Interest expense	(4,241,841)	(3,559,532)
Total Other Income(Expense)	(19,487,415)	(3,463,230)
Net Loss	$ (37,189,679)	$ (8,836,362)
Net Income attributable to noncontrolling interest	-	17,440
Net loss attributable to Dolphin Films, Inc.	-	(4,786,341)
Net Loss attributable to Dolphin Digital Media, Inc.	(37,189,679)	(4,067,461)
	$ (37,189,679)	$ (8,836,362)
Deemed dividend on preferred stock	5,247,227	-
Net loss attributable to common shareholders	$ (42,436,906)	$ (8,836,362)
Basic and Diluted Loss per Share	$ (4.83)	$ (2.16)
Weighted average number of shares used in share calculation	8,778,193	4,094,618

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

[1] Financial information has been retrospectively adjusted for the acquisition of Dolphin Films, Inc. See Notes 1 and 4

DOLPHIN DIGITAL MEDIA INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015

	2016	2015[1]
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (37,189,679)	$ (8,836,362)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	20,225	24,826
Amortization of capitalized production costs	7,822,549	1,672,120
Impairment of capitalized production costs	2,075,000	861,825
Loss on extinguishment of debt	9,601,933	-
Warrant issuance	7,394,850	-
Change in fair value of derivative liability	(2,195,542)	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,668,646)	-
Other current assets	161,250	(265,616)
Prepaid expenses	72,518	(7,679)
Capitalized production costs	619,206	(2,736,321)
Deposits	(863,998)	-
Deferred revenue	(1,371,687)	-
Accrued compensation	185,000	315,000
Accounts payable	(1,393,296)	784,829
Other current liabilities	3,757,873	1,121,876
Warrant liability	50,000	-
Net Cash Used in Operating Activities	(14,922,444)	(7,065,502)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash	(1,250,000)	-
Purchase of furniture and equipment	-	(2,549)
Net Cash Used In Investing Activities	(1,250,000)	(2,549)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Loan and Security agreement	12,500,000	2,610,000
Repayment of Loan and Security agreement	(410,000)	(405,219)
Proceeds from production loan	-	440,130
Repayment of production loan	(4,263,602)	-
Proceeds from convertible note payable	-	3,164,000
Sale of common stock	7,500,000	-
Advances from related party	320,000	6,583,436
Repayment to related party	(1,204,093)	(3,324,686)
Net Cash Provided by Financing Activities	14,442,305	9,067,661
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,730,139)	1,999,610
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,392,685	393,075
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 662,546	$ 2,392,685
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest paid	$ 156,666	$ 1,635,814
SUPPLEMENTAL DISCLOSURES OF NON CASH FLOW INFORMATION:		
Refinance of related party debt to third party debt	$ -	$ 8,774,337
Conversion of related party debt and interest to shares of common stock	$ 3,073,410	$ -
Conversion of convertible debt	$ 3,164,000	$ -
Conversion of loan and security agreements, including interest, into shares of common stock	$ 22,091,388	$ -
Conversion of loan and security agreements converted to warrants to purchase shares of common stock.	$ 7,034,990	$ -

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

[1] Financial information has been retrospectively adjusted for the acquisition of Dolphin Films, Inc. See Notes 1 and 4

Dolphin Digital Media Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Deficit
For the year ended December 31, 2016

	Preferred Stock		Common Stock		Additional Paid-in	Noncontrolling	Accumulated	Total Stockholders
	Shares	Amount	Shares	Amount	Capital	interest	Deficit	Deficit
Balance December 31, 2014	**4,343,000**	**$ 232,043**	**4,094,618**	**$ 61,419**	**$ 26,480,240**	**$ 2,995,249**	**$ (53,761,626)**	**$ (23,992,675)**
Net loss for the year ended December 31, 2015	-	-	-	-	-	-	(8,836,362)	(8,836,362)
Income attributable to the noncontrolling interest	-	-	-	-	-	17,440	(17,440)	-
Return of capital to noncontrolling member	-	-	-	-	-	(34,881)	-	(34,881)
Balance December 31, 2015	**4,343,000**	**$ 232,043**	**4,094,618**	**$ 61,419**	**$ 26,480,240**	**$ 2,977,808**	**$ (62,615,428)**	**$ (32,863,918)**
Net loss for the year ended December 31, 2016	-	-	-	-	-	-	(37,189,679)	(37,189,679)
Income attributable to the noncontrolling interest	-	-	-	-	-	7,097	(7,097)	-
Return of capital to noncontrolling member	-	-	-	-	-	(14,200)	-	(14,200)
Acquisition of 25% interest in Dolphin Kids Clubs LLC	-	-	-	-	(921,122)	(2,970,705)	-	(3,891,827)
Issuance of common stock during the year ended December 31, 2016	-	-	375,143	5,628	1,869,375	-	-	1,875,003
Extinguishment of debt at a price of $5.00	-	-	6,157,960	92,369	37,190,455	-	-	37,282,824
Issuance of common stock for convertible debt			632,800	9,492	3,154,508			3,164,000
Preferred stock dividend related to exchange of Series A for Series B Preferred Stock	1,000,000	100,000	-	-	(5,227,247)	-	-	(5,127,247)
Issuance and conversion of Series B Preferred	(3,300,000)	(330,000)	3,135,000	47,025	6,223,222	-	-	5,940,247
Retirement of Series A Preferred	(1,043,000)	(1,043)	-	-	(1,041,957)	-	-	(1,043,000)
Balance December 31, 2016	**1,000,000**	**$ 1,000**	**14,395,521**	**$ 215,933**	**$ 67,727,474**	**$ -**	**$ (99,812,204)**	**$ (31,867,797)**

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

(1) Financial information has been retrospectively adjusted for the acquisition of Dolphin Films, Inc. See Notes 1 and 4

NOTE 1 — BASIS OF PRESENTATION AND ORGANIZATION:

Dolphin Digital Media, Inc. (the “Company”, "Dolphin"), 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 include the accounts of Dolphin, and all of its majority-owned and controlled subsidiaries, including Dolphin Films, Inc., Hiding Digital Productions, LLC, Dolphin Kids Clubs, LLC, Cybergeddon Productions, LLC, Dolphin SB Productions LLC, Max Steel Productions, LLC, Dolphin Max Steel Holdings LLC, Dolphin JB Believe Financing, LLC and Dolphin JOAT Productions, LLC

Effective March 7, 2016, the Company acquired Dolphin Films, Inc. (“Dolphin Films”) from Dolphin Entertainment, Inc. (“Dolphin Entertainment”), a company wholly owned by William O’Dowd, CEO, President and Chairman of the Board of Directors of the Company. The acquisition from Dolphin Entertainment was a transfer between entities under common control. As such, the Company recorded the assets, liabilities and deficit of Dolphin Films on its consolidated balance sheets at Dolphin Entertainment’s historical basis instead of fair value. Transfers of businesses between entities under common control require prior periods to be retrospectively adjusted to furnish comparative information. Accordingly, the accompanying financial statements and related notes of the Company have been retrospectively adjusted to include the historical balances of Dolphin Films prior to the effective date of the acquisition. See Note 4 for additional information regarding the Dolphin Films acquisition.

On May 9, 2016, the Company filed an amendment to its Articles of Incorporation with the Secretary of State of the State of Florida to effectuate a 20-to-1 reverse stock split. The reverse stock split was approved by the Board of Directors and a majority of the Company’s shareholders and became effective May 10, 2016. The number of shares of common stock of the Company, par value $0.015 (the “Common Stock”) in the consolidated financial statements and all related footnotes has been adjusted to retrospectively reflect the reverse stock split.

The Company enters into relationships or investments with other entities, and in certain instances, the entity in which the Company has a relationship or investment may qualify as a variable interest entity (“VIE”). A VIE is consolidated in the financial statements if the Company is deemed to be the primary beneficiary of the VIE. The primary beneficiary is the party that has the power to direct activities that most significantly impact the activities of the VIE and has the obligation to absorb losses or the right to benefits from the VIE that could potentially be significant to the VIE. The Company has included Max Steel Productions, LLC formed on July 8, 2013 in the State of Florida and JB Believe, LLC formed on December 4, 2012 in the State of Florida in its combined financial statements as VIE’s.

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 of $37,189,679 and $8,836,362, respectively for the years ended December 31, 2016 and 2015. The Company has generated negative cash flows from operations for the years ended December 31, 2016 and 2015 of $14,922,444 and $7,065,502 respectively. Further, the Company has a working capital deficit for the years ended December 31, 2016 and 2015 of $31,424,129 and $43,340,901, 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. If the Company is unable to obtain additional funding from these sources within the next twelve months, it could be forced to liquidate. On February 16, 2017, the Company sold 100,000 shares of its Common Stock for $5.00 per share. During 2017, it has also received loans from its CEO in the amount of $420,000. On April 10, 2017, the Company signed two promissory notes with one debtholder for an aggregate amount of $300,000. The promissory notes bear interest at 10.00% per annum and have a maturity date of October 10, 2017. The Company currently has the rights to several scripts that it intends to obtain financing to produce and release during 2017 and 2018. It expects to earn a producer and overhead fee for each of these productions. There can be no assurances that such productions will be released or fees will be realized in future periods. The Company is currently working on producing a variety of digital projects which it intends to fund through private investors on a project basis and expects to derive additional revenues from these productions in the third quarter of 2017. There can be no assurances that such income will be realized in future periods.

On March 30, 2017, the Company acquired 42West LLC, a limited liability company incorporated in the State of Delaware. 42West is an entertainment public relations agency offering talent publicity, strategic communications and entertainment content marketing. The Company expects to derive revenues from this wholly owned subsidiary and will seek to identify additional revenue streams from the combined companies. See Note 21 for further discussion.

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. The most significant estimates made by management in the preparation of the financial statements relate to ultimate revenue and costs for investment in digital and feature film projects; estimates of allowances and provisions for doubtful accounts and impairment assessments for investment in digital and feature film projects. Actual results could differ from such estimates.

Statement of Comprehensive Income

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("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 loss is the same as net loss for all periods presented.

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.

Restricted Cash

Restricted cash represents amounts held as collateral required under the Company's loan and security agreement. Proceeds from this loan were used for the distribution and marketing costs of the Company's feature film. See Note 6 for further discussion. As of December 31, 2016, the Company maintained $1,250,000 in a separate bank account restricted for this purpose. The funds were disbursed to the lender subsequent to the year ended December 31, 2016.

Contracts in the Company's Equity

From time to time, the Company issues contracts related to its own equity securities, such as warrants and convertible notes. The Company evaluates whether a standalone contract (such as a warrant), or an embedded feature of a contract (such as the conversion feature of a convertible note) should be classified in stockholder's deficit or as a liability in the Company's consolidated balance sheet. The determination is made in accordance with the requirements of ASC Topic 480, *Distinguishing Liabilities from Equity* (ASC 480), and ASC Topic 815, *Derivatives and Hedging* (ASC 815).

A warrant is classified as equity so long as it is "indexed to the Company's equity" and several specific conditions for equity classification are met. A warrant is not considered indexed to the Company's equity, in general, when it contains certain types of exercise contingencies or contains certain provisions that may alter either the number of shares issuable under the warrant or the exercise price of the warrant, including, among other things, a provision that could require a reduction to the then current exercise price each time the Company subsequently issues equity, warrants, and/or conversion options at less than the current conversion price (also known as a full ratchet down round provision). If a warrant is not indexed to the Company's equity, must be classified as a derivative liability.

A convertible debt instrument in its entirety must be classified as a liability under ASC 480 and carried at fair value in the financial statements if it has a mandatory conversion feature. A conversion feature of a convertible debt instrument or certain convertible preferred stock, is separated from the convertible instrument and classified as a derivative liability if the conversion feature, were it a standalone instrument, would meet certain characteristics in the definitions in ASC 815 of both an embedded derivative and a derivative, generally including, among other conditions, if the conversion feature must be settled in cash or a financial instrument that is readily convertible to cash.

When a warrant or a separated conversion feature is classified as a derivative liability, the liability is initially and subsequently reported on the balance sheet at its fair value, and subsequent increases or decreases in the fair value are recorded through the statement of operations.

When a conversion feature does not meet the definition of a derivative per ASC 815, it must be assessed further to determine whether a beneficial conversion feature exists, which exists when the effective exercise price is lower than the fair value of the Company's related equity instrument on the date of issuance. If it contains a beneficial conversion feature, the amount of the beneficial conversion feature reduces the balance of the convertible debt instrument, creating a debt discount which is amortized over the term of the debt to interest expense in the consolidated statement of operations.

The classification of a warrant or conversion feature must be reassessed at each financial reporting date, as a change in circumstances may necessitate reclassification of the warrant or conversion feature. The Company has classified certain warrants issued during 2016 as derivative liabilities due to the existence of full-ratchet down round provisions in the warrants (see Note 16).

Gross versus Net Revenue

The Company's motion pictures are primarily distributed and marketed by third party distributors. The Company evaluates its arrangements with third parties to determine whether revenue should be reported under each individual arrangement on a gross or net basis by determining whether the Company acts as the principal or agent under the terms of each arrangement. To the extent that the Company acts as the principal in an arrangement, revenues are reported on a gross basis, resulting in revenues and expenses being classified in their respective financial statement line items. Conversely, to the extent that the Company acts as the agent in an arrangement, revenues are reported on a net basis, resulting in revenues being presented net of any related expenses. Determining whether the Company acts as principal or agent is based on an evaluation of which party has substantial risks and rewards of ownership under the terms of an arrangement. The most significant factors that the Company considers include identification of the primary obligor, as well as which party has general and physical inventory risk, credit risk and discretion in the supplier selection. The Company's primary distribution arrangements, which are those for its theatrical release, are recorded on a gross basis as a result of the evaluation previously described.

Revenue Recognition

Revenue from motion pictures and web series are recognized in accordance with guidance ASC 926-60 " *Revenue Recognition – Entertainment-Films"*. Revenue is recorded when a distribution contract, domestic or international, exists, the movie or web series is complete in accordance with the terms of the contract, the customer can begin exhibiting or selling the movie or 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 movie or web series. Revenue from these agreements will be recognized when the movie is complete and ready to be exploited. Cash received and amounts billed in advance of meeting the criteria for revenue recognition is classified as deferred revenue.

Additionally, because third parties are the principal distributors of the Company's movies, the amount of revenue that is recognized from films in any given period is dependent on the timing, accuracy and sufficiency of the information received from its distributors. As is typical in the film industry, the Company's distributors may make adjustments in future periods to information previously provided to the Company that could have a material impact on the Company's operating results in later periods. Furthermore, management may, in its judgment, make material adjustments to the information reported by its distributors in future periods to ensure that revenues are accurately reflected in the Company's financial statements. To date, the distributors have not made, nor has the Company made, subsequent material adjustments to information provided by the distributors and used in the preparation of the Company's historical financial statements.

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. Advertising revenue is recognized over the period the advertisement is displayed.

Capitalized Production Costs

Capitalized production costs represent the costs incurred to develop and produce a motion picture or a web series. These costs primarily consist of salaries, equipment and overhead costs, capitalized interest as well as the cost to acquire rights to scripts. Production costs are stated at the lower of cost, less accumulated amortization and tax credits, if applicable, or fair value. These costs are capitalized in accordance with 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 motion picture or 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. The Company has entered into a fifteen year distribution agreement for its motion picture. As prescribed in the agreement, the distributor has entered into a distribution assumption agreement with the guilds to pay the residuals from gross revenues. Upon expiration of the term of the agreement, and nonrenewal, the Company will be responsible for making the payments directly. 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. These write-downs are included in production expense within the combined statements of operations. For the year ended December 31, 2015, the Company amortized $1,642,120 of capitalized production costs related to *South Beach-Fever* and recorded $648,525 for impairment of certain capitalized production costs. During the year ended December 31, 2016, the Company amortized $7,822,549 of capitalized production costs related to the revenues earned for its feature film and impaired $2,075,000 of capitalized production costs that were below the fair value.

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, 2016 and 2015.

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 $20,226 and $24,826, respectively for the years ended December 31, 2016 and 2015. 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:

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

Warrants

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

The Company classified certain warrants issued during 2016 as derivative liabilities, because they contain full-ratchet down round provisions (see Notes 10 and 16). The Company also had equity classified warrants outstanding at December 31, 2016 and 2015 (see Note 16).

Convertible Debt and Convertible Preferred Stock

When the Company issues convertible debt or convertible deferred stock, it evaluates the balance sheet classification to determine whether the instrument should be classified either as debt or equity, and whether the conversion feature should be accounted for separately from the host instrument. A conversion feature of a convertible debt instrument or certain convertible preferred stock would be separated from the convertible instrument and classified as a derivative liability if the conversion feature, were it a standalone instrument, meets the definition of an "embedded derivative" in ASC 815, Derivatives and Hedging. Generally, characteristics that require derivative treatment include, among others, when the conversion feature is not indexed to the Company's equity, as defined in ASC 815-40, or when it must be settled either in cash or by issuing stock that is readily convertible to cash. When a conversion feature meets the definition of an embedded derivative, it would be separated from the host instrument and classified as a derivative liability carried on the consolidated balance sheet at fair value, with any changes in its fair value recognized currently in the consolidated statements of operations.

If a conversion feature does not meet the conditions to be accounted for as a derivative liability, the Company then determines whether the conversion feature is "beneficial". A conversion feature would be considered beneficial if the conversion feature is "in the money" when the host instrument is issued or, under certain circumstances, later. If convertible debt contains a beneficial conversion feature ("BCF"), the amount of the amount of the proceeds allocated to the BCF reduces the balance of the convertible debt, creating a discount which is amortized over the debt's term to interest expense in the consolidated statements of operations. When a convertible preferred stock contains a BCF, after allocating the proceeds to the BCF, the resulting discount is either amortized over the period beginning when the convertible preferred stock is issued up to the earliest date the conversion feature may be exercised, or if the convertible preferred stock is immediately exercisable, the discount is fully amortized at the date of issuance. The amortization is recorded similar to a dividend.

The Company had no outstanding convertible debt or convertible preferred stock which contain conversion feature that is accounted for either as a derivative or a beneficial conversion feature at either December 31, 2016 or 2015 or during the years then ended.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Observable inputs are based on market data obtained from sources independent of 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, defined as follows:

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

Certain warrants issued in 2016 (see Note 16) are measured and carried at fair value in the consolidated financial statements as of and for the year ended December 31, 2016. As of December 31, 2015, and for the year then ended, the Company had no assets or liabilities measured at fair value, on a recurring or nonrecurring basis. See Note 10 for additional fair value disclosures.

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 in 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.

Loss per share

Loss per share of Common Stock is computed by dividing loss available to common stock shareholders by the weighted average number of shares of Common Stock 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 5,890,000 and 1,050,000 at December 31, 2016 and 2015.

Going Concern

In accordance with ASC Subtopic 205-40, Going Concern, management evaluates whether relevant conditions and events that, when considered in the aggregate, indicate that it is probable the Company will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. When relevant conditions or events, considered in the aggregate, initially indicate that it is probable that the Company will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (and therefore they raise substantial doubt about the Company's ability to continue as a going concern), management evaluates whether its plans that are intended to mitigate those conditions and events, when implemented, will alleviate substantial doubt about the Company's ability to continue as a going concern. Management's plans are 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 Company's ability to continue as a going concern. See Note 2 related to going concern.

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. Substantially all of the production revenue during the years ended December 31, 2016 and 2015 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. The Company derived a majority of its revenues from this segment during the year ended December 31, 2015.

3) Dolphin Films: Dolphin Films produces motion pictures, with an initial focus on family content. The motion pictures are distributed, through third parties, in the domestic and international markets. The Company derived a majority of its revenues from this segment during the year ended December 31, 2016.

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, (content), similar production process (the Company uses the same labor force, and content) and similar type of customer (children, teens, tweens and family).

Recent Accounting Pronouncements

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

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

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The guidance in ASU 2014-09 also specifies the accounting for some costs to obtain or fulfill a contract with a customer.

ASC 606 will require the Company to make significant judgments and estimates. ASC 606 also requires more extensive disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.
Public business entities are required to apply the guidance of ASC 606 to annual reporting periods beginning after December 15, 2017 (2018 for the Company), including interim reporting periods within that reporting period. Accordingly, the Company will adopt ASU 606 in the first quarter of 2018.

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

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

The Company expects that it will adopt ASC 606 following the modified retrospective approach. 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 ASU 2015-17, Income Taxes (Topic 740) regarding balance sheet classification of deferred income 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 (2017 for the Company), and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. The Company does not believe that adoption of guidance in ASU 2015-17 will have a material impact on our financial position, or results of operations or cash flows.

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

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU will be effective on a retrospective or modified retrospective basis for annual reporting periods beginning after December 15, 2017 (2018 for the Company), and interim periods within those years, with early adoption permitted. The Company does not believe adoption of this new guidance will have a material affect on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17 —Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control, The update amends the consolidation guidance on how VIE's should treat indirect interest in the entity held through related parties. The ASU will be effective on a retrospective or modified retrospective basis for annual reporting periods beginning after December 15, 2016 (2017 for the Company), and interim periods within those years, with early adoption permitted. The Company does not believe adoption of this new guidance will have a material affect on our consolidated financial statements.

NOTE 4 — ACQUISITION OF DOLPHIN FILMS, INC.

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 completed their previously announced 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.

William O'Dowd is the President, Chairman and Chief Executive Officer of the Company and, as of March 4, 2016, was the beneficial owner of 52.5% of the outstanding Common Stock. In addition, Mr. O'Dowd is the founder, president and sole shareholder of Dolphin Entertainment, which was the sole shareholder of Dolphin Films. The Merger Consideration was determined as a result of negotiations between Dolphin Entertainment and a special committee of independent directors of the Board of Directors of the Company (the "Special Committee"), with the assistance of separate financial and legal advisors selected and retained by the Special Committee. The Special Committee unanimously determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, were fair to and in the best interests of the shareholders of the Company other than Mr. O'Dowd, and that it was advisable for the Company to enter into the Merger Agreement. The Merger was consummated following the approval and adoption of the Merger Agreement by the Company's shareholders.

The Company retrospectively adjusted the historical financial results for all periods to include Dolphin Films as required for transactions between entities under common control. The following table presents the Company's previously reported Consolidated Balance Sheet, retrospectively adjusted for the acquisition of Dolphin Films:

As of December 31, 2015 (unaudited)

	Dolphin Digital Media, Inc.*	Dolphin Films, Inc.	Acquisition Adjustments	Consolidated Balance Sheets as currently reported
ASSETS				
Current				
Cash and cash equivalents	$ 2,259,504	$ 133,181	-	$ 2,392,685
Related party receivable	-	453,529	-	453,529
Prepaid Expenses	10,018	62,500	-	72,518
Receivables and other current assets	560,112	2,267,019	-	2,827,131
Total Current Assets	2,829,634	2,916,229	-	5,745,863
			-	
Capitalized production costs	2,439	15,168,329	-	15,170,768
Property and equipment	55,413	-	-	55,413
Deposits	41,291	355,778	-	397,069
Total Assets	$ 2,928,777	$ 18,440,336	-	$ 21,369,113
LIABILITIES				
Current				
Accounts payable	$ 479,799	$ 1,590,746	-	$ 2,070,545
Other current liabilities	2,669,456	314,864	-	2,984,320
Accrued compensation	2,065,000	-	-	2,065,000
Debt	5,145,000	32,186,008	-	37,331,008
Loan from related party	-	2,917,523	-	2,917,523
Deferred revenue	-	1,418,368	-	1,418,368
Notes payable	300,000	-	-	300,000
Total Current Liabilities	10,659,255	38,427,509	-	49,086,764
Noncurrent				
Convertible note payable	3,164,000	-	-	3,164,000
Loan from related party	1,982,267	-	-	1,982,267
Total Noncurrent Liabilities	5,146,267	-	-	5,146,267
			-	
Total Liabilities	15,805,522	38,427,509	-	54,233,031
STOCKHOLDERS' DEFICIT				
Common stock, $0.015 par value, 400,000,000 shares authorized, 4,094,618 issued and outstanding at December 31, 2015.	61,419	100	(100)	61,419
Preferred stock, Series A. $0.001 par value, 10,000,000 shares authorized, 1,042,753 shares issued and outstanding, liquidation preference of $1,042,753 at December 31, 2015.	1,043	-	-	1,043
Preferred stock, Series B. $0.10 par value, 4,000,000 shares authorized, 3,300,000 shares issued and outstanding at December 31, 2015.	-	-	230,000	230,000
Preferred stock, Series C. $0.001 par value, 1,000,000 shares authorized, 1,000,000 shares issued and outstanding at December 31, 2015.	-	-	1,000	1,000
Additional paid in capital	26,711,140	-	(230,900)	26,480,240
Accumulated deficit	(42,628,155)	(19,987,273)	-	(62,615,428)
Total Dolphin Digital Media, Inc. Deficit	$ (15,854,553)	$ (19,987,173)	-	$ (35,841,726)
Non-controlling interest	2,977,808	-	-	2,977,808
Total Stockholders' Deficit	$ (12,876,745)	$ (19,987,173)	-	$ (32,863,918)
Total Liabilities and Stockholders' Deficit	$ 2,928,777	$ 18,440,336	-	$ 21,369,113

*Previously reported on Form 10-K filed with the SEC March 31, 2016

The following table presents the Company's previously reported Consolidated Statement of Operations, retrospectively adjusted for the acquisition of Dolphin Films:

For the year ended December 31, 2015

	Dolphin Digital Media, Inc.*	Dolphin Films, Inc.	Pro Forma Adjustments	Consolidated Statement of Operations as currently reported
Revenues:				
Production	$ 2,929,518	$ 101,555		$ 3,031,073
Membership	69,761	-		69,761
Total Revenue:	2,999,279	101,555		$ 3,100,834
Expenses:				
Direct costs	2,290,645	296,612		2,587,257
Impairment of deferred production costs	-	213,300		213.300
Selling, general and administrative	2,478,794	341,772	(975,478)	1,845,088
Legal and professional	-	1,417,078	975,478	2,392,556
Payroll	1,435,765	-		1,435,765
Loss before other income (expense)	(3,205,925)	(2,167,207)		(5,373,132)
Other Income (Expense):				
Other Income	96,302	-		96,302
Interest expense	(940,398)	(2,619,134)		(3,559,532)
Net Loss	(4,050,021)	(4,786,341)		(8,836,362)
Net income attributable to noncontrolling interest	$ 17,440	$ -		$ 17,440
Net loss attributable to Dolphin Films, Inc.	-	(4,786,341)		(4,786,341)
Net loss attributable to Dolphin Digital Media, Inc.	(4,067,461)	-		(4,067,461)
Net loss	$ (4,050,021)	$ (4,786,341)		$ (8,836,362)
Basic and Diluted Loss per Share	$ (0.99)			$ (2.16)
Weighted average number of shares used in share calculation	4,094,618			4,094,618

*Previously reported on Form 10-K filed with the SEC March 31, 2016

The following table presents Company's previously reported Condensed Consolidated Statement of Cash Flows, retrospectively adjusted for the acquisition of Dolphin Films:

For the year ended December 31, 2015

	Dolphin Digital Media, Inc.*	Dolphin Films, Inc.	Acquisition Adjustments	Consolidated Statement of Cash Flows (as currently reported)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Loss	(4,050,021)	(4,786,341)	-	(8,836,362)
Adjustments to reconcile net loss to net cash used in operating activities:				-
Depreciation	24,826	-	-	24,826
Amortization of capitalized production costs	1,642,120	30,000	-	1,672,120
Impairment of capitalized production costs	648,525	213,300	-	861,825
Changes in operating assets and liabilities:				-
Prepaid expenses	(7,679)	-	-	(7,679)
Receivables and other current assets	(115,069)	(150,547)	-	(265,616)
Capitalized production costs	(1,599,558)	(1,136,763)	-	(2,736,321)
Accounts Payable	239,063	545,766	-	784,829
Accrued compensation	315,000	-	-	315,000
Other current liabilities	1,121,876	-	-	1,121,876
Net Cash Used in Investing Activities	(1,780,917)	(5,284,585)		(7,065,502)
CASH FLOWS FROM INVESTING ACTIVITES:				
Purchase of property and equipment	(2,549)	-	-	(2,549)
Net Cash Used in Investing Activities	(2,549)	-		(2,549)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from Loan and Security agreements	1,150,000	1,460,000	-	2,610,000
Repayment of loan and security agreements	-	(405,219)	-	(405,219)
Proceeds from production loan	-	440,130	-	440,130
Proceeds from convertible note payable	3,164,000	-	-	3,164,000
Proceeds from note payable with related party	2,797,500	3,785,936	-	6,583,436
Repayment of note payable to related party	(3,267,000)	(57,686)	-	(3,324,686)
Net Cash Provided By Financing Activities	3,844,500	5,223,161	-	9,067,661
NET INCREASE (DECREASE) IN CASH	2,061,034	(61,424)	-	1,999,610
CASH, BEGINNING OF PERIOD	198,470	194,605	-	393,075
CASH, END OF PERIOD	2,259,504	133,181	-	2,392,685
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:				
Interest Paid	234,777	1,401,037		1,635,814
SUPPLEMENTAL DISCLOSURES OF NON CASH FLOW INFORMATION:				
Refinance of related party debt to third party debt	-	8,774,337		8,774,337

*Previously reported on Form 10-K filed with the SEC March 31, 2016

NOTE 5 — CAPITALIZED PRODUCTION COSTS AND OTHER CURRENT ASSETS

Capitalized Production Costs

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

Motion Pictures

For year ended December 31, 2016, revenues earned from motion pictures were $9,367,222 mainly attributable to Max Steel, the motion picture released on October 14, 2016 and international sales of Believe, the motion picture released in December 2013. Revenues from motion pictures for the year ended December 31, 2015 were $101,555 attributable to international sales of Believe. 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 $7,822,550 and $30,000, respectively for the years ended December 31, 2016 and 2015, related to these two motion pictures. As of December 31, 2016 and 2015, the Company had a balance of $4,189,930 and $14,893,329, respectively recorded as capitalized production costs related to our motion picture. As of December 31, 2016,the Company has amortized all of the capitalized production costs related to *Believe* and 65% of the capitalized production costs related to *Max Steel*. The Company expects that approximately 85% of the capitalized production costs of *Max Steel* will be amortized over the next two years.

ASC 926-20-35-12 states that "unamortized film costs shall be tested for impairment whenever events or changes in circumstances indicate that the fair value of the film may be less than its unamortized costs". *Max Steel* did not perform as well as expected in the domestic box office. Since the Company determined that *Max Steel's* performance in the domestic box office was an indicator that the capitalized production costs may be impaired, it used a discounted cash flow model to help determine the fair value of the capitalized production costs. After careful analysis, the Company recorded an impairment of $2,000,000 since it determined that the fair value of the motion picture was lower than the balance of the capitalized production costs.

The Company has purchased scripts, including one from a related party, for other motion picture productions and has deferred $215,000 and $275,000 in capitalized production costs as of December 31, 2016 and 2015 associated with these scripts. The Company intends to produce these projects but they were not yet in production as of December 31, 2016.

On November 17, 2015, the Company entered into a quitclaim agreement with a distributor for rights to a script owned by the Company. As part of the agreement the Company will receive $221,223 plus interest and a profit participation if the distributor decides to produce the motion picture within 24 months after the execution of the agreement. If the motion picture is not produced within the 24 months, all rights revert back to the Company. As per the terms of the agreement, the Company is entitled to co-finance the motion picture and the distributor will assist the Company in releasing its completed motion picture. The Company recorded $213,300 in direct costs and reduced the capitalized production costs by the same amount during the year ended December 31, 2015 as there is no guarantee the distributor will produce the motion picture. Additionally, during the year ended December 31, 2016, the Company decided that it would not extend its option to produce a script that it had purchased. As a result, the Company recorded $75,000 in direct costs and reduced the capitalized production costs by the same amount during the year ended December 31, 2016. The Company did not have any other development projects abandoned during the years ended December 31, 2016 and 2015.

As of December 31, 2016 and 2015, respectively, the Company has total capitalized production costs of $4,654,013 and $15,168,329, net of accumulated amortization, tax incentives and impairment charges, recorded on its consolidated balance sheets related to motion pictures.

Digital

During the year ended December 31, 2016, the Company began production of a new digital project showcasing favorite restaurants of NFL players throughout the country. The Company entered into a co-production agreement with an unrelated party and is responsible for financing 50% of the project's budget. Per the terms of the agreement, the Company is entitled to 50% of the profits of the project, net of any distribution fees. The project is still in production, and as such, for the year ended December 31, 2016, revenues earned from digital projects were immaterial. For the year ended December 31, 2015, the Company earned $2,929,518 from the release of the digital web series, *South Beach-Fever.*. 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 $2,439 and $1,642,120 for the years ended December 31, 2016 and 2015.

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 during the year ended December 31, 2015, as the scripts were more than three years old and the Company had not begun production on the projects.

As of December 31, 2016 and 2015, respectively, the Company has total capitalized production costs of $249,083 and $2,439, net of accumulated amortization, tax incentives and impairment charges, recorded on its consolidated balance sheet related to web series.

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.

Accounts Receivables

The Company entered into various agreements with foreign distributors for the licensing rights of its motion picture, *Max Steel*, in certain international territories. The motion picture was delivered to the distributors and other stipulations, as required by the contracts were met, and the Company had a balance of $3,668,646 in accounts receivable related to these contracts.

Other Current Assets

The Company had a balance of $2,665,781 and $2,827,131 in other current assets on its consolidated balance sheets as of December 31, 2016 and 2015, respectively. As of December 31, 2016, these amounts were primarily comprised of tax incentive receivables and prepaid loan interest. For the year ended December 31, 2015, the amount was primarily comprised of tax incentive receivables, loan receivable, prepaid expenses and advertising revenue.

Tax Incentives -The Company has access to government programs that are designed to promote film production in the jurisdiction. As of December 31, 2016 and 2015, the Company recorded $2,060,883 and $1,854,066 from these tax incentives. Tax incentives earned with respect to expenditures on qualifying film productions are included as an offset to capitalized production costs when the qualifying expenditures have been incurred provided that there is reasonable assurance that the credits will be realized. During the year ended December 31, 2015, the Company received $131, 807, net of discount and financing fees, related to these incentives. The remaining tax incentives were collected subsequent to December 31, 2016.

Prepaid Interest – The Company entered into a loan and security agreement to finance the distribution and marketing costs of a motion picture and prepaid interest related to the agreement. As of December 31, 2016, there was $602,697 of prepaid interest recorded.

Loan Receivable – During the year ended December 31, 2015, Dolphin Films entered into a Loan and Security agreement, with an existing investor, for $500,000 that was paid, net of interest, in January of 2016.

Prepaid Expenses – As of December 31, 2015, the Company prepaid $62,500 for consulting fees for the first quarter of 2016.

Advertising Revenue Receivable - During the year ended December 31, 2015, the Company released a web series on Hulu. As of December 31, 2015, it recorded $569,772 of advertising receivables related to this project. The receivable was collected in 2016.

NOTE 6 — DEBT

Kids Club Agreements

During February 2011, the Company entered into two agreements with individual parties (each a "Kids Club Agreement") for the development of a child fan club for the promotion of a local university and its collegiate athletic program (the "Group Kids Club"). Under each Kids Club Agreement, each party paid the Company $50,000 in return for the participation of future revenue generated by the Group Kids Club. Pursuant to the terms of each of the Kids Club Agreements, the amount invested by the individual investor was to be repaid by the Group Kids Club, with a specified percentage of the Group Kids Club's net receipts, until the total investment was recouped. Each individual party was to recoup its investment with a percentage of net revenue based upon a fraction, the numerator of which was the amount invested ($50,000), and the denominator of which was $500,000 (the "Investment Ratio"). Thereafter, each individual party was to share in a percentage of the net revenue of the Group Kids Club, in an amount equal to one half of the Investment Ratio. The Company had made aggregate payments of $45,000 under one of the two Kids Clubs Agreements. During the year ended December 31, 2016, the Company agreed to terminate such Kids Club Agreement with one of the parties for (i) $10,000, plus (ii) the balance of the original investment ($5,000). The Company paid such individual party $15,000 on July 18, 2016 in full settlement of the Company's obligations under such Kids Club Agreement, and the Kids Club Agreement for such party was terminated. On October 3, 2016, the Company entered into a debt exchange agreement with the remaining party whereby The Company agreed to issue 12,000 shares of Common Stock at an exchange price of $5.00 per share to in exchange for (i) $10,000 plus (ii) the remaining party's original investment of $50,000 to terminate the Kids Club Agreement.

For the years ended December 31, 2016 and 2015, there were no significant revenues generated or costs incurred related to the Group Kids Club. The Company balance of debt related to the Kids Club Agreements as of December 31, 2016 and 2015 was $0 and $100,000, respectively.

Equity Finance Agreements

During the years ended December 31, 2012 and 2011, the Company entered into Equity Finance Agreements (the "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 investment of $1,000,000 and had the ability to share in the future revenues of the relevant web series, on a prorata basis, until the total investment was recouped and then would have shared at a lower percentage of the additional revenues. The Equity Finance Agreements stated that prior to December 31, 2012, the Company could utilize all, or any portion, of the total investment to fund any chosen production. Per the Equity Finance Agreements, the Company was entitled to a producer's fee, not to exceed $250,000, for each web series that it produced before calculating the share of revenues owed to the investors. The Company invested these funds in eleven projects. On January 1, 2013, the "production cycle", as defined in the Equity Finance Agreements, ceased and the investors were entitled to share in the future revenues of any productions for which the funds invested were used. Based on the producer's gross revenues, (as defined in the Equity Finance Agreements) for the productions to date and the amount of investor funds used to date, the Company was not required to pay the investors any amount in excess of the existing liability already recorded as of December 31, 2016 and 2015. Two of the productions were completed as of December 31, 2016 and there was no producer gross revenue as defined in the Equity Finance Agreements for each of the years ended December 31, 2016 and 2015 related to those two productions The costs of the other nine projects was impaired and no future projects are planned with funds from the Equity Finance Agreements. As a result, the investors did not recoup any of their investment.

On June 23, 2016, the Company entered into a settlement agreement (the "Settlement") with one of the Equity Finance Agreement investors that had originally contributed $105,000. Pursuant to the terms of the Settlement, the Company made a payment of $200,000 to the investor on June 24, 2016 resulting in a loss on extinguishment of debt of $95,000 recorded in the consolidated statement of operations for the year ended December 31, 2016. On October 3, 13 and 27, 2016, the Company entered into debt exchange agreements with three Equity Finance Agreement three investors to issue an aggregate total of 66,200 shares of Common Stock at an exchange price of $5.00 per share to terminate each of their Equity Finance Agreements for a cumulative original investment amount of $331,000. On the date of the conversions the market price of the Common Stock was between $6.25 and $6.75 and as a result, the Company recorded a loss on extinguishment of debt of $112,025, related to these three agreements, on its consolidated statement of operations. On December 29, 2016, the Company entered into a termination agreement whereby the Company agreed to issue Warrant "K" to another investor that entitles the warrant holder to purchase 170,000 shares of Common Stock at an exercise price of $0.015 per share in return for terminating its Equity Finance Agreement. As a result, the Company recorded a loss on extinguishment of debt of $538,685 on the consolidated statement of operations for the year ended December 31, 2016 based on the difference between the fair value of the Warrant "K" and the carrying amount of the balance owed to the investor under the Equity Finance Agreement on the date the Equity Finance Agreement was terminated. The Company balance of debt related to the Equity Finance Agreements as of December 31, 2016 and 2015 was $0 and $1,000,000, respectively.

Loan and Security Agreements

First Group Film Funding

During the years ended December 31, 2013 and 2014, the Company entered into various loan and security agreements with individual noteholders (the "First Loan and Security Noteholders") for notes with an aggregate principal amount of $11,945,219 to finance future motion picture projects (the "First Loan and Security Agreements"). During the year ended December 31, 2015, one of the First Loan and Security Noteholders increased its funding under its respective First Loan and Security Agreement for an additional $500,000 note and the Company used the proceeds to repay $405,219 to another First Loan and Security Noteholder. Pursuant to the terms of the First Loan and Security Agreements, the notes accrued interest at rates ranging from 11.25% to 12% per annum, payable monthly through June 30, 2015. During 2015, the Company exercised its option under the First Loan and Security Agreements, to extend the maturity date of these notes until December 31, 2016. In consideration for the Company's exercise of the option to extend the maturity date, the Company was required to pay a higher interest rate, increasing by 1.25% resulting in rates ranging from 12.50% to 13.25%. The First Loan and Security Noteholders, as a group, will receive the Company's entire share of the proceeds from the motion picture productions funded under the First Loan and Security Agreements, on a prorata basis, until the principal investment is repaid. Thereafter, the First Loan and Security Noteholders, as a group, would have the right to participate in 15% of the Company's future profits from these projects (defined as the Company's gross revenues of such projects less the aggregate amount of principal and interest paid for the financing of such projects) on a prorata basis based on each First Loan and Security Noteholder's loan commitment as a percentage of the total loan commitments received to fund specific motion picture productions.

On May 31, 2016 and June 30, 2016, the Company entered into debt exchange agreements with certain First Loan and Security Noteholders on substantially similar terms to convert an aggregate of $11,340,000 of principal and $1,811,490 of accrued interest into shares of Common Stock. Pursuant to the terms of such debt exchange agreements, the Company agreed to convert the debt owed to certain First Loan and Security Noteholders into Common Stock at an exchange rate of $5.00 per share and issued 2,630,298 shares of Common Stock. On May 31, 2016, the market price of a share of Common Stock was $6.99 and on June 30, 2016 it was $6.08. As a result, the Company recorded losses on the extinguishment of debt on its consolidated statement of operations of $3,328,366 for the year ended December 31, 2016 based on the difference between the fair value of the Common Stock issued and the carrying amount of outstanding balance of the exchanged notes on the date of the exchange. On December 29, 2016, as part of a global settlement agreement with an investor that was the noteholder under each of the First Loan and Security Agreement, a Web Series Agreement and a Second Loan and Security Agreement, the Company entered into a debt exchange agreement whereby the Company issued Warrant "J" that entitles the warrant holder to purchase shares of Common Stock at a price of $0.015 per share in settlement of $1,160,000 of debt from the note under the First Loan and Security Agreement. See Note 16 for further discussion of Warrant "J".

During the years ended December 31, 2016 and 2015, the Company expensed $518,767 and $$1,238,234, respectively in interest related to the First Loan and Security Agreements. As of December 31, 2016 and 2015, the Company had $0 and $9,334,303, respectively of outstanding debt related to the First Loan and Security Agreements and $0 and $602,661, respectively of accrued interest recorded in other current liabilities on the Company's consolidated balance sheets.

Web Series Funding

During the years ended December 31, 2014 and 2015, the Company entered into various loan and security agreements with individual noteholders (the "Web Series Noteholders") for an aggregate principal amount of notes of $4,090,000 which the Company used to finance production of its 2015 web series (the "Web Series Loan and Security Agreements"). Under the Web Series Loan and Security Agreements, the Company issued promissory notes that accrued interest at rates ranging from 10% to 12% per annum payable monthly through August 31, 2015, with the exception of one note that accrued interest through February 29, 2016. During 2015, the Company exercised its option under the Web Series Loan and Security Agreements to extend the maturity date of these notes to August 31, 2016. In consideration for the Company's exercise of the option to extend the maturity date, the Company was required to pay a higher interest rate, increasing 1.25% resulting in interest rates ranging from 11.25% to 13.25%. Pursuant to the terms of the Web Series Loan and Security Agreements, the First Loan and Security Noteholders, as a group, would have had the right to participate in 15% of the Company's future profits generated by the series (defined as the Company's gross revenues of such series less the aggregate amount of principal and interest paid for the financing of such series) on a prorata basis based on each Web Series Noteholder's loan commitment as a percentage of the total loan commitments received to fund the series.

On March 29, 2016 and June 30, 2016, the Company entered into eleven individual debt exchange agreements (the "Web Series Debt Exchange Agreements") on substantially similar terms with the Web Series Noteholders. Pursuant to the terms of the Web Series Debt Exchange Agreements, the Company and each Web Series Noteholder agreed to convert an aggregate of $2,650,000 of principal and $289,017 of accrued interest under the Web Series Loan and Security Agreements into an aggregate of 587,804 shares of Common Stock at an exchange price of $5.00 per share as payment in full of each of the notes issued under the Web Series Loan and Security Agreements. Mr. Nicholas Stanham, director of the Company, was one of the Web Series Noteholders that converted his note into shares of Common Stock. On December 15 and December 20, 2016, the Company entered into substantially identical Subscription Agreements with two Web Series Noteholders to convert $1,265,530 of principal and interest into an aggregate of 253,106 shares of Common Stock at an exchange price of $5.00 per share as payment in full of each of the notes issued under the Web Series Loan and Security Agreements. The Company recorded a loss on extinguishment of debt of $1,489,582 on its consolidated statement of operations related to the Web Series Loan and Security Agreements due to the following market prices per share on the dates of the exchanges (i) $6.00 per share for 576,676 shares issued, (ii) $6.08 for 11,128 shares issued, (iii) $6.10 for 253,934 shares issued and (iv) $6.45 for 32,273 shares issued, which were in excess of the $5.00 per share exchange prices. On December 29, 2016, as part of a global settlement agreement with another investor that was the Noteholder of a First Loan and Security Agreement, a Web Series Agreement and a Second Loan and Security Agreement, the Company entered into a debt exchange agreement whereby the Company issued Warrant "J" that entitles the warrant holder to purchase shares of Common Stock at a price of $0.015 per share in settlement of $340,000 of debt from the Web Series Loan and Security Agreement. See Note 16 for further discussion of Warrant "J".

During the years ended December 31, 2016 and 2015, the Company recorded expense of $31,487 and $388,320 respectively, in interest related to the Web Series Loan and Security Agreements. As of December 31, 2016 and 2015, respectively, the Company had outstanding balances of $0 and $4,090,000, respectively of principal and $0 and $173,211, respectively, of accrued interest recorded on the Company's consolidated balance sheets.

Second Group Film Funding

During the year ended December 31, 2015, the Company entered into various loan and security agreements with individual noteholders (the "Second Loan and Security Noteholders") for notes with an aggregate principal amount of $9,274,327 to fund a new group of film projects (the "Second Loan and Security Agreements"). Of this total aggregate amount, notes with an aggregate principal amount of $8,774,327 were issued in exchange for debt that had originally been incurred by Dolphin Entertainment, Inc., primarily related to the production and distribution of the motion picture, "Believe". The remaining $500,000 of principal amount was related to a note issued in exchange for cash. The notes issued pursuant to the Second Loan and Security Agreements accrue interest at rates ranging from 11.25% to 12% per annum, payable monthly through December 31, 2016. The Company did not exercise its option to extend the maturity date of these notes until July 31, 2018. The Second Loan and Security Noteholders, as a group, will receive the Company's entire share of the proceeds from the related group of film projects, on a prorata basis, until the principal balance is repaid. Thereafter, the Second Loan and Security Noteholders, as a group, would have the right to participate in 15% of the Company's future profits from such projects (defined as the Company's gross revenues of such projects less the aggregate amount of principal and interest paid for the financing of such projects) on a prorata basis based on each Second Loan and Security Noteholder's loan principal as a percentage of the total loan proceeds received to fund the specific motion picture productions.

On May 31, 2016 and June 30, 2016, the Company entered into various debt exchange agreements on substantially similar terms with certain of the Second Loan and Security Noteholders to convert an aggregate of $4,003,337 of principal and $341,013 of accrued interest into shares of Common Stock. Pursuant to such debt exchange agreements, the Company agreed to convert the debt at an exchange price of $5.00 per share and issued 868,870 shares of Common Stock. On May 31, 2016, the market price of a share of the Common Stock was $6.99 and on June 30, 2016, it was $6.08. As a result, the Company recorded a loss on the extinguishment of debt of $1,312,059 on its consolidated statement of operations for the year ended December 31, 2016, due to the difference between the exchange price and the market price of the Common Stock on the dates of exchange. On June 22, 2016, the Company repaid one of the Second Loan and Security Noteholders its principal investment of $300,000. On December 29, 2016, as part of a global settlement agreement with an investor that was the noteholder under each of a First Loan and Security Agreement, a Web Series Agreement and a Second Loan and Security Agreement, the Company entered into a debt exchange agreement whereby the Company issued Warrant "J" that entitles the warrant holder to purchase shares of Common Stock at a price of $0.015 per share in settlement of $4,970,990 of debt from the note under the Second Loan and Security Agreement. See Note 16 for further discussion of Warrant "J".

During the years ended December 31, 2016 and 2015, the Company recorded interest expense of $715,934 and $634,923, respectively, related to the Second Loan and Security Agreements.

As of December 31, 2016 and 2015, the Company had $0 and $9,334,303, respectively, of outstanding debt related to the Second Loan and Security Agreements and $0 and $228,040, respectively of accrued interest recorded in other current liabilities on the Company's consolidated balance sheets.

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 noteholders.

Production Service Agreement

During the year ended December 31, 2014, Dolphin Films entered into a financing agreement for the production of one of the Company's feature film, *Max Steel* (the "Production Service Agreement"). The Production Service Agreement was for a total amount of $10,419,009 with the lender taking an $892,619 producer fee. The Production Service Agreement contained repayment milestones to be made during the year ended December 31, 2015, that if not met, accrued interest at a default rate of 8.5% per annum above the published base rate of HSBC Private Bank (UK) Limited until the maturity on January 31, 2016 or the release of the movie. Due to a delay in the release of *Max Steel*, the Company did not make the repayments as prescribed in the Production Service Agreement. As a result, the Company recorded accrued interest of $1,147,520 and $381,566, respectively, as of December 31, 2016 and 2015 in other current liabilities on the Company's consolidated balance sheets. The loan was partially secured by international distribution agreements entered into by the Company prior to the commencement of principal photography and the receipt of tax incentives. As a condition to the Production Service Agreement, the Company acquired a completion guarantee from a bond company for the production of the motion picture. The funds for the loan were held by the bond company and disbursed as needed to complete the production in accordance with the approved production budget. The Company recorded debt as funds were transferred from the bond company for the production.

During the year ended December 31, 2016, the motion picture, *Max Steel*, was released in the US and delivered to the international distributors. International distributors made payments totaling $3,493,105 and $675,507 of Canadian tax incentives were received for an aggregate of $4,168,612 applied to the balance of the Production Service Agreement debt. As of December 31, 2016 and 2015 the Company had outstanding balances of $6,243,069 and $10,411,681, respectively, related to this debt on its consolidated statement of operations.

Loan and Security Agreement – (Prints and Advertising Loan)

On August 12, 2016, Dolphin Max Steel Holding, LLC, a Florida limited liability company (?Max Steel Holding?) and a wholly owned subsidiary of Dolphin Films, entered into a loan and security agreement (the ?P&A Loan?) providing for $14,500,000 non-revolving credit facility that matures on August 25, 2017. The proceeds of the credit facility were used to pay a portion of the print and advertising expenses of the domestic distribution of ?*Max Steel*". To secure Max Steel Holding's obligations under the Loan and Security Agreement, the Company has granted to the lender a security interest in bank account funds totaling $1,250,000 pledged as collateral and recorded as restricted cash in the consolidated balance sheet as of December 31, 2016, and rights to the assets of Max Steel Holdings, but without recourse to the assets of the Company. The loan is also partially secured by a $4,500,000 corporate guaranty from a party associated with the film. The lender has retained a reserve of $1,531,871 for loan fees and interest (the "Reserve"). Amounts borrowed under the credit facility will accrue interest at either (i) a fluctuating per annum rate equal to the 5.5% plus a base rate or (ii) a per annum rate equal to 6.5% plus the LIBOR determined for the applicable interest period. As of December 31, 2016, the Company had an outstanding balance of $12,500,000, including the Reserve, related to this agreement recorded on the consolidated balance sheet as of December 31, 2016. The Company recorded $10,168,129 in distribution and marketing costs related to the release of the feature film on the consolidated statement of operations for the year ended December 31, 2016.

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 Stock. The convertible note has a conversion price of $5.00 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 per share of Common Stock being greater than or equal to the conversion price for twenty trading days.

On February 5, 2016, a triggering event occurred pursuant to the convertible note agreement. As such 632,800 shares of Common Stock were issued in satisfaction of the convertible note payable. As of December 31, 2016 and 2015, the Company recorded $0 and $3,164,000 as convertible note and accrued $0 and $21,671 of interest in other current liabilities in its consolidated balance sheets. The Company expensed $31,207 of interest, incurred prior to its conversion, during the year ended December 31, 2016.

NOTE 8 — NOTES PAYABLE

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, 2016 and 2015. The Company recorded accrued interest of $134,794 and $104,712 as of December 31, 2016 and 2015, respectively related to this note. As of December 31, 2016 and 2015, the Company had a balance of $300,000 on its consolidated balance sheets related to this note payable.

The Company expensed $30,082 and $30,000, respectively for the years ended December 31, 2016 and 2015, respectively for interest related to this note.

NOTE 9 — LOANS FROM RELATED PARTY

On December 31, 2011, the Company issued an unsecured revolving promissory note (the "DE Note") to Dolphin Entertainment ("DE"), an entity wholly owned by the Company's CEO that, at December 31, 2016 and December 31, 2015, had outstanding balances of $0 and $1,982,267, respectively. The DE Note accrued interest at a rate of 10% per annum. Dolphin Entertainment had 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 year ended December 31, 2015, DE loaned the Company $2,797,000 and was repaid $3,267,000 in principal. During the year ended December 31, 2016, DE advanced the Company $270,000. On March 4, 2016, the Company entered into a subscription agreement (the "Subscription Agreement") with DE. Pursuant to the terms of the Subscription Agreement, the Company and DE agreed to convert the $3,073,410 aggregate amount of principal and interest outstanding under the DE Note into 614,682 shares of Common Stock. The shares were converted at a price of $5.00 per share. On the date of the conversion that market price of the shares was $6.00 and as a result the Company recorded a loss on the extinguishment of the debt of $614,682 on the consolidated statement of operations for the year ended December 31, 2016. During the year ended December 31, 2016 and 2015 $32,008 and $340,050 was expensed in interest, respectively and the Company recorded accrued interest of $5,788 and $1,126, related to the DE Note, on its consolidated balance sheet as of December 31, 2016 and 2015, respectively.

In addition, DE has previously advanced funds for working capital to Dolphin Films. During the year ended December 31, 2015, Dolphin Films agreed to enter into second Loan and Security Agreements with certain of DE's debtholders, pursuant to which the debtholders exchanged their DE notes for notes issued by Dolphin Films totaling $8,774,327. See Note 6 for more details. The amount of debt assumed by Dolphin Films was applied against amounts owed to Dolphin Entertainment by Dolphin Films. On October 1, 2016, Dolphin Films entered into a promissory note with DE (the "New DE Note") in the principal amount of $1,009,624. The New DE Note is payable on demand and bears interest at 10% per annum. As of December 31, 2016 and 2015, Dolphin Films owed DE $434,326 and $2,917,523, respectively, that was recorded on the condensed consolidated balance sheets. Dolphin Films recorded interest expense of $83,551 and $148,805, respectively for the years ended December 31, 2016 and 2015.

NOTE 10—FAIR VALUE MEASUREMENTS

During 2016, the Company issued Series G, H, I, J and K Common Stock warrants (the "Warrants") for which the Company determined that the Warrants should be accounted for as derivatives (see Note 16), for which a liability is recorded in the aggregate and measured at fair value in the consolidated balance sheets on a recurring basis, and the change in fair value from one reporting period to the next is reported as income or expense in the consolidated statements of operations.

The Company records the fair value of the liability in the consolidated balance sheets under the caption "Warrant liability" and records changes to the liability against earnings or loss under the caption "Changes in fair value of warrant liability" in the consolidated statements of operations. The carrying amount at fair value of the aggregate liability for the Warrants recorded on the consolidated balance sheet at December 31, 2016 is $20,405,190, and due to the decrease in the fair value of the Warrant Liability for the period in which the Warrants were outstanding during the year, the Company recorded a gain on the warrant liability of $2,195,542 in the consolidated statement of operations for the year ended December 31, 2016. There were no assets or liabilities carried at fair value on a recurring basis at December 31, 2015 or for the year then ended.

The Warrants have the following terms:

	Issuance Date	Number of Common Shares	Initial Per Share Exercise Price	Initial Term (Years)	Expiration Date
Series G Warrants	November 4, 2016	1,500,000	$ 5.00	1.2	January 31, 2018
Series H Warrants	November 4, 2016	500,000	$ 6.00	2.2	January 31, 2019
Series I Warrants	November 4, 2016	500,000	$ 7.00	3.2	January 31, 2020
Series J Warrants	December 29, 2016	2,170,000	$ .015	4	December 29, 2020
Series K Warrants	December 29, 2016	170,000	$ .015	4	December 29, 2020

The Warrants have an adjustable exercise price due to a full ratchet down round provision, which would result in a downward adjustment to the exercise price in the event the Company completes a financing in which the price per share of the financing is lower than the exercise price of the Warrants in effect immediately prior to the financing.

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

The Company's management determined the fair value of the warrant liability as of December 31, 2016 by using a Monte Carlo simulation model with the following key inputs:

	As of December 31, 2016				
Inputs	Series G	Series H	Series I	Series J	Series K
Volatility (1)	63.6%	79.1%	70.8%	65.8%	65.8%
Expected term (years)	1.08	2.08	3.08	4	4
Risk free interest rate	.879%	1.223%	1.489%	1.699%	1.699%
Common stock price	$ 6.00	$ 6.00	$ 6.00	$ 6.00	$ 6.00
Exercise price	$ 5.00	$ 6.00	$ 7.00	$ .02	$ .02

(1) "Level 3" input.

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

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

Other financial instruments such as cash, accounts receivable, debt, notes and related party notes approximate their fair value due to their short term nature or being due on demand.

NOTE 11 — LICENSING AGREEMENTS - RELATED PARTY

The Company has entered into a ten year licensing agreement with Dolphin Entertainment, a related party. 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, 2016 and 2015.

NOTE 12 — DEFERRED REVENUE

During the year ended December 31, 2014, the Company entered into agreements with various entities for the international distribution rights of a motion picture that was in production. As required by the distribution agreements, the Company received $1,418,368 of deposits for these rights that was recorded as deferred revenue on its consolidated balance sheet. During the year ended December 31, 2016, the Company delivered the motion picture to various international distributors and recorded $1,371,687 of revenue from production from these deposits. As of December 31, 2016 and 2015, the Company recorded $46,681 and $1,418,368 as deferred revenue on its consolidated balance sheets.

NOTE 13 – VARIABLE INTEREST ENTITIES

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

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

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

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

The Company evaluated certain entities of which it did not have a majority voting interest and determined that it had (1) the power to direct the activities of the entities that most significantly impact their economic performance and (2) had the obligation to absorb losses or the right to receive benefits from these entities. As such the financial statements of Max Steel Productions, LLC and JB Believe, LLC are consolidated in the balance sheets as of December 31, 2016 and 2015, and in the statements of operations and statements of cash flows presented herein for the years ended December 31, 2016 and 2015. These entities were previously under common control and have been accounted for at historical costs for all periods presented.

	Max Steel Productions LLC As of and for the years ended December 31,		JB Believe LLC As of and for the years ended December 31,	
(in USD)	2016	2015	2016	2015
Assets	12,327,887	18,295,633	240,269	143,549
Liabilities	(15,922,552)	(19,113,335)	(7,014,098)	(6,655,335)
Revenues	9,233,520	-	133,331	101,555
Expenses	(11,627,444)	(677,339)	(395,374)	(398,959)

NOTE 14 — STOCKHOLDERS' DEFICIT

A) Preferred Stock

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

On 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 Convertible Preferred Stock is convertible, at the holders request, into 0.95 shares of Common Stock. Holders of Series B Convertible Preferred Stock do not have any voting rights.

On October 16, 2015, the Company and T Squared Partners LP ("T Squared") entered into a Preferred Stock Exchange Agreement whereby 1,042,753 shares of Series A Convertible Preferred Stock were to be exchanged for 1,000,000 shares of Series B Convertible Preferred Stock upon satisfaction of certain conditions. On March 7, 2016, all conditions were satisfied and, pursuant to the Preferred Stock Exchange Agreement, the Company issued to T Squared Partners LP 1,000,000 shares of Series B Convertible Preferred Stock. The Company retired the 1,042,753 shares of Series A Convertible Preferred Stock it received in the exchange. The Company recorded a preferred stock dividend in additional paid in capital of $5,227,247 related to this exchange. On November 14, 2016, T Squared notified the Company that it would convert 1,000,000 shares of Series B Preferred Stock into 950,000 shares of the Common Stock effective November 16, 2016.

On February 23, 2016, the Company amended its Articles of Incorporation to designate 1,000,000 preferred shares as "Series C Convertible Preferred Stock" with a $0.001 par value which may be issued only to an "Eligible Series C Preferred Stock Holder". An Eligible Class C Preferred Stock Holder means any of (i) Dolphin Entertainment for so long as Mr. O'Dowd continues to beneficially own at least 90% of Dolphin Entertainment and serves on the board of directors or other governing body of Dolphin Entertainment, (ii) any other entity in which Mr. O'Dowd beneficially owns more than 90%, or a trust for the benefit of others but for which Mr. O'Dowd serves as trustee and (iii) Mr. O'Dowd individually. The certificate of designation of the Series C Convertible Preferred Stock (the "Certificate of Designation") provides that each share of Series C Convertible Preferred Stock is convertible into one share of Common Stock. Until the fifth anniversary of the date of the issuance, the Series C Convertible Preferred Stock has certain anti-dilution protections as provided in the Certificate of Designation. Specifically, the number of shares of Common Stock into which the Series C Convertible Preferred Stock may convert (the "Conversion Number") will be adjusted for each future issuance of Common Stock (but not upon issuance of Common Stock equivalents) (i) upon the conversion or exercise of any instrument currently or hereafter issued (but not upon the conversion of the Series C Convertible Preferred Stock), (ii) upon the exchange of debt for shares of Common Stock, or (iii) in a private placement, such that the total number of shares of Common Stock held by an "Eligible Series C Preferred Holder" (based on the number of shares of Common Stock held as of the date of issuance) will be preserved at the same percentage of shares of Common Stock outstanding at the time by the holder, which is approximately 53% of the shares of Common Stock outstanding at December 31, 2016. The shares of Series C Convertible Preferred Stock will automatically convert into the number of shares of Common Stock equal to the Conversion Number in effect at that time ("Conversion Shares") upon the occurrence of any of the following events: (i) upon transfer, by current holder, of the Series C Convertible Preferred Stock to any holder other than an Eligible Class C Preferred Stock Holder, (ii) if the aggregate number of shares of Common Stock plus Conversion Shares (issuable upon conversion of each share of Series B Convertible Preferred Stock and the Series C Convertible Preferred Stock) held by the Eligible Class C Preferred Stock Holders in the aggregate constitutes 10% or less of the sum of (x) the outstanding shares of Common Stock plus (y) all Conversion Shares held by the Eligible Class C Preferred Stock Holders and (iii) at such time as the holder of Series C Convertible Preferred Stock ceases to be an Eligible Class C Preferred Stock Holder. Series C Convertible Preferred Stock will only be convertible by the holder upon the Company satisfying certain "optional conversion thresholds" as provided in the Certificate of Designation. The Certificate of Designation also provides for a liquidation value of $0.001 per share. The holders of Series C Convertible Preferred Stock and Common Stock will vote together as a single class on all matters upon which the Common Stock is entitled to vote, except as otherwise required by law. The holders of Series C Convertible Preferred Stock will be entitled to three votes for each share of Common Stock into which such holders' shares of Series C Convertible Preferred Stock could then be converted. The Certificate of Designation also provides for dividend rights of the Series C Convertible Preferred Stock on parity with the Company's Common Stock.

On March 7, 2016, as the Merger Consideration related to the Company's merger with Dolphin Films (see Note 4 for further discussion), Dolphin Entertainment was issued 2,300,000 shares of Series B Convertible Preferred Stock and 1,000,000 shares of Series C Convertible Preferred Stock. On November 15, 2016, Mr. O'Dowd converted 2,300,000 shares of Series B Convertible Preferred Stock into 2,185,000 shares of the Company's Common Stock.

As of December 31, 2016, the Company did not have any Series B Convertible Preferred Stock outstanding and 1,000,000 shares of Series C Convertible Preferred Stock issued and outstanding. As of December 31, 2015, the Company had 1,042,753 shares of Series A Convertible Preferred Stock issued and outstanding.

B) Common Stock

The Company's Articles of Incorporation previously authorized the issuance of 200,000,000 shares of Common Stock. 10,000,000 shares have been designated for an Employee Incentive Plan. As of December 31, 2016 and 2015, no awards have been issued in connection with this plan. On February 23, 2016, the Company filed Articles of Amendment to the Amended Articles of Incorporation with the Secretary of State of the State of Florida to increase the number of authorized shares of its Common Stock from 200,000,000 to 400,000,000.

On February 5, 2016, the Company issued 632,800 shares of Common Stock, at a post-split price of $5.00 per share, in connection with the conversion of the debt per the terms of the convertible debt agreement entered into on December 7, 2015. See Note 7 for further discussion.

On March 4, 2016, the Company issued 614,682 shares of Common Stock in connection with a subscription agreement entered into with Dolphin Entertainment for debt and interest on its revolving promissory note. The debt was converted at a post-split price of $5.00 per share. See Note 9 for further discussion.

On March 29, 2016, the Company entered into ten debt exchange agreements to convert $2,883,377 of aggregate principal and accrued interest under certain loan and security agreements into 576,676 shares of Common Stock at a post-split conversion price of $5.00 per share. See Note 6 for further discussion.

On April 1, 2016, the Company entered into subscription agreements under substantially identical terms with certain private investors (the “Quarterly Investors”), pursuant to which the Company issued and sold to the Quarterly Investors in a private placement (the “Quarterly Placement”) an aggregate of 1,075,000 shares (the “Initial Subscribed Shares”) of Common Stock (on a post-split basis), at a post-split purchase price of $5.00 per Share (the “Quarterly Purchase Price”). The Quarterly Placement initially provided $5,375,000 of aggregate gross proceeds to the Company. Under the terms of the Agreements, each Quarterly Investor has the option to purchase additional shares of Common Stock at the Quarterly Purchase Price, not to exceed the number of such Quarterly Investor’s Initial Subscribed Shares, during each of the second, third and fourth quarters of 2016 (each, a “Quarterly Subscription”). To exercise a Quarterly Subscription, a Quarterly Investor must deliver notice to the Company of such election during the first ten business days of the applicable quarter, specifying the number of additional shares of Common Stock such Quarterly Investor elects to purchase. If a Quarterly Investor timely delivers such notice to the Company, then the closing of the sale of the applicable number of additional shares of Common Stock must occur on the last business day of the applicable quarter. On June 28, 2016, the Company received $500,000 and issued 100,000 shares of Common Stock related to these agreements. On October 13, 2016, the Company received $600,000 and issued 120,000 shares of Common Stock related to these agreements.

On May 9, 2016, the Company filed Articles of Amendment to its Amended Articles of Incorporation to effectuate a 1 to 20 reverse stock split, as previously approved by the Company’s Board of Directors and a majority of its shareholders. The reverse stock split became effective on May 10, 2016. All shares and per share amounts in the Consolidated Financial Statements have been retrospectively adjusted for the reverse stock split.

On May 31, 2016, the Company entered into debt exchange agreements under substantially identical terms with certain investors, pursuant to which the Company issued and sold to such investors in a private placement an aggregate of 946,509 shares of Common Stock, in exchange for the cancellation of $4,732,545 of aggregate principal and accrued interest under certain notes held by such investors, at an exchange rate of $5.00 per share. See Note 6 for further discussion.

On June 22, 2016, the Company entered into a subscription agreement with an investor, pursuant to which the Company issued and sold to such investor 50,000 shares of Common Stock at a price of $5.00 per Share. This transaction provided $250,000 in proceeds for the Company.

On June 30, 2016, the Company entered into a subscription agreement with an investor, pursuant to which the Company issued and sold to such investor 20,000 shares of Common Stock at a price of $5.00 per Share. This transaction provided $100,000 in proceeds for the Company.

On June 30, 2016, the Company, entered into debt exchange agreements under substantially identical terms with certain investors pursuant to which the Company issued and sold to such investors in a private placement an aggregate of 2,552,659 shares of Common Stock, in exchange for the cancellation of $12,763,295 of aggregate principal and accrued interest under certain notes held by such investors, at an exchange rate of $5.00 per share. See Note 6 for further discussion.

On June 30, 2016, the Company entered into a substantially identical debt exchange agreement as those entered into on March 29, 2016. Pursuant to the terms of the debt exchange agreement, the Company converted an aggregate of $55,640 principal and interest into 11,128 shares of Common Stock at a conversion price of $5.00 per share. See Note 6 for further discussion.

On October 3, 2016, October 13, 2016 and October 27, 2016, the Company entered into three substantially identical debt exchange agreements to issue an aggregate of 66,200 shares of Common Stock at an exchange price of $5.00 per share to terminate three Equity Finance Agreements for a cumulative original investment amount of $331,000.

On October 3, 2016, the Company entered into a debt exchange agreement and agreed to issue 12,000 shares of the Common Stock at an exchange price of $5.00 per share to terminate the remaining Kids Club Agreement for (i) $10,000 plus (ii) the original investment of $50,000.

On October 13, 2016, the Company entered into six substantially identical subscription agreements, pursuant to which the Company issued 25,000 shares at $5.00 per share and received $125,000.

On November 15, 2016, the Company entered into a subscription agreement pursuant to which the Company issued and sold to an investor 100,000 shares of Common Stock at a price of $5.00 per Share. This transaction provided $500,000 in proceeds for the Company.

On November 16, 2016, the Company entered into five subscription agreements pursuant to which the Company issued and sold to three investors 25,000 shares of Common Stock at a price of $5.00 per Share. This transaction provided $125,000 in proceeds for the Company.

On November 22, 2016, the Company entered into a subscription agreement pursuant to which the Company issued and sold to an investor 10,000 shares of Common Stock at a price of $5.00 per Share. This transaction provided $50,000 in proceeds for the Company.

On December 15 and December 20, 2016, the Company entered into two substantially identical subscription agreements with two noteholders to convert an aggregate of $1,265,530 principal and interest on the notes into 253,106 shares of Common Stock at a conversion price of $5.00 per share. See Note 6 for further discussion.

As of December 31, 2016 and 2015, the Company had 14,395,521 and 4,094,618 shares of Common Stock issued and outstanding, respectively.

C) Noncontrolling Interest

On May 21, 2012, the Company entered into an agreement with a note holder to form Dolphin Kids Clubs, LLC ("Dolphin Kids Clubs"). Under the terms of the agreement, Dolphin converted an aggregate amount of $1,500,000 in notes payable and received an additional $1,500,000 during the year ended December 31, 2012 for a 25% membership interest in the newly formed entity. The Company holds the remaining 75% and thus controlling interest in Dolphin Kids Clubs. The purpose of Dolphin Kids Clubs 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 the Company will be responsible for paying all associated operating expenses. On December 29, 2016, as part of a global agreement with the 25% member of Dolphin Kids Clubs, the Company entered into a Purchase Agreement and acquired the 25% noncontrolling interest of Dolphin Kids Clubs. In exchange for the 25% interest, the Company issued Warrant “J” that entitles the warrant holder to purchase shares of common stock at a price of $0.015 per share. At the time of the agreement, the balance of the noncontrolling interest was $2,970,708. The Company recorded to Additional Paid in Capital $921,123 for the difference between the fair value of the warrants and the balance of the noncontrolling interest on the consolidated balance sheet on the date of the agreement. See Note 16 for further discussion of Warrant “J”.

In accordance with ASC 810-20, *Consolidation – Control of Partnerships and Similar Entitie* s Dolphin Kids Clubs is consolidated in the Company's financial statements. Amounts attributable to the noncontrolling interest will follow the provisions in the contractual arrangement. As of December 31, 2015, noncontrolling interest of $2,977,808 is presented as a separate component of shareholders' equity on the consolidated balance sheet.

NOTE 15 — LOSS PER SHARE

Net loss per share is computed by dividing income available to holders of Common Stock (the numerator) by the weighted-average number of Common Stock outstanding (the denominator) for the period. Diluted earnings per share assumes that any dilutive convertible securities outstanding were converted, with related preferred stock dilution requirements and outstanding Common Stock adjusted accordingly. In periods of losses, diluted loss per share is computed on the same basis as basic loss per share as the inclusion of any other potential shares outstanding would be anti-dilutive. The Company included the preferred stock dividend of $5,227,247 in the calculation of loss per share for the year ended December 31, 2016, as the loss for holders of Common Stock would be increased by that amount. Due to the net losses reported the following were excluded from the computation of diluted loss per share (i) dilutive common equivalent shares as of December 31, 2015, (ii) 5,890,000 and 1,050,000 of warrants as of December 31, 2016 and 2015, respectively and (iii) convertible debt as of December 31, 2015. These were excluded from the computation of diluted loss per share, as inclusion would be anti-dilutive for the periods presented.

NOTE 16 — WARRANTS

A summary of warrants outstanding at December 31, 2015 and issued, exercised and expired during the year ended December 31, 2016 is as follows (amounts have been adjusted to reflect the reverse stock split):

Warrants:	Shares	Weighted Avg. Exercise Price
Balance at December 31, 2015	1,050,000	$ 3.45
Issued	4,840,000	2.90
Exercised	—	—
Expired	—	—
Balance at December 31, 2016	5,890,000	$ 2.99

On March 10, 2010, T Squared Investments, LLC ("T Squared") was issued Warrant "E" for 350,000 shares of Dolphin Digital Media, Inc. at an exercise price of $5.00 per share with an expiration date of December 31, 2012. T Squared can continually pay the Company an amount of money to reduce the exercise price of Warrant "E" until such time as the exercise price of Warrant "E" is effectively $0.002 per share. Each time a payment by T Squared is made to Dolphin, 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 has paid down Warrant "E" to an exercise price of $0.002 per share or less, T Squared shall have the right to exercise Warrant "E" via a cashless provision and hold for six months to remove the legend under Rule 144 of the Securities Act of 1933 (the "Securities Act"). During the years ended December 31, 2010 and 2011, T Squared paid down a total of $1,625,000. During the year ended December 31, 2016, T Squared paid $50,000 for the issuance of Warrants G, H and I as described below. Per the provisions of the Warrant Purchase Agreement, the $50,000 was to reduce the exercise price of Warrant "E". As such, the current exercise price is $$0.22 per share.

During the year ended December 31, 2012, T Squared agreed to amend a provision in a preferred stock purchase agreement (the "Preferred Stock Purchase Agreement") dated May 2011 that required the Company to obtain consent from T Squared before issuing any Common Stock below the existing conversion price as defined in the Preferred Stock Purchase Agreement. As a result, the Company has extended the expiration date of Warrant "E" (described above) to September 13, 2015 and on September 13, 2012, the Company issued 350,000 warrants to T Squared ("Warrant "F") with an exercise price of $5.00 per share. Under the terms of Warrant "F", T Squared has the option to continually pay the Company an amount of money to reduce the exercise price of Warrant "F" until such time as the exercise price of Warrant "F" is effectively $0.002 per share. At such time, T Squared will have the right to exercise Warrant "F" via a cashless provision and hold for six months to remove the legend under Rule 144 of the Securities Act. The Company agreed to extend both warrants until December 31, 2018 with substantially the same terms as herein discussed. T Squared did not make any payments during the year ended December 31, 2016 to reduce the exercise price of the warrants.

On September 13, 2012, the Company sold 350,000 warrants with an exercise price of $5.00 per share and an expiration date of September 13, 2015 for $35,000. Under the terms of these warrants, the holder has the option to continually pay the Company an amount of money to reduce the exercise price of the warrants until such time as the exercise price is effectively $0.002 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. The Company recorded the $35,000 as additional paid in capital. The Company agreed to extend the warrants until December 31, 2018 with substantially the same terms as herein discussed. The holder of the warrants did not make any payments during the year ended December 31, 2016 to reduce the exercise price of the warrants.

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

Warrants:	Number of Shares	Exercise Price	Fair Value as of December 31, 2016	Expiration Date
Warrant “G”	1,500,000	$ 5.00	$ 3,300,671	January 31, 2018
Warrant “H”	500,000	$ 6.00	$ 1,524,805	January 31, 2019
Warrant “I”	500,000	$ 7.00	$ 1,568,460	January 31, 2020
	2,500,000		$ 6,393,936	

The Warrants “G”, “H” and “I” each contain an antidilution provision which in the event the Company sells grants or issues any shares, options, warrants, or any instrument convertible into shares or equity in any form below the then current exercise price per share of the Warrants “G”, “H” and “I”, then the then current exercise price per share for the warrants that are outstanding will be reduced to such lower price per share. Under the terms of the Warrants “G”, “H” and “I”, T Squared has the option to continually pay the Company an amount of money to reduce the exercise price of any of Warrants “G”, “H” and “I” until such time as the exercise price of Warrant “G”, “H” and/or “I” is effectively $0.01 per share. The Common Stock issuable upon exercise of Warrants “G”, “H” and “I” are not registered and will contain a restrictive legend as required by the Securities Act. At such time when the T Squared has paid down the warrants to an exercise price of $0.01 per share or less T Squared will have the right to exercise the Warrants “G”, “H” and “I” via a cashless provision and hold for six months to remove the legend under Rule 144 of the Securities Act.

Due to the existence of the antidilution provision, the Warrants “G”, “H” and “I” are carried in the consolidated financial statements as derivative liabilities at fair value (see Note 10).

On December 29, 2016, in connection with the purchase by the Company of 25% of the outstanding membership interests of Dolphin Kids Club, LLC, the termination of an Equity Finance Agreement and the debt exchange of First Loan and Security Notes, Web Series Notes and Second Loan and Security Notes (See Note 6), the Company issued Warrant “J” and Warrant “K” (Warrants “J” and “K”) to the seller. A summary of Warrants “J” and “K” follows:

Warrant:	Number of Shares	Exercise Price	Fair Value as of December 31, 2016	Expiration Date
Warrant “J”	2,170,000	$ .015	$ 12,993,342	December 29, 2020
Warrant “K”	170,0000	$ .015	$ 1,017,912	December 29, 2020
	2,340,000		$ 14,011,254	

The Warrants “J” and “K” each contain an antidilution provision that in the event the Company sells grants or issues any shares, options, warrants, or any instrument convertible into shares or equity in any form below the current exercise price per share of Warrants “J” and “K”, then the current exercise price per share for the Warrants “J” and “K” that are outstanding will be reduced to such lower price per share. The Common Stock issuable upon exercise of Warrants “J” and “K” are not registered and will contain a restrictive legend as required by the Securities Act. At such time as the exercise price is $0.01 per share or less, the holder will have the right to exercise the Warrants “J” and “K” via a cashless provision and hold for six months to remove the legend under Rule 144 of the Securities Act.

Due to the existence of the antidilution provision, the Warrants “J” and “K” are carried in the consolidated financial statements as derivative liabilities at fair value (see Note 10).

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

NOTE 17— RELATED PARTY TRANSACTIONS

On December 31, 2014, the Company and its CEO renewed his employment agreement for a period of two years commencing January 1, 2015. The agreement stated that the CEO was to receive annual compensation of $250,000 plus bonus. In addition, the CEO was entitled to an annual discretionary bonus as determined by the Company's Board of Directors. The CEO was 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 unpaid and accrued compensation due to the CEO under this agreement will accrue interest on the principal amount at a rate of 10% per annum from the date of this agreement until it is paid. The agreement included provisions for disability, termination for cause and without cause by the Company, voluntary termination by executive and a non-compete clause. The Company accrued $2,250,000 and $2,000,000 of compensation as accrued compensation and $735,211 and $523,144 of interest in other current liabilities on its consolidated balance sheets as of December 31, 2016 and 2015, respectively, in relation to this agreement. For the years ended December 31, 2016 and 2015, the Company recorded interest expense of $212,066 and $186,513, respectively, on the consolidated statements of operations.

During the year ended December 31, 2016, the Company issued Warrants G, H and I that entitled T Squared, a related party which would own 9.99%, on the fully diluted basis, of Common Stock to purchase up to 2,500,000 shares of Common Stock. T Squared already held Warrants E and F that entitles them to purchase up to 700,000 shares of the Company's common stock. As a result, T Squared has warrants entitling them to purchase up to an aggregate number of 3,200,000 shares of Common Stock. Warrants E, F, G, H and I have a maximum exercise provision that prohibit T Squared from exercising warrants that would cause them to exceed 9.99% of the outstanding shares of Common Stock, unless the restriction is waived or amended, which may only be done with the consent of the Company and T Squared. The TSquared warrants have the following exercise prices and expiration dates (See Note 16 for further discussion):

Warrant	Number of shares	Exercise price	Expiration
Warrant E	350,000	$ 0.22	December 31, 2018
Warrant F	350,000	$ 5.00	December 31, 2018
Warrant G	1,500,000	$ 5.00	January 31, 2018
Warrant H	500,000	$ 6.00	January 31, 2019
Warrant I	500,000	$ 7.00	January 31, 2020

During 2015, the Company agreed to pay a related party, Dolphin Entertainment $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 December 31, 2016 and 2015, the Company recorded an accrual of $250,000 in other current liabilities on its consolidated balance sheets.

As discussed in Note 4, on October 14, 2015, the Company and Merger Subsidiary, a wholly owned subsidiary of the Company, entered into a merger agreement with Dolphin Films and Dolphin Entertainment, both entities owned by a related party. Pursuant to the Merger Agreement, Merger Subsidiary agreed to merge with and into Dolphin Films with Dolphin Films surviving the Merger. As a result of the Merger, the Company acquired Dolphin Films. As consideration for the Merger, the Company issued 2,300,000 shares of Series B Convertible Preferred Stock ("Series B"), 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. During the year ended December 31, 2016, the Series B shares were converted into 2,185,000 shares of Common Stock.

In connection with the Merger, on October 16, 2015, the Company and T Squared entered into a Preferred Stock Exchange Agreement pursuant to which the Company agreed to issue 1,000,000 shares of Series B to T Squared in exchange for 1,042,753 shares of Series A Convertible Preferred Stock, previously issued to T Squared. During the year ended December 31, 2016, T Squared converted the Series B into 950,000 shares of Common Stock.

The Company entered into a verbal agreement with Dolphin Entertainment for producer services related to certain of its projects. The agreement was for an annual amount of $500,000. The Company terminated the agreement effective June 30, 2015. The Company recorded $250,000 during the year ended December 31, 2015 in its consolidated statement of operations.

During the year ended December 31, 2016, the Company entered into the following transactions with entities under the control of Justo L Pozo, an affiliate of the Company; (i) Debt exchange agreement with Pozo Opportunity Fund I to exchange debt in the amount of $5,088,692 into 1,017,738 shares of Common Stock, (ii) Debt Exchange Agreement with Pozo Capital Partners LLP to exchange debt in the amount of $2,423,166 into 484,633 shares of Common Stock, (iii) Debt Exchange Agreement with Pozo Capital Partners LLP to exchange debt in the amount of $636,287 into 127,257 shares of Common Stock, (iv) Subscription Agreement with Pozo Opportunity Fund II, LLC for the purchase of 50,000 shares of Common Stock at a price of $5.00 per share and (v) mandatory issuance of 632,800 shares of Common Stock per the terms of a Convertible Debt Agreement with Pozo Opportunity Fund II, LLC. As a result of the transaction, Justo L Pozo, individually and collectively with the above entities is the owner of approximately 16% of the outstanding shares of Common Stock.

NOTE 18 — INCOME TAXES

Income tax expense (benefit) is as follows:

	December 31,	
	2016	2015
Current income tax expense (benefit)		
Federal	$ -	$ -
State	-	-
	$ -	$ -
Deferred income tax expense (benefit)		
Federal	$ (10,854,954)	$ (1,354,370)
State	(817,631)	(202,112)
	$ (11,259,911)	$ (1,556,482)
Change in valuation allowance (benefit)		
Federal	$ 10,854,954	$ 1,354,370
State	817,631	202,112
	11,259,911	1,556,482
Income tax expense	$ -	$ -

At December 31, 2016 and 2015, 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, 2016 and 2015, are as follows:

	December 31,	
	2016	2015
Deferred tax assets:		
Long Term:		
Accrued expenses	$ 177,447	$ 184,726
Interest expense	329,942	726,575
Deferred Rent	3,418	11,251
Accrued compensation	829,051	779,967
Other expenses	-	3,649
Capitalized costs	$ 795,318	$ 829,108
Capitalized production costs	1,019,784	219,657
Charitable contributions	388,644	319,091
Net operating losses and credits	16,364,744	5,170,093
Valuation Allowance	(19,902,573)	(8,244,117)
Total deferred tax assets	$ 5,775	$ 14,130
Deferred tax liability:		
Long term:		
Prepaid expenses	-	(3,784)
Fixed assets	(5,775)	(10,346)
Total net deferred tax assets	$ -	$ -

As of December 31, 2016, the Company has approximately $44,600,000 of net operating loss carryforwards for U.S. federal income tax purposes that begin to expire in 2028. Additionally, the Company has approximately $32,700,000 of net operating loss carryforwards for Florida state income tax purposes that begin to expire in 2029 and approximately $561,000 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 $19,902,573 and $8,229,988 as of December 31, 2016 and 2015, respectively.

The Company did not have any income tax expense or benefit for the years ended December 31, 2016 and 2015. A reconciliation of the federal statutory tax rate with the effective tax rate from continuing operations follows:

	2016	2015
Federal statutory tax rate	(34.0)%	(34.0)%
Permanent items affecting tax rate	4.9%	0.8%
State income taxes, net of federal income tax benefit	(2.2)%	(3.3)%
Change in Deferred Rate	0.2%	(1.2)%
Return to Provision Adjustment	(0.1)%	0.2%
Miscellaneous items	(0.2)%	(1.0)%
Change in valuation allowance	31.4%	38.5%
Effective tax rate	0.00%	0.00%

As of December 31, 2016 and 2015, 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, 2012.

NOTE 19— LEASES

On November 1, 2011, the Company entered into a 60 month lease agreement for office space in Miami with an unrelated party. The lease expired on October 31, 2016 and the Company extended the lease until September 30, 2017 with substantially the same terms as the original lease. On June 1, 2014, the Company entered into a 62 month lease agreement for office space in Los Angeles, California. The monthly rent is $13,746 with annual increases of 3% for years 1-3 and 3.5% for the remainder of the lease. The Company is also entitled to four half months of free rent over the life of the agreement.

Lease Payments

Future minimum payments for operating leases in effect at December 31, 2016 were as follows:

2017	$	243,269
2018		184,820
2019		110,446
Total	$	538,535

Rent expense for the years ended December 31, 2016 and 2015 was $220,426 and $226,212, respectively.

NOTE 20 — COMMITMENTS AND CONTINGENCIES

Litigation

On or about January 25, 2010, an action was filed by Tom David against Winterman Group Limited, Dolphin Digital Media (Canada) Ltd., Malcolm Stockdale and Sara Stockdale in the Superior Court of Justice in Ontario (Canada) alleging breach of a commercial lease and breach of a personal guaranty. On or about March 18, 2010, Winterman Group Limited, Malcolm Stockdale and Sara Stockdale filed a Statement of Defense and Crossclaim. In the Statement of Defense, Winterman Group Limited, Malcolm Stockdale and Sara Stockdale 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 defense in the action had been filed, the case had not been set for trial and the case had not been terminated, the case would be dismissed for delay unless action was taken within ninety (90) days of the date of service of the notice. The Company has not filed for a motion to dismiss and no further action has been taken in the case. The ultimate results of these proceedings against the Company could result in a loss ranging from 0 to $325,000. On March 23, 2012, Dolphin Digital Media (Canada) Ltd filed for bankruptcy in Canada. The bankruptcy will not protect the Company from the Third Party Claim filed against it. However, the Company has not accrued for this loss because it believes that the claims against it are without substance and it is not probable that they will result in loss. During the years ended December 31, 2016 and 2015, 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, 2016 and 2015. 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 could not reasonably estimate future cash flows or revenues from the website development. The Company decided not to renew the contract that expired on February 1, 2017.

In January 2013, the Company entered into an agreement with United Way Worldwide 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 was for a period of three years from the effective date and was to be automatically renewed 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. On July 1, 2016, the Company and United Way Worldwide mutually agreed to terminate the agreement. The Company intends to continue promoting the online kids club with the remaining partners and it does not anticipate any material change in the operations of the online kids club. 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 $28,403 and $69,761 during the years ended December 31 2016 and 2015, 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 is administered by the Board of Directors or a committee designated by the Board of Directors. 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, 2016 and 2015.

Talent, Director and Producer Participations

Per agreements with talent, directors and producers on certain projects, the Company will be responsible for bonus and back end payments upon release of a motion picture and achieving certain box office performance as determined by the individual agreements. The Company cannot estimate the amounts that will be due as these are based on future box office performance. As of December 31, 2016 and 2015, the Company had not recorded any liability related to these participations.

NOTE 21 – SUBSEQUENT EVENTS

Subsequent to year end, the Company received a tax incentive payment from the State of North Carolina in the amount of $2,060,670 for filming a motion picture in that jurisdiction. The proceeds of the tax incentive were used to paydown the production loan.

On February 16, 2017, the Company entered into a subscription agreement pursuant to which the Company issued and sold to an investor 100,000 shares of Common Stock at a price of $5.00 per Share. This transaction provided $500,000 in proceeds for the Company.

On March 30, 2017, the Company entered into a Membership Interest Purchase Agreement (the "Purchase Agreement"), by and among the Company and Leslee Dart, Amanda Lundberg, Allan Mayer and the Beatrice B. Trust (the "Sellers"). Pursuant to the Purchase Agreement, on March 30, 2017, the Company acquired from the Sellers 100% of the membership interests of 42West, LLC, a Delaware limited liability company ("42West") and 42West became a wholly-owned subsidiary of the Company (the "42West Acquisition"). 42West is an entertainment public relations agency offering talent publicity, strategic communications and entertainment content marketing. As consideration i in the 42West Acquisition, the Company paid approximately $18.7 million in shares of Common Stock based on the Company's 30-trading-day average stock price prior to the closing date of $4.61 per share (less certain working capital and closing adjustments, transaction expenses and payments of indebtedness), plus the potential to earn up to an additional $9.3 million in shares of Common Stock. As a result, the Company (i) issued 1,230,280 shares of Common Stock on the closing date (the "Initial Consideration"), (ii) will issue (a) 344,550 shares of Common Stock to certain employees within 30 days of the closing date, (b) 118,655 shares of Common Stock as bonuses during 2017 and (c) approximately 1,961,821 shares of Common Stock on January 2, 2018 (the "Post-Closing Consideration") and (iii) may issue approximately 1,963,126 shares of Common Stock based on the achievement of specified financial performance targets over a three-year period as set forth in the Purchase Agreement (the "Earn-Out Consideration", and together with the Initial Consideration and the Post-Closing Consideration, the "Consideration").

Each of Leslee Dart, Amanda Lundberg and Allan Mayer (the “Principal Sellers”) has entered into employment agreements with the Company and will continue as employees of the Company for a three-year term after the closing of the 42West Acquisition. The non-executive employees of 42West are expected to be retained as well. The Purchase Agreement contains customary representations, warranties and covenants. In connection with the 42West Acquisition, on March 30, 2017, the Company entered into put agreements (the “Put Agreements”) with each of the Sellers. Pursuant to the terms and subject to the conditions set forth in the Put Agreements, the Company has granted the Sellers the right, but not obligation, to cause the Company to purchase up to an aggregate of 2,374,187 of their shares of Common Stock received as Consideration for a purchase price equal to $4.61 per share during certain specified exercise periods set forth in the Put Agreements up until December 2020. In addition, in connection with the 42West Acquisition, on March 30, 2017, the Company entered into a registration rights agreement with the Sellers (the “Registration Rights Agreement”) pursuant to which the Sellers are entitled to rights with respect to the registration under the Securities Act of 1933, as amended (the “Securities Act”). All fees, costs and expenses of underwritten registrations under the Registration Rights Agreement will be borne by the Company. At any time after the one-year anniversary of the Registration Rights Agreement, the Company will be required, upon the request of such Sellers holding at least a majority of the Consideration received by the Sellers, to file a registration statement on Form S-1 and use its reasonable efforts to effect a registration covering up to 25% of the Consideration received by the Sellers. In addition, if the Company is eligible to file a registration statement on Form S-3, upon the request of such Sellers holding at least a majority of the Consideration received by the Sellers, the Company will be required to use its reasonable efforts to effect a registration of such shares on Form S-3 covering up to an additional 25% of the Consideration received by the Sellers. The Company is required to effect only one registration on Form S-1 and one registration statement on Form S-3, if eligible. The right to have the Consideration received by the Sellers registered on Form S-1 or Form S-3 is subject to other specified conditions and limitations.

On April 1, 2017, pursuant to the terms of the Purchase Agreement, each of the Principal Sellers notified the Company that they would exercise the put option. As a result, 86,764 shares of Common Stock were returned to the Company in exchange for an aggregate of $400,000. The Company retired the shares from the number of outstanding shares.

On March 31, 2017, KCF Investments LLC and BBCF 2011 LLC notified the Company that they would be exercising Warrants J and K to purchase 2,170,000 and 170,000, respectively of shares of Common Stock at a purchase price of $0.015 per share. This transaction provided $35,100 in proceeds for the Company.

On April 10, 2017, the Company signed two separate promissory notes (the “Notes”) with one investor for an aggreagate amount of $300,000. The Notes bear interest at 10% per annum, payable monthly, and have a maturity date of October 10, 2017.

On April 14, 2017, T Squared notified the Company that it would exercise 325,770 of Warrant E pursuant to the cashless exercise provision in Warrant E. T Squared had previously paid $1,675,000 for the warrants. The Company will issue a new warrant for the remaining 24,230 shares that T Squared can exercise at a price of $3.10 per share.

Exhibit 2.2

MEMBERSHIP INTEREST PURCHASE AGREEMENT

DATED AS OF MARCH 30, 2017

BY AND AMONG

LESLEE DART,

AMANDA LUNDBERG,

ALLAN MAYER

AND

THE BEATRICE B. TRUST

AS SELLERS,

AND

DOLPHIN DIGITAL MEDIA, INC.,

AS THE PURCHASER

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MEMBERSHIP INTEREST PURCHASE AGREEMENT

This **MEMBERSHIP INTEREST PURCHASE AGREEMENT** (this "Agreement") is entered into as of March 30, 2017, by and among each of Leslee Dart, Amanda Lundberg, Allan Mayer and the Beatrice B. Trust (each individually referred to as a "Seller" and collectively referred to as the "Sellers"), and Dolphin Digital Media, Inc., a Florida corporation (the "Purchaser"). Each Seller and the Purchaser are hereinafter referred to as a " Party", and collectively as the "Parties".

WITNESSETH:

WHEREAS, the Sellers are the owners of one hundred percent (100%) of the membership interests (collectively, the " Membership Interests") of 42West, LLC, a Delaware limited liability company (the "Company"), as set forth on Exhibit A hereto;

WHEREAS, the Company owns and operates an entertainment public relations agency offering talent publicity, strategic communications and entertainment content marketing (the "Business"); and

WHEREAS, the Sellers desire to sell and convey, and the Purchaser desires to purchase and assume, the Membership Interests in exchange for common stock of the Purchaser, par value $0.015 ("Common Stock"), on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements herein contained and other valuable consideration, the receipt and adequacy whereof are hereby acknowledged, the Parties hereby, intending to be legally bound, represent, warrant, covenant and agree as follows:

ARTICLE I.
DEFINED TERMS

As used herein, the terms defined in Appendix A have the respective meanings set forth therein. Terms defined in the singular have a comparable meaning when used in the plural, and vice versa, and the reference to any gender shall be deemed to include all genders. Unless otherwise specified or the context otherwise clearly requires: (i) terms for which meanings are provided in this Agreement also have such meanings when used in the Disclosure Schedule and in each Transaction Document; (ii) references to "hereof," "herein" or similar terms are intended to refer to this Agreement as a whole and not to a particular section; (iii) references to "this Section" or "this Article" are intended to refer to the entire section or article of this Agreement and not to a particular subsection thereof; and (iv) the words "include," "includes" and "including" shall be deemed to be followed by the phrases "without limitation".

ARTICLE II.
PURCHASE AND SALE OF MEMBERSHIP INTERESTS

Section 2.1 Agreement to Buy and Sell Membership Interests. Subject to the terms and conditions set forth in this Agreement, at the Closing (as defined below), the Sellers hereby agree to sell, convey, assign, transfer, and deliver to the Purchaser, and the Purchaser agrees to purchase, acquire, and accept from the Sellers, all right, title and interest in and to the Membership Interests, representing one hundred percent (100%) of the equity interests of the Company, free and clear of Liens other than Permitted Liens.

Section 2.2 Purchase Price.

(a) Purchase Price. Subject to adjustment as set forth herein, the total consideration to be paid for the Membership Interests (as so adjusted, the "Purchase Price") shall consist of:

(i) the amount of shares of Common Stock obtained by dividing the sum of Section 2.2(a)(i)(A)-(D) by the Closing Share Price:

(A) $18,666,667;

(B) minus the Company Indebtedness outstanding at Closing, if any;

(C) minus the Company Transaction Expenses; and

(D) (x) plus the excess, if any, of the Closing Working Capital over the Target Working Capital, *or* (y) minus the excess, if any, of the Target Working Capital over the Closing Working Capital, as applicable.

(ii) plus the Additional Consideration (as defined below), if any, issued pursuant to Section 2.5.

(b) Manner of Payment of Purchase Price.

(i) At the Closing, the Purchaser shall (A) issue and deliver the Closing Dolphin Shares to the Sellers in accordance with Annex 2.2(b); (B) deliver the Company Transaction Expenses by wire transfer of immediately available funds, to such accounts and in such amounts as designated by the Sellers pursuant to Annex 2.2(b), on behalf of the Company and (C) reserve for issuance the Closing Stock Bonuses and the Special Stock Bonuses.

(ii) Upon written instruction from the Principal Sellers no later than fifteen calendar days following the Closing Date, the Purchaser shall issue and deliver the Closing Stock Bonuses as soon as practicable thereafter to the Designated Employees in accordance with Annex 2.2(b), and in any event, no later than thirty calendar days following the Closing Date.

(iii) Upon receipt of an acknowledgement and release from Cynthia Swartz, in form and substance reasonably satisfactory to the Purchaser, the Purchaser shall pay (or cause to be paid) the Cynthia Swartz Payment.

(iv) Upon the effectiveness of a registration statement on Form S-8 covering the shares of Common Stock issuable as the Special Stock Bonuses, the Purchaser shall issue and deliver the Special Stock Bonuses to those employees and in those amounts set forth in Annex 2.2(b). [1] The Purchaser shall file such Form S-8 as soon as reasonably practicable following the Closing Date, and shall use its reasonable efforts to cause such Form S-8 to be declared effective by the Securities and Exchange Commission (the "SEC").

(v) On January 2, 2018, the Purchaser shall (i) issue and deliver the Post-Closing Dolphin Shares to the Sellers in accordance with Annex 2.2(b) and (ii) issue and, to those Designated Employees receiving Closing Stock Bonuses, deliver the Post-Closing Stock Bonuses to such Designated Employees in accordance with Annex 2.2(b), in each case subject to the offset right of the Purchaser set forth in Section 2.6.

(vi) In the event that a Designated Employee or an individual who would otherwise be entitled to a Special Stock Bonus is or becomes ineligible to receive shares of Common Stock hereunder, due to the termination of such individual's employment with the Company or otherwise (an "Ineligible Employee"), the Principal Sellers shall give notice to the Purchaser of such ineligibility, and the Purchaser shall instead issue the applicable shares of Common Stock (the "Ineligible Employee Shares") amongst the Sellers in accordance with Exhibit A at the time that such issuance would have otherwise been made to the Ineligible Employee.

(c) Fractional Shares. The Purchaser shall not be obligated to issue fractional shares to any Seller or Designated Employee and any Seller or Designated Employee who would receive a fractional share based on their pro rata percentage of the Purchase Price. Any Seller or Designated Employee who would otherwise receive a fractional share based on their pro rata percentage of the Purchase Price shall instead receive the next whole number of Shares to which they would otherwise be entitled under this Section.

Section 2.3 Determination of Closing Working Capital. As soon as reasonably practicable (but in any event within ninety (90) days following the Closing Date (as defined below)), the Purchaser shall prepare and deliver to the Sellers (i) an unaudited balance sheet of the Company as of as of 12:01 a.m. eastern standard time on the Closing Date (the "Closing Balance Sheet"), (ii) a statement based on the Closing Balance Sheet setting forth as of 12:01 a.m. eastern standard time on the Closing Date the amount of Closing Working Capital and (iii) a statement, signed by an officer of the Purchaser, stating that that the Closing Balance Sheet and calculation of Closing Working Capital were prepared in accordance with this Agreement (collectively, the "Working Capital Schedule"). The Purchaser shall prepare all items comprising the Working Capital Schedule in accordance with GAAP applied in a manner consistent with the accounting principles and practices applied in the preparation of the Company Financial Statements (as defined below).

Section 2.4 Disputes Regarding Working Capital Schedule. Disputes with respect to the Working Capital Schedule shall be resolved as follows:

(a) Dispute Notice. After receipt of the Working Capital Schedule, the Sellers shall have the duration of the Dispute Period to review such schedule. During such time, the Purchaser shall provide the Sellers and their representatives with access to all documents, records, work papers, facilities and personnel as reasonably requested by the Sellers to review the Working Capital Schedule and the calculations set forth therein. If the Sellers have a Dispute with any of the elements of or amounts reflected on the Working Capital Schedule, the Sellers shall deliver to the Purchaser a Dispute Notice, within the Dispute Period, setting forth in reasonable detail the Disputed Items. Within thirty (30) days after delivery of such Dispute Notice, the Parties shall negotiate in good faith to resolve such Disputed Items and agree in writing upon the final content of the disputed Working Capital Schedule. If the Sellers do not deliver a Dispute Notice during the Dispute Period, the Working Capital Schedule shall be deemed to have been accepted and agreed to by the Sellers in the form in which it was delivered to the Sellers, and shall be final and binding upon the Parties for purposes of Section 2.4(d).

(b) Arbitrating Accountant. If the Purchaser and the Sellers, notwithstanding such good faith effort, fail to resolve such Disputes within thirty (30) days after the Purchaser's receipt of a Dispute Notice delivered in accordance with Section 2.4(a), the Sellers and the Purchaser shall jointly engage the Arbitrating Accountant as arbitrator to resolve the Remaining Disputed Items. If the Purchaser and the Sellers are unable to agree on an Arbitrating Accountant, the Sellers' and the Purchaser's respective accountants shall select the Arbitrating Accountant by jointly-conducted lot.

(c) *Resolution of Remaining Disputed Items. In connection with the resolution of the Remaining Disputed Items, the Purchaser and the Sellers shall provide the Arbitrating Accountant with reasonable access to all documents, records, work papers, facilities and personnel necessary to perform its function as arbitrator. The Arbitrating Accountant's function will be to resolve the Remaining Disputed Items (and only the Remaining Disputed Items) in accordance with the requirements of this Section 2.4(c), and upon such resolution, conform the Working Capital Schedule accordingly. The Purchaser and the Sellers shall present their respective positions regarding the Remaining Disputed Items by written submissions to the Arbitrating Accountant. The Arbitrating Accountant may, at its discretion, conduct a conference concerning the Remaining Disputed Items, at which conference each Party shall have the right to present additional documents, materials and other information and to have present its advisors, counsel and accountants. In connection with such process, there shall be no other hearings or any oral examinations, testimony, depositions, discovery or other similar proceedings. The Purchaser and the Sellers agree to use commercially reasonable efforts to cause the Arbitrating Accountant to only address the Remaining Disputed Items, to make its decision solely on the basis of the evidence and position papers presented to it, and to not assign a value to any item greater than the greater value for such item claimed by a Party or less than the lesser value for such item claimed by a Party. The Purchaser and the Sellers agree to use commercially reasonable efforts to cause the Arbitrating Accountant to promptly, and in any event within sixty (60) days after the date of its appointment, render its decision on the Remaining Disputed Items in writing and finalize the Working Capital Schedule. Such written determination will be final and binding upon the Parties for purposes of Section 2.4(d), and judgment may be entered on the award. Upon the resolution of all Disputes, the Parties shall revise the Working Capital Schedule to reflect such resolution. The Purchaser and the Sellers agree to use commercially reasonable efforts to cause the Arbitrating Accountant to determine the proportion of its fees and expenses to be paid by each of the Sellers and the Purchaser, based primarily on the degree to which the Arbitrating Accountant has accepted the positions of the respective Parties.*

(d) Working Capital Adjustment. Following the finalization of the Working Capital Schedule, the Parties shall provide for a working capital adjustment payment as provided in this Section 2.4(d) (the "Working Capital Adjustment"). Any Working Capital Adjustment made pursuant to this Section 2.4(d) shall be deemed an adjustment of the Purchase Price payable by the Purchaser in connection with the transactions contemplated by this Agreement and shall be treated as such for all purposes, including for Tax purposes. Any adjustment pursuant to this Section 2.4(d) shall be made within ten (10) Business Days after the earliest of (x) the expiration of the Dispute Period if the Purchaser has not received a Dispute Notice from the Sellers within that period, (y) the resolution by the Purchaser and the Sellers of all differences regarding the Working Capital Schedule and the Working Capital Adjustment, and (z) the receipt of the Arbitrating Accountant's determination as set forth in Section 2.4. Any amounts of shares of Common Stock calculated under Sections 2.4(d)(i) and (ii) below shall be rounded up to the nearest full integer.

(i) Working Capital Surplus. If the Closing Working Capital as determined pursuant to this Section 2.4 is greater than the amount of the Target Working Capital, then the Purchaser shall issue to the Sellers shares of Common Stock in an amount equal to the amount by which the Closing Working Capital was greater than the Target Working Capital divided by the Closing Share Price, allocated among the Sellers in accordance with their respective Pro Rata Share (less the applicable Designated Employee Percentage of such amount, which shall be contributed by the Purchaser to the New Business Segment and distributed through the New Business Segment's payroll to each applicable Designated Employee in accordance with their respective Designated Employee Pro Rata Share; provided, however, that any Ineligible Employee Shares will be apportioned among and issued to the Sellers in accordance with Exhibit A), within two (2) Business Days of finalization of the Working Capital Schedule.

(ii) Working Capital Deficiency. If the Closing Working Capital as determined pursuant to this Section 2.4 is less than the Target Working Capital, then the Purchaser shall, within two (2) Business Days of the finalization of the Working Capital Schedule, be permitted to offset such amount against all of the Sellers as described in Section 2.6. Notwithstanding anything to the contrary in the foregoing, the Sellers shall have the right, in their sole discretion, to pay any or all of the Working Capital Adjustment amount owed to the Purchaser in cash in lieu of the application of the right of offset by the Purchaser.

Section 2.5 Additional Consideration.

(a) Additional Consideration. Following the Closing Date, the Purchaser shall issue to the Sellers additional consideration for the Membership Interests upon the satisfaction of certain conditions as described in this Section 2.5 (any such issuances collectively, the "Additional Consideration"). In no event shall the Additional Consideration be a negative number. Upon payment of all Additional Consideration owed to the Sellers in accordance with Section 2.5(f), the Purchaser shall be deemed to have fully satisfied its obligations pursuant to this Section 2.5. The Additional Consideration payable pursuant to this Section 2.5, when and if paid, constitutes part of the Purchase Price payable by the Purchaser in connection with the transactions contemplated by this Agreement and shall be treated as such for all purposes, including for Tax purposes.

(b) Seller Rights. The right of a Seller to a portion of the Additional Consideration, if any, shall not be represented by a certificate or other instrument, shall not represent an ownership interest in the Purchaser or the New Business Segment and shall not entitle any Seller to any additional rights as a holder of any equity security of the Purchaser, the New Business Segment or any of their Affiliates, unless and until such Additional Consideration is issued (with respect to stock Additional Consideration). In lieu of issuing any fractional shares to which a Seller would otherwise be entitled pursuant to this Section 2.5, any Seller who would otherwise receive a fractional share based on their pro rata percentage of the Additional Consideration shall instead receive the next whole number of Shares to which they would otherwise be entitled under this Section.

(c) Calculation of Additional Consideration.

(i) First Year Period. Following the end of the First Year Period, the Purchaser shall issue to the Sellers, in accordance with this Section 2.5, a payment of Additional Consideration as follows:

(A) If the EBITDA of the New Business Segment for the First Year Period is greater than or equal to the Additional Consideration Target, then the Purchaser shall issue to the Sellers that number of shares of Common Stock equal to the quotient obtained by dividing $3,111,112 by the Closing Share Price (the "First Year Stock Issuance").

(B) If the EBITDA of the New Business Segment for the First Year Period is less than the Additional Consideration Target (a "Missed First Year Target"), then the Purchaser shall issue to the Sellers that number of shares of Common Stock equal to (x) the Target Percentage for the First Year Period multiplied by (y) the First Year Stock Issuance (the "Adjusted First Year Stock Issuance"); provided, however, that, if the EBITDA of the New Business Segment for the First Year Period is less than $2,900,000 (the "EBITDA Floor"), Purchaser shall have no obligation to pay any Adjusted First Year Stock Issuance to Sellers at the end of the First Year Period.

(ii) Second Year Period. Following the end of the Second Year Period, the Purchaser shall issue to the Sellers, in accordance with this Section 2.5, a payment of Additional Consideration as follows:

(A) If (1) the EBITDA of the New Business Segment for the First Year Period is greater than or equal to the Additional Consideration Target, or (2) in the event of a Missed First Year Target, the EBITDA of the New Business Segment for the Second Year Period is greater than or equal to the Additional Consideration Target, then the Purchaser shall issue to the Sellers that number of shares of Common Stock equal to the quotient obtained by dividing $3,111,112 by the Closing Share Price (the "Second Year Stock Issuance").

(B) If, in the event of a Missed First Year Target, the EBITDA of the New Business Segment for the Second Year Period is less than the Additional Consideration Target (a "Missed Second Year Target"), then the Purchaser shall issue to the Sellers that number of shares of Common Stock equal to (x) the Target Percentage for the Second Year Period multiplied by (y) the Second Year Stock Issuance (the "Adjusted Second Year Stock Issuance"); provided that, if the EBITDA of the New Business Segment for the Second Year Period is less than the EBITDA Floor, Purchaser shall have no obligation to pay any Adjusted Second Year Stock Issuance to Sellers at the end of the Second Year Period.

(iii) Third Year Period. Following the end of the Third Year Period, the Purchaser shall issue to the Sellers, in accordance with this Section 2.5, a payment of Additional Consideration as follows:

(A) If (1) the EBITDA of the New Business Segment for the First Year Period is greater than or equal to the Additional Consideration Target, (2) in the event of a Missed First Year Target, the EBITDA of the New Business Segment for the Second Year Period is greater than or equal to the Additional Consideration Target, or (3) in the event of both a Missed First Year Target and a Missed Second Year Target, the EBITDA of the New Business Segment for the Third Year Period is greater than or equal to the Additional Consideration Target, then the Purchaser shall issue to the Sellers that number of shares of Common Stock equal to the quotient obtained by dividing $3,111,112 by the Closing Share Price (the "Third Year Stock Issuance", and each of the First Year Stock Issuance, the Second Year Stock Issuance and the Third Year Stock Issuance an " Earn-Out Stock Issuance").

(B) If, in the event of a Missed First Year Target and a Missed Second Year Target, the EBITDA of the New Business Segment for the Third Year Period is less than the Additional Consideration Target (a "Missed Third Year Target" and together with each of a Missed First Year Target and a Missed Second Year Target, a "Missed Target"), then the Purchaser shall issue to the Sellers that number of shares of Common Stock equal to (x) the Target Percentage for the Third Year Period multiplied by (y) the Third Year Stock Issuance (the "Adjusted Third Year Stock Issuance", and each of the Adjusted First Year Stock Issuance, the Adjusted Second Year Stock Issuance and the Adjusted Third Year Stock Issuance, an "Adjusted Earn-Out Stock Issuance"); provided that, if the EBITDA of the New Business Segment for the Third Year Period is less than the EBITDA Floor, Purchaser shall have no obligation to pay any Adjusted Third Year Stock Issuance to Sellers at the end of the Third Year Period.

(iv) Final Adjustment Payments. In the event of any Missed Targets, the Sellers shall be entitled to further amounts of Additional Consideration from the Purchaser, and the Purchaser shall issue to the Sellers further amounts of Additional Consideration, upon the satisfaction of the following conditions (each, a "Final Adjustment Payment"):

(A) Missed Target Years. In the event that there occurs (i) a Missed Target in any Measuring Period, but the EBITDA of the New Business Segment for such Measuring Period is greater than or equal to the EBITDA Floor (a "Missed Target Year"), and (ii) the EBITDA of the New Business Segment in a subsequent Measuring Period is greater than or equal to the Additional Consideration Target, the Purchaser shall issue to the Sellers shares of Common Stock equal to the Earn-Out Stock Issuance for each such Missed Target Year *minus* the Adjusted Earn-Out Stock Issuance for each such Missed Target Year.

(B) Missed Floor Years. In the event the EBITDA Floor is not achieved in either the First Year Period or the Second Year Period (a "Missed Floor Year"), and in a subsequent Measuring Period or Measuring Periods, EBITDA exceeds the Additional Consideration Target (the amount by which EBITDA exceeds the Additional Consideration Target, in the aggregate for all such Measuring Periods, the "EBITDA Excess Amount"), and such EBITDA Excess Amount is equal to or greater than the amount by which the EBITDA Floor was not achieved in a Missed Floor Year, the EBITDA Excess Amount will, for purposes of calculating the Additional Consideration, be applied to the EBITDA of such Missed Floor Year (but only with respect to the Missed Floor Year in which EBITDA was closest to the EBITDA Floor, and not both of such Missed Floor Years, in the event there is more than one Missed Floor Year). Pursuant to such application, the EBITDA Floor will be deemed to have been achieved for such applicable Missed Floor Year, and the Sellers shall be entitled to receive, without duplication, the full stock issuance of Additional Consideration they would have been entitled to receive under Section 2.5(c)(iv)(A) above as if the EBITDA Floor had been achieved for such Missed Floor Year. For the sake of clarity, in the event that the remaining EBITDA Excess Amount is insufficient to increase the EBITDA in the applicable Missed Floor Year such that the EBITDA Floor is achieved for such Missed Floor Year, the EBITDA Floor will not be deemed to have been reached for such Missed Floor Year and no further payments of Additional Consideration shall be made with respect to any Missed Floor Years.

(d) Earn-Out Report; Dispute. Within ninety (90) days following the end of each Measuring Period the Purchaser shall prepare and deliver to the Sellers a report (the "Earn-Out Report") (x) containing the unaudited balance sheet of the New Business Segment as of the close of business on the last day of the applicable Measuring Period, and a related unaudited statement of income of the New Business Segment for such Measuring Period, (y) a report setting forth for the applicable Measuring Period the Purchaser's calculations of the EBITDA of the New Business Segment and the corresponding Additional Consideration payment to be made under Section 2.5(c), if any, including any adjustments required to be made to the provided financial statements in order to make such calculations and (z) a statement, signed by an officer of the Purchaser, stating that that the Earn-Out Report was prepared in accordance with this Agreement.

(i) After receipt of an Earn-Out Report, the Sellers shall have the duration of the Dispute Period to review the Earn-Out Report. During such time, the Purchaser shall provide the Sellers and their representatives with access to all documents, records, work papers, facilities and personnel as reasonably requested to review the Earn-Out Report and the calculations set forth therein. If the Sellers have a Dispute with any of the elements of or amounts reflected on the Earn-Out Report, the Sellers shall deliver one, joint written Dispute Notice, within the Dispute Period, to the Purchaser setting forth in reasonable detail the Disputed Items. If the Sellers do not notify the Purchaser of a Dispute with respect to the Earn-Out Report within the Dispute Period, the Earn-Out Report will be final, conclusive and binding on the Parties. In the event of such delivery of a Dispute Notice, the Purchaser and the Sellers shall negotiate in good faith to resolve such Disputes.

(ii) If the Purchaser and the Sellers, notwithstanding such good faith effort, fail to resolve such Disputed Items within thirty (30) days after the Purchaser's receipt of a Dispute Notice, then the Purchaser and the Sellers shall engage the Arbitrating Accountant to resolve any such Remaining Disputed Items. As promptly as practicable thereafter (and, in any event, within thirty (30) days after the Arbitrating Accountant's engagement), the Purchaser and the Sellers shall present their respective positions regarding the Remaining Disputed Items to the Arbitrating Accountant in writing (with a copy to the other Party(ies)), supported by any documents and arguments upon which they rely. The Arbitrating Accountant may, at its discretion, conduct a conference concerning the Remaining Disputed Items, at which conference each Party shall have the right to present additional documents, materials and other information and to have present its advisors, counsel and accountants. In connection with such process, there shall be no other hearings or any oral examinations, testimony, depositions, discovery or other similar proceedings. The Purchaser and the Sellers agree to use commercially reasonable efforts to cause the Arbitrating Accountant to only address the Remaining Disputed Items, to make its decision solely on the basis of the evidence and position papers presented to it, and to not assign a value to any item greater than the greater value for such item claimed by a Party or less than the lesser value for such item claimed by a Party. The Purchaser and the Sellers agree to use commercially reasonable efforts to cause the Arbitrating Accountant to promptly, and in any event within sixty (60) days after the date of its appointment, render its decision on the Remaining Disputed Items in writing and finalize the applicable Earn-Out Report. All determinations made by the Arbitrating Accountant will be final, conclusive and binding on the Parties. The Purchaser and the Sellers agree to use commercially reasonable efforts to cause the Arbitrating Accountant to determine the proportion of its fees and expenses to be paid by each of the Sellers and the Purchaser, based primarily on the degree to which the Arbitrating Accountant has accepted the positions of the respective Parties.

(e) Cooperation. For purposes of complying with the terms set forth in this Section 2.5, each Party shall cooperate with, and make available to, the other Party and its representatives such information, records, data and working papers, and shall permit reasonable access to its facilities and personnel during regular business hours, as may be reasonably requested in connection with the preparation and analysis of the Earn-Out Report and the resolution of any disputes under the Earn-Out Report.

(f) Payment of Additional Consideration. Any payments owed by the Purchaser pursuant to this Section 2.5 for a particular Measuring Period shall be made no later than ten (10) Business Days after the earliest of (i) the expiration of the Dispute Period if the Purchaser has not received a Dispute Notice concerning the Earn-Out Report within that period, (ii) the resolution by the Purchaser and the Sellers of all differences regarding the Earn-Out Report, (iii) the receipt of the Arbitrating Accountant's determination as set forth in Section 2.5(d); provided, however, that (1) with respect to payments for Measuring Periods following the achievement of an Additional Consideration Target in a prior Measuring Period, the payment for such following Measuring Period shall be made with ten (10) Business Days after the end of such Measuring Period, and (2) with respect to Final Adjustment Payments, such payments shall be made together with the payment for the Third Year Period. The Purchaser shall not be obligated to issue fractional shares of Common Stock to any Seller or Designated Employee under this Section 2.5(f) and any Seller or Designated Employee who would otherwise receive a fractional share based on their pro rata percentage of the Purchase Price shall instead the next whole number of Shares to which they would otherwise be entitled under this Section 2.5(f).

(i) The Purchaser shall issue any Additional Consideration consisting of shares of Common Stock, by issuance of the appropriate number of shares of Common Stock to each Seller; in accordance with each Seller's Pro Rata Share as set forth on Exhibit A.

(ii) Notwithstanding anything to the contrary in the foregoing, prior to the payment of any Additional Consideration to the Sellers pursuant to this Section 2.5, (x) shall be reduced by the applicable Designated Employee Percentage, (y) the Purchaser shall issue, or shall contribute to and cause the New Business Segment to pay, as applicable, such Designated Employee Percentage of such amount of the Additional Consideration to the Designated Employees in accordance with their applicable Designated Employee Pro Rata Share, and (z) the applicable Designated Employee Percentage of such Additional Consideration amounts shall not be treated as Purchase Price; provided, however, that any Ineligible Employee Shares will be apportioned among and issued to the Sellers in accordance with Exhibit A.

(g) The number of shares of Common Stock issuable under this Section 2.5 shall be subject to appropriate adjustment in the event of any stock dividend, stock split, reverse stock split, combination or other similar recapitalization with respect to the Purchaser's Common Stock following the execution of this Agreement and prior to the date such shares of Common Stock are issued.

Section 2.6 Right of Offset. The Purchaser may, subject to the other terms of this Agreement, offset amounts to which the Purchaser might be entitled from the Sellers under this Agreement against any shares of Common Stock due to the Sellers and Designated Employees as Post-Closing Dolphin Shares, the Post-Closing Stock Bonuses or any Additional Consideration pursuant to Section 2.5; provided, however, that the Purchaser may only exercise such right of offset in respect of claims relating to Losses actually incurred by a Purchaser Indemnitee (in which case the amount of such offset shall be the amount of such actual Loss) or bona fide claims actually asserted by a third party (in which case the amount of the offset shall not exceed the reasonable good faith estimate of the amount of indemnifiable Losses that will ultimately be payable to a Purchaser Indemnitee in respect of such claims). If any such claims for indemnity are resolved in favor of the Sellers by mutual agreement or otherwise, or if the amount withheld exceeds the amount ultimately payable to a Purchaser Indemnitee in respect of such claim, the Purchaser shall pay to the Sellers in cash the excess amount withheld with respect to such claim, together with interest thereon for the period such amount has been withheld at a rate equal to the prime rate in effect from time to time as published in The Wall Street Journal, NY edition (less the applicable Designated Employee Percentage of such amount, which Purchaser shall pay to the New Business Segment and distribute through the New Business Segment's payroll to the applicable Designated Employees in accordance with their respective Designated Employee Pro Rata Share of such amount; provided, however, that any Ineligible Employee Shares will be apportioned among and issued to the Sellers in accordance with Exhibit A). Any shares of Common Stock offset pursuant to this Section 2.5 shall be offset at a price per share equal to the Closing Share Price.

Section 2.7 Closing

(a) Closing. The consummation of the transactions contemplated by this Agreement (the " Closing") shall take place on the date hereof (the "Closing Date"), simultaneously with the execution and delivery of this Agreement and all Transaction Documents, at the offices of Greenberg Traurig, P.A., 200 Park Avenue, New York, New York 10166, or at such other time or place as agreed to in writing by the Purchaser and the Sellers. The transfers and deliveries described in this Section 2.7 shall be mutually interdependent and shall be regarded as occurring simultaneously, and, notwithstanding any other provision of this Agreement, no such transfer or delivery shall become effective or shall be deemed to occur until all of the other transfers and deliveries provided for in this Section 2.7 shall have occurred or been waived on the Closing Date.

(b) Closing Deliveries of the Sellers. At the Closing, the Sellers shall assign and transfer to the Purchaser all of the Sellers' right, title and interest in and to the Membership Interests, free and clear of any Liens of any nature whatsoever. At the Closing, the Sellers shall deliver to the Purchaser:

(i) Transfers and Assignments of the Membership Interests, in the form attached as Exhibit B hereto, duly executed by each of the Sellers;

(ii) all minute books, written consents, records, ledgers and registers, and other similar organizational records of the Company to the extent they exist;

(iii) the Third-Party Consent with Third Avenue Tower Owner, LLC, regarding the Company's lease at 600 Third Avenue in New York;

(iv) the Third-Party Consent with City National Bank, confirming City National Bank's agreement to extend the Company's credit line for 30 days post-Closing;

(v) each Employment Agreement, duly executed by each Principal Seller party thereto;

(vi) the Registration Rights Agreement, duly executed by each Seller;

(vii) the Seller Put Agreements, duly executed by each Seller;

(viii) the Seller Releases, duly executed by each Seller;

(ix) a dated, completed and signed Accredited Investor Questionnaire in the form attached as Exhibit C hereto from each Seller, with all blanks required to be completed by such Seller properly completed;

(x) a certificate, in such form as is reasonably satisfactory to the Purchaser, certifying that each Seller is not a foreign person for purposes of Code Section 1445 or that the purchase is otherwise exempt from withholding under Code Section 1445;

(xi) the letter, dated as of the Closing Date, between the Sellers and William O'Dowd, regarding his agreement to vote for the director selected by the Sellers for the Board of the Purchaser (the "Side Letter"), duly executed by the Sellers; and

(xii) such other documents, certificates, instruments or writings reasonably requested by the Purchaser or its counsel in order to effectuate the transactions contemplated hereby including the Transaction Documents.

(c) Closing Deliveries of the Purchaser. At the Closing, the Purchaser shall provide the following:

(i) delivery of the duly issued Closing Dolphin Shares to the Sellers;

(ii) by wire transfer of immediately available funds, cash in an amount equal to the Company Transaction Expenses, to the accounts directed by the Sellers as set forth in Annex 2.2(b);

(iii) each Employment Agreement, duly executed by the Purchaser;

(iv) the Registration Rights Agreement, duly executed by the Purchaser;

(v) the Seller Put Agreements, duly executed by the Purchaser;

(vi) a certificate dated as of the Closing Date, duly executed by the Secretary of the Purchaser, certifying as to an attached copy of the resolutions of the Board (as defined below) (A) authorizing and approving the execution, delivery and performance of, and the consummation of the transactions contemplated by, this Agreement and each Transaction Document, (B) increasing the size of the Board (as defined below) from five to seven directors, the effectiveness of which is subject to the execution of this Agreement and (C) agreeing to nominate a new independent director, along with a director selected by the Sellers, each to be elected at the next annual meeting of shareholders of the Company;

(vii) a dated, completed and signed Accredited Investor Questionnaire in the form attached as Exhibit C hereto from the Purchaser, with all blanks required to be completed by the Purchaser properly completed,

(viii) the Side Letter, duly executed by William O'Dowd; and

(ix) any other documents and consents necessary to complete the transactions contemplated hereby.

Section 2.8 Designated Employee Payments. Payments to the Designated Employees pursuant to this Article II are intended to satisfy the requirements of Treasury Regulations Section 1.409A-3(i)(5)(iv)(A), applicable to transaction-based compensation that is payable on account of the consummation of a change in ownership or effective control of the Company that satisfies the definition in Treasury Regulations Section 1.409A-3(i)(5)(i). To ensure compliance with Treasury Regulation 1.409A 3(i)(5)(iv), the Designated Employees shall not be entitled to receive any payment, and no payment shall be made to the Designated Employees, in connection with the transaction contemplated hereby later than the date which is five (5) years after the Closing Date.

ARTICLE III.
REPRESENTATIONS AND WARRANTIES OF THE SELLERS

Each Seller hereby represents and warrants to the Purchaser, severally and not jointly, that the following statements are true and correct as of the Closing Date:

Section 3.1 Authority of Seller. Such Seller has the legal capacity and necessary right, power and authority to execute and deliver, and to perform his, her or its obligations under, this Agreement, each Transaction Document, and the other agreements, documents and instruments required hereby to which such Seller is a party. This Agreement has been duly executed and delivered by such Seller and constitutes a legal, valid and binding agreement of such Seller, enforceable against such Seller in accordance with its terms, and, upon the execution and delivery by such Seller of each of the other agreements contemplated hereby to which such Seller is a party, such agreements will constitute the valid and legally binding obligation of such Seller, enforceable against such Seller in accordance with the terms thereof, in each case, except to the extent such enforceability may be limited by the General Enforceability Exceptions. Such Seller (if such Seller is an individual) is at least twenty-one (21) years of age.

Section 3.2 Ownership. The Membership Interests shown as held by such Seller on Exhibit A are owned solely and directly by such Seller. Such Seller has all right, title and interest to his, her or its portion of the Membership Interests, free and clear of any Liens other than Permitted Liens.

Section 3.3 Own Account. The Dolphin Shares that such Seller will receive upon consummation of this Agreement are being acquired solely for his, her or its account and are not being acquired with a view to, or for resale in connection with, any distribution within the meaning of the Securities Act (the "Securities Act") or related laws and regulations or any other applicable securities laws of any other jurisdiction (collectively, the " Securities Laws").

Section 3.4 Consents; Conflicts. The execution, delivery and performance of this Agreement and the consummation by such Seller of the transactions contemplated hereby or relating hereto do not and will not (i) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a material default) under, or give to any third party any rights of termination, amendment, acceleration or cancellation of, any material agreement or instrument or obligation to which such Seller is a party or by which his, her or its properties or assets are bound or (ii) result in a material violation of any law, rule, or regulation, or any order, judgment or decree of any court or governmental agency applicable to such Seller or his, her or its properties. Such Seller 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 receive the Dolphin Shares in accordance with the terms hereof.

Section 3.5 No Reliance. Such Seller confirms that he, she or it is not relying on any communication (written or oral) of the Purchaser or any of its Affiliates as investment advice or as a recommendation to acquire the Dolphin Shares. It is understood that information and explanations related to the terms and conditions of the Dolphin Shares provided by the Purchaser or any of its Affiliates shall not be considered investment advice or a recommendation to acquire the Dolphin Shares, and that neither the Purchaser nor any of its Affiliates is acting or has acted as an advisor to the Sellers in deciding to invest in the Dolphin Shares. Such Seller acknowledges that neither the Purchaser nor any of its Affiliates has made any representation regarding the Dolphin Shares for purposes of determining such Seller's authority to invest in the Dolphin Shares, other than as set forth in this Agreement.

Section 3.6 Investment Experience.

(a) Such Seller has such knowledge, skill and experience in business, financial and investment matters that he, she or it is capable of evaluating the merits and risks of an investment in the Dolphin Shares. Such Seller has made his, her, or its own legal, tax, accounting and financial evaluation of the merits and risks of an investment in the Dolphin Shares.

(b) Such Seller has had access to the legal, financial, tax and accounting information concerning the Purchaser and the Dolphin Shares as he, she or it deems necessary to enable it to make an informed investment decision concerning the acquisition of the Dolphin Shares.

(c) Such Seller understands that the Dolphin Shares that he, she or it is acquiring upon the consummation of this Agreement have not been registered under the Securities Laws.

(d) Such Seller understands that the issuance of Common Stock is intended to be exempt from registration under the Securities Act by virtue of Section 4(a)(2) and/or the provisions of Regulation D promulgated thereunder based, in part, upon the representations, warranties and agreements of the Sellers contained in this Agreement.

(e) Such Seller acknowledges that he, she or it has been furnished with true and complete copies of the following documents which the Purchaser has filed with the SEC pursuant to Sections 13(a), 14(a), 14(c) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): (i) the Annual Report on Form 10-K for the year ended December 31, 2015; (ii) the Purchaser's Proxy Statement relating to the 2015 Annual Meeting of Shareholders; and (iii) the information contained in any reports or documents filed by the Purchaser under Sections 13(a), 14(a), 14(c) or 15(d) of the Exchange Act since the distribution of the Form 10-K for the year ended December 31, 2015.

(f) Such Seller is an "accredited investor", as defined in Rule 501 promulgated under the Securities Act, and has accurately completed the Accredited Investor Questionnaire attached as Exhibit C hereto.

(g) Such Seller acknowledges that neither the SEC nor any state securities commission has approved the Common Stock offered hereby or passed upon or endorsed the merits of the issuance of the Dolphin Shares by the Purchaser. Such Seller acknowledges that an investment in the Dolphin Shares is highly speculative and involves a risk of loss of the entire investment and no assurances can be given of any income or profit from such investment. SUCH SELLER HEREBY ACKNOWLEDGES AND CONFIRMS THAT THE UNDERSIGNED HAS CAREFULLY CONSIDERED THE RISKS AND UNCERTAINTIES INVOLVED IN INVESTING IN THE DOLPHIN SHARES BEFORE MAKING AN INVESTMENT DECISION TO PURCHASE THE DOLPHIN SHARES. Such Seller can bear the economic risk of losing his, her or its entire investment in the Dolphin Shares.

Section 3.7 Dilution Protection. Such Seller has been furnished with a copy of the Articles of Incorporation of the Purchaser (including the Certificates of Designation with respect to the Series C Convertible Preferred Stock) and understands that the holder of the Series C Convertible Preferred Stock is entitled to anti-dilution protection with respect to any issuances of Common Stock occurring after the issuance of the Series C Convertible Preferred Stock on March 7, 2016.

Section 3.8 No General Solicitation. Such Seller acknowledges that neither the Purchaser nor any other person offered to sell the Dolphin Shares to him or her 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.

Section 3.9 Legend. Such Seller understands that the Dolphin Shares to be issued to him, her or it 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 Dolphin 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.**"

Any certificates issued to Principal Sellers will also bear a restrictive legend thereon in substantially the form that appears below:

> **"THE SHARES OF COMMON STOCK REPRESENTED HEREBY MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, ENCUMBERED OR IN ANY MANNER DISPOSED OF, EXCEPT IN COMPLIANCE WITH THE TERMS OF THE PUT AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER OF THE SHARES (OR THE PREDECESSOR IN INTEREST TO THE SHARES) AND THE LOCK-UP PROVISIONS SET FORTH IN THE EXECUTIVE EMPLOYMENT AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER OF THE SHARES (OR THE PREDECESSOR IN INTEREST TO THE SHARES). THE SECRETARY OF THE COMPANY WILL, UPON WRITTEN REQUEST, FURNISH A COPY OF SUCH AGREEMENT TO THE HOLDER HEREOF WITHOUT CHARGE."**

Section 3.10 No Other Representations or Warranties. Such Seller hereby acknowledges and agrees that, for purposes of this Agreement, except as set forth in Article V of this Agreement, no other representations or warranties have been made, express or implied, at law or in equity, on behalf of the Purchaser, to such Seller by the Purchaser or any other Person, and such Seller is not relying on any representations or warranties regarding the transactions contemplated by this Agreement other than the representations and warranties expressly set forth in Article V of this Agreement. Such Seller further acknowledges that no promise or inducement for this Agreement has been made to such Seller except as set forth herein or in another Transaction Document.

ARTICLE IV.
REPRESENTATIONS AND WARRANTIES OF THE PRINCIPAL SELLERS WITH RESPECT TO THE COMPANY

The Principal Sellers hereby represent and warrant jointly and severally to the Purchaser that the following statements are true and correct as of the Closing Date:

Section 4.1 Organization and Business; Power and Authority; Effect of Transaction.

(a) The Company is a limited liability company, duly organized, validly existing and in good standing under the Laws of the State of Delaware, and possesses all requisite organizational power and authority to own, lease and operate its assets as now owned or leased and operated and is duly qualified and in good standing in each other jurisdiction in which the character of the assets owned or leased by such Entity requires such qualification, except where the failure to be so qualified would not reasonably be expected to have a Material Adverse Effect. Section 4.1(a) of the Disclosure Schedule contains a complete and accurate list of the jurisdictions of organization of the Company and any other jurisdictions in which each such Entity is qualified to do business.

(b) The Company has all requisite power and authority necessary to execute and deliver, and to perform its obligations under each Transaction Document to which it is a party and to consummate the transactions contemplated thereby; and the execution, delivery and performance by the Company of each Transaction Document to which it is a party have been duly authorized by all requisite limited liability company action.

(c) Upon the consummation of the transactions contemplated hereby, the Purchaser will own the Membership Interests free and clear of any Liens.

(d) The Sellers have provided to the Purchaser correct and complete copies of the Organizational Documents of the Company (each as amended to date). The Company is not in default under, or in violation of, any provision of its Organizational Documents.

(e) The Membership Interests constitute one hundred percent (100%) of the outstanding equity interests of the Company, and the Membership Interests are duly authorized, validly issued, and fully paid. Other than the Membership Interests, there are no other issued and outstanding membership interests in the Company and there are no outstanding or authorized options, warrants, rights, rights of first refusal or rights of first offer, agreements or commitments to which the Company is a party or which is binding upon the Company relating to the issuance, disposition or acquisition of any equity interests in the Company. Other than the rights of the Designated Employees to receive a percentage of proceeds in the event of certain transactions involving the Company, there are no outstanding or authorized appreciation, phantom equity or similar rights with respect to the Company. None of the Membership Interests were issued in violation of the operating agreement of the Company or any Laws applicable to the Company.

Section 4.2 Non-contravention. Assuming the receipt of the Third-Party Consents set forth in Section 4.2 of the Disclosure Schedule, neither the execution nor delivery of this Agreement by the Sellers, nor the consummation of the transactions contemplated hereby, will:

(a) conflict with, result in a breach of, constitute (with or without due notice or lapse of time or both) a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify or cancel, or require any notice, consent or waiver under, any Contract, instrument of Indebtedness, Lien or other arrangement to which the Company is a party or by which the Company is bound or to which any of their respective assets are subject; and

(b) result in the imposition of any Liens upon any of the Membership Interests or upon any assets of the Company; or violate any Order or Law applicable to the Company or its respective properties or assets.

Section 4.3 Subsidiaries. The Company does not control, directly or indirectly, or have any direct or indirect equity ownership or participation in any Entity.

Section 4.4 Accounts Receivable. Section 4.4(a) of the Disclosure Schedule sets forth as of February 28, 2017, (i) the total amount of outstanding accounts receivable of the Company and (ii) the agings of such receivables based on the following schedule: 0-30 days, 31-60 days, 61-90 days, and over 90 days, from the due date thereof. All accounts receivable set forth on Section 4.4 of the Disclosure Schedule are valid and genuine, and have arisen solely in the ordinary course of business consistent with past practice. Except as set forth in Section 4.4(b) of the Disclosure Schedule, all accounts receivable due during the twelve (12) months prior to the Closing Date have been collected in the normal course of business and no amounts have been written off, discounted, forgiven or extended, except for non-material discounts or extensions in the ordinary course of business.

Section 4.5 Financial Statements; Absence of Certain Changes; Undisclosed Liabilities.

(a) The Sellers have provided to the Purchaser copies of the unaudited balance sheet (the " Most Recent Company Balance Sheet ") of the Company, dated as of December 31, 2016 (the "Company Balance Sheet Date") and audited statements of operations and balance sheets for the fiscal years ended December 31, 2014 and December 31, 2015 (the "Company Financial Statements"), which are attached to Section 4.5(a) of the Disclosure Schedule. The Financial Statements have been prepared on an accrual basis and show the financial condition and results of operation of the Company as of the dates thereof and for the periods referred to therein, and all material obligations of the Company have been reflected therein in accordance with GAAP.

(b) Except as otherwise contemplated by this Agreement, since the Company Balance Sheet Date, there has been no Material Adverse Effect on the Company. Except as set forth on Section 4.5(b) of the Disclosure Schedule, between the Company Balance Sheet Date and the Closing Date, the Company has not taken any of the following actions (or permitted any of the following events to occur):

(i) incurred any Indebtedness in excess of $50,000;

(ii) subjected to any Lien any portion of the assets of the Company, other than Permitted Liens;

(iii) sold, assigned or transferred any portion of the tangible assets of the Company in a single transaction or series of related transactions in an amount in excess of $10,000, except in the ordinary course of business or as otherwise specified herein;

(iv) suffered any damage, destruction or extraordinary losses (whether or not covered by insurance) or waived any rights of material value to the Company;

(v) issued, sold or transferred any equity securities in the Company (including the Membership Interests) or other equity securities, securities convertible into any equity securities or warrants, options or other rights to any equity in the Company;

(vi) declared or made any distributions on the equity securities of the Company or redeemed or purchased any equity securities of the Company;

(vii) made any capital expenditures or commitments therefor in excess of $25,000 individually or $50,000 in the aggregate;

(viii) acquired any Entity or business (whether by the acquisition of equity securities, the acquisition of assets, merger or otherwise);

(ix) entered into any or materially modified any existing employment, compensation or deferred compensation agreement (or any amendment to any such existing agreement) with any officer, member or employee of the Company;

(x) entered into a Multiemployer Plan (as defined below);

(xi) changed or authorized any change in the Organizational Documents of the Company;

(xii) introduced any material change with respect to the Company's method of accounting or principles or practices for financial accounting;

(xiii) terminated, or amended or modified in any material respect, other than due to expiration or automatic renewal or extension on its terms, any material agreement or instrument of the Company; or

(xiv) entered into any agreement or commitment with respect to any of the matters referred to in paragraphs (i) through (xiii) of this Section 4.5(b).

(c) The Company has no material obligations which have not been reflected on the Most Recent Company Balance Sheet except for: (i) liabilities which have arisen since the Company Balance Sheet Date in the ordinary course of business, (ii) contractual liabilities incurred in the ordinary course of business, (iii) contractual liabilities pursuant to the agreements listed in the Disclosure Schedule, (iv) accruals that would be required under GAAP and which are shown in Section 4.5(c) of the Disclosure Schedule and (v) liabilities that are not required to be included on a balance sheet under GAAP. As of the Closing Date, the Company does not have outstanding any Indebtedness or any obligations or liabilities to any Seller or any Affiliate of any Seller which will not be satisfied at or prior to Closing. Section 4.5(c) of the Disclosure Schedule contains a true and complete list of all Company Indebtedness outstanding as of the Closing Date.

Section 4.6 Material Contracts.

(a) Section 4.6 of the Disclosure Schedule lists each of the following Contracts of which the Company is currently bound (such Contracts, together with the lease agreement disclosed on Section 4.8(b) of the Disclosure Schedule, "Material Contracts"):

(i) each Contract of the Company involving annual consideration in excess of $25,000 and which, in each case, cannot be cancelled by the Company either without penalty or with less than ninety (90) days' notice;

(ii) all Contracts with third party vendors that require the Company to purchase its total requirements of any product or service from such third party vendor or that contain "take or pay" provisions;

(iii) all Contracts that provide for the assumption of any material Tax or environmental liability of any Person;

(iv) all Contracts that relate to the acquisition or disposition of any Entity, a material amount of stock or assets of any other Person or any real property (whether by merger, sale of stock, sale of assets or otherwise);

(v) all broker, distributor, dealer, manufacturer's representative, or franchise Contracts to which the Company is a party;

(vi) all employment agreements and Contracts with independent contractors or consultants (or similar arrangements) to which the Company is a party and which are not cancellable without material penalty or with less than ninety (90) days' notice;

(vii) except for Contracts relating to trade receivables, all Contracts relating to Indebtedness (including, without limitation, guarantees) of the Company;

(viii) all Contracts that by their terms limit the ability of the Company to compete in any line of business or with any Person or in any geographic area or during any period of time;

(ix) any Contracts to which the Company is a party that provide for any joint venture, partnership or similar arrangement between the Company and a third party; and

(x) all Contracts between or among the Company on the one hand and any Seller or any Affiliate of the Sellers (other than the Company) on the other hand.

(b) Each Material Contract is valid and binding on the Company in accordance with its terms and is in full force and effect. None of the Company or, to the Knowledge of the Sellers, any other party thereto is in material breach of or material default under (or is alleged to be in material breach of or material default under), or has provided or received any notice of any intention to terminate, any Material Contract. To the Knowledge of the Sellers, no event or circumstance has occurred that, with notice or lapse of time or both, would constitute an event of default under any Material Contract or result in a termination thereof or would cause or permit the acceleration or other material changes of any material right or obligation or the loss of any material benefit thereunder. Complete and correct copies of each Material Contract (including all modifications, amendments and supplements thereto and waivers thereunder) have been made available to the Purchaser.

Section 4.7 Clients and Suppliers. Section 4.7 of the Disclosure Schedule sets forth an accurate and complete list of (a) the top fifteen (15) most significant clients (determined by dollar amount of revenue) and (b) the top fifteen (15) most significant suppliers (determined by dollar amount of purchases), of the Company for the year ended December 31, 2016. Except as set forth on Section 4.7 of the Disclosure Schedule, since December 31, 2016, no such supplier or client has canceled or otherwise terminated, or to the Knowledge of the Sellers, threatened to cancel or otherwise terminate, its relationship with the Company. Except as set forth on Section 4.7 of the Disclosure Schedule, since December 31, 2016, none of the Sellers or the Company has received any notice that any such supplier or client may cancel or otherwise materially and adversely modify or limit its relationship with the Company either as a result of the transactions contemplated hereby or otherwise.

Section 4.8 Title and Sufficiency of Assets.

(a) The Company has good and valid title to, or a valid leasehold interest in, all Real Property and personal property and other assets reflected in the Company Financial Statements or acquired after the Company Balance Sheet Date, other than properties and assets sold or otherwise disposed of in the ordinary course of business consistent with past practice since the Company Balance Sheet Date. Except as set forth on Section 4.8(a) of the Disclosure Schedule, all such properties and assets (including leasehold interests) are free and clear of all Liens, other than Permitted Liens and Liens securing the Credit Agreement, the Indebtedness under which will be satisfied at the Closing. The items of tangible personal property currently owned or leased by the Company, together with all other properties and assets of the Company, are sufficient for the continued conduct of the Business after the Closing in substantially the same manner as conducted prior to the Closing and constitute all of the rights, property and assets necessary to conduct the Business as currently conducted.

(b) Section 4.8(b) of the Disclosure Schedule lists the street address of the principal offices of the Company, the landlord under the lease for each such office, the rental amount currently being paid, and the expiration of the term of each such lease or sublease for all real property currently leased or subleased by the Company. With respect to leased Real Property, the Sellers have delivered or made available to the Purchaser copies of any leases affecting the Real Property that are true, complete and correct in all material respects. The Company is not a sublessor or grantor under any sublease or other instrument granting to any other Person any right to the possession, lease, occupancy or enjoyment of any leased Real Property. The use and operation of the Real Property by the Company in the conduct of the Company's business do not, to the Knowledge of the Sellers, violate in any material respect any Law, covenant, condition, restriction, easement, license, permit or agreement. There are no Legal Actions currently in process nor, to the Knowledge of the Sellers, threatened against or affecting the Real Property leased by the Company or any portion thereof or interest therein in the nature or in lieu of condemnation or eminent domain proceedings.

Section 4.9 Books and Records. Except as set forth in Section 4.9 of the Disclosure Schedule, the Books and Records and other financial records of the Company (i) are complete and correct in all material respects and do not contain or reflect any material inaccuracies or discrepancies and (ii) have been maintained in all material respects in accordance with good business and accounting practices. All transactions of the Company have been accurately and correctly recorded in the Books and Records of the Company except as would not be reasonably expected to have a Material Adverse Effect on the Company. At the Closing, all of the material Books and Records of the Company will be in the possession or control of the Company.

Section 4.10 Legal Actions. Except as set forth in Section 4.10 of the Disclosure Schedule, there are: (a) no Legal Actions of any kind currently in process or, to the Knowledge of the Sellers, threatened or pending absent notice, at Law, in equity or by or before any Authority against or involving the Company, or arising from the operation of the Business, and the Company has not received notice of any of the foregoing, (b) no Orders by any Authority against or affecting the Company or the Business, and (c) no outstanding or unsatisfied awards, judgments, or decrees to which the Company is bound or that otherwise involves the Business. The Company does not have any current intention to initiate any action, suit or proceeding before any Authority. Except as set forth in Section 4.10 of the Disclosure Schedule (and excluding (x) Laws relating to employee benefits and related matters, which are covered exclusively by Section 4.7, and (y) Laws relating to employment matters, which are exclusively covered by Section 4.18), the Company is not in default or violation of any Law that is applicable to the Company or by which any property or asset of the Company is bound, except for instances of noncompliance or violations that, individually or in the aggregate, have not and would not reasonably be expected to (i) be material to the Business or (ii) give rise to material fines or other material liability imposed on the Company.

Section 4.11 Tax Matters.

(a) All Tax Returns required to be filed by, or on behalf of, the Company are true, correct and complete in all material respects, have been prepared in compliance with all applicable Laws, and have been duly and timely filed;

(b) The Company has paid all Taxes that are due, including all disputed Taxes for which the Company is seeking a refund;

(c) The Company has delivered to the Purchaser correct and complete copies of all Tax Returns filed with respect to the Company for taxable periods ended on or after December 31, 2011, and all examination reports and statements of deficiencies assessed against or agreed to by the Company with respect to such taxable periods;

(d) No Tax deficiency or proposed adjustment which has not been settled or otherwise resolved for any amount of Tax has been proposed, asserted or assessed by any Authority against the Company. The Company is not the subject of any audit or other proceeding in respect of payment of Taxes for which the Company may be directly liable and no such proceeding has been threatened. No agreements, waivers, or other arrangements exist providing for an extension of time or statutory periods of limitations with respect to the filing of any Tax Return with respect to the Company or the payment by, or assessment against, the Company for any Tax for which the Company may be directly or indirectly liable and no written request for any such agreement, waiver or other arrangement has been made and is currently outstanding;

(e) (i) The Company has not agreed to make any adjustment by reason of a change in its accounting method that would affect the taxable income or deductions of the Company for any period following the Closing Date; (ii) the Company is not required to include income in any amount under Section 481 of the Code (or any comparable provisions of state, local or foreign law), by reason of a change in accounting methods or otherwise, as a result of actions taken prior to the Closing Date; and (iii) the Company will not be required to include in a taxable period on or after the Closing Date taxable income attributable to income that economically accrues in a taxable period ending on or before the Closing Date, including as a result of the installment method of accounting or the completed contract method of accounting;

(f) None of the assets of the Company are "tax-exempt use property" within the meaning of Section 168(h) of the Code; none of the assets of the Company directly or indirectly secures any Indebtedness the interest on which is tax-exempt under Section 103(a) of the Code; and there are no Liens for Taxes as of the Closing Date upon any of the assets of the Company, except for statutory Liens for Taxes not yet due or delinquent;

(g) The Company has been at all times classified as a partnership within the meaning of Treasury Regulation Section 301.7701-2(a) and has not made an election to be treated as an association within the meaning of Treasury Regulation Section 301.7701-3;

(h) Except for contracts with suppliers and customers entered into in the ordinary course of business and not primarily related to Taxes, (i) the Company is not a party to or bound by any Tax indemnity, Tax sharing or Tax allocation agreement, and (ii) the Company has no current or potential contractual obligation to indemnify any other Person with respect to Taxes;

(i) The Company has not been a member of a group with which it has filed or been included in a combined, consolidated or unitary income Tax Return;

(j) No claim has ever been made in writing by an Authority against the Company in a jurisdiction where the Company does not pay Tax or file Tax Returns that the Company is or may be subject to Taxes assessed by such jurisdiction. The Company has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, creditor, independent contractor or other third party;

(k) Section 4.11(k) of the Disclosure Schedule contains a list of states, territories and jurisdictions (whether foreign or domestic) in which the Company currently files Tax Returns relating to the Business;

(l) Except as set forth on Section 4.11(l) of the Disclosure Schedule, the Company has not been notified in writing of any Tax claims, audits, or examinations that are proposed or pending with respect to the Company or the Business. No closing agreement or similar binding agreement relating to Taxes has been entered into by or with respect to the Company or the Business. No written notice of any unpaid assessment relating to Taxes has been received by or with respect to the Company or the Business; and

(m) There is no material unclaimed property or escheat obligation with respect to property or other assets held or owned by the Company.

Section 4.12 Insurance.

(a) Section 4.12 of the Disclosure Schedule sets forth a true and complete list and description of all insurance policies and other forms of insurance related to the ownership and operation of the Business, together with a statement of the aggregate amount of claims paid out, and claims pending, under each such insurance policy or other arrangement from January 1, 2014 through the Closing Date.

(b) All such insurance policies are in full force and effect; all premiums due thereon have been paid by the Company through the Closing Date; and the Company is otherwise in material compliance with the terms and provisions of such policies. Furthermore: (i) the Company has not received any notice of cancellation or non-renewal of any such policy or arrangement nor, to the Knowledge of the Sellers, is the termination of any such policy or arrangement threatened, (ii) there is no material claim pending under any of such policies or arrangements as to which coverage has been questioned, denied or disputed by the underwriters of such policies or arrangements, (iii) the Company has not received any notice from any of its insurance carriers that any insurance premiums will be increased in the future or that any insurance coverage presently provided for will not be available to the Company in the future on substantially the same terms as now in effect and (iv) none of such policies or arrangements provides for experienced-based liability or loss sharing arrangement affecting the Company.

Section 4.13 Bankruptcy Matters. In the past five (5) years, the Company has not: (a) changed its name or suspended its business for the purpose of the avoidance of creditors, (b) had proceedings pending or threatened by or against it in bankruptcy or reorganization in any state or Federal court, (c) resolved or otherwise agreed to file a case in bankruptcy or reorganization in any state or Federal court, (d) admitted in writing its inability to pay its debts as they become due, or (e) suffered the attachment or judicial seizure of all, or substantially all, of its assets or suffered the appointment of a receiver to take possession of all, or substantially all, of its assets.

Section 4.14 Affiliate Transactions. Section 4.14 of the Disclosure Schedule sets forth all material transactions with Affiliates in effect or that were in effect since December 31, 2014.

Section 4.15 Broker or Finder. No agent, broker, investment banker or financial advisor will be entitled to any broker's or finder's fee or commission in connection with the transactions contemplated under this Agreement.

Section 4.16 Intellectual Property.

(a) Section 4.16 of the Disclosure Schedule contains a list that is true, correct and complete in all material respects as of the Closing Date, of all Owned Intellectual Property that is used in connection with the Business (showing in each case the applicable registered owners and registration or application number). All Owned Intellectual Property that is material to the conduct of the Business is subsisting and, to the Knowledge of the Sellers, valid and enforceable, except to the extent such enforceability may be limited by the General Enforceability Exceptions. The Company exclusively owns or, to the Knowledge of the Sellers, licenses or otherwise has sufficient rights to use, the Intellectual Property that is used in the conduct of the Business as it is currently conducted or anticipated to be conducted as of the Closing Date, free and clear of all Liens (other than Permitted Liens), except as would not reasonably result in a Material Adverse Effect. Except as provided on Section 4.16 of the Disclosure Schedule, the Company has not (i) in the two (2) years prior to the Closing Date, claimed in writing to any other Person that such Person has infringed upon or misappropriated any Owned Intellectual Property, (ii) to the Knowledge of the Sellers, materially infringed upon or misappropriated any Intellectual Property of any other Person or (iii) since January 1, 2014, received written notice that it has infringed upon or misappropriated any Intellectual Property of any other Person or that any Owned Intellectual Property is invalid or unenforceable (other than routine office actions). The consummation of the transactions contemplated by this Agreement or any Transaction Document will not result in the loss or material impairment of any material Intellectual Property right of the Company in or to any material Owned Intellectual Property.

(b) The Company has taken commercially reasonable steps to protect and maintain any trade secrets contained in the Owned Intellectual Property. All registration, renewal and maintenance fees in respect of the Owned Intellectual Property that is registered with or issued by any Authority which were due prior to the date hereof have been duly paid.

(c) All current and former employees, independent contractors, or service providers of the Company who contributed to the development of any Owned Intellectual Property used in connection with the Business have assigned all ownership of such Owned Intellectual Property to the Company or such Owned Intellectual Property is owned by the Company as a "work for hire".

(d) The Company has the rights to use the domain name currently used for the Business.

Section 4.17 Employee Benefit Plans. Except as stated on Section 4.17 of the Disclosure Schedule, neither the Company nor any of its respective ERISA Affiliates (as defined herein) (i) have ever maintained or contributed to any pension plan subject to Title IV of ERISA or Section 412 of the Code or 302 of ERISA, (ii) have any liability (including any contingent liability under Section 4204 of ERISA) with respect to any multiemployer plan defined as such in Section 3(37) of ERISA to which contributions are or have been made by the Company or any of its ERISA Affiliates or as to which the Company or any of its ERISA Affiliates may have liability and that is covered by Title IV of ERISA ("Multiemployer Plan") covering employees (or former employees) employed in the United States, or (iii) have incurred any material liability or taken any action that could reasonably be expected to cause it to incur any material liability (x) on account of a partial or complete withdrawal (within the meaning of Section 4205 and 4203 of ERISA, respectively) with respect to any Multiemployer Plan or (y) on account of unpaid contributions to any such Multiemployer Plan. "ERISA Affiliate" means any Person that is or has been a member of a controlled group of organizations (within the meaning of Sections 414(b), (c), (m) or (o) of the Code) of which the Company or any subsidiary is a member. The representations and warranties set forth in this Section 4.17 are the Sellers' sole and exclusive representations and warranties regarding employee benefit matters and related matters.

Section 4.18 Employees; Employee Relations.

(a) Section 4.18(a) of the Disclosure Schedule contains a list of all persons who are managers, officers, employees, independent contractors or consultants of the Company as of the date hereof, including any employee who is on a leave of absence of any nature, paid or unpaid, authorized or unauthorized, and sets forth for each such individual the following: (i) name; (ii) title or position, if applicable (including whether full or part time); (iii) hire date; (iv) current annual base compensation rate; (v) commission, bonus or other incentive-based compensation; and (vi) a description of the fringe benefits provided to each such individual as of the date hereof. As of the Closing Date, all compensation, including wages, commissions and bonuses, payable to all employees, independent contractors or consultants of the Company for services performed on or prior to the date hereof have been paid in full or accrued for on the applicable balance sheet of the Company or are payable pursuant to Article II hereof.

(b) Except as provided in Section 4.10 of the Disclosure Schedule, there are no Legal Actions currently pending against the Company or, to the Knowledge of the Sellers, threatened, arising out of any Laws pertaining to employment or employment practices as such Laws pertain to any current or former employee of the Company. Except as provided in Section 4.10 of the Disclosure Schedule, the Company is not currently subject to any settlement or consent decree with any present or former employee, employee representative or any Authority relating to claims of discrimination or other claims in respect to employment practices and policies; and the Company is not currently subject to any Order with respect to the labor and employment practices (including practices relating to discrimination) of the Company specifically. The Company has not received written notice of the intent of any Authority responsible for the enforcement of labor or employment Laws to conduct an investigation of the Company with respect to or relating to such Laws and to the Knowledge of the Sellers, no such investigation is in progress. The Company has not incurred in the three (3) years prior to the Closing Date, and will not incur as a result of the Sellers' execution of this Agreement, any liability or obligation under the Worker Adjustment and Retraining Notification Act or similar applicable state laws.

Section 4.19 No Illegal Payments, Etc. Neither the Company nor any of its officers, employees, agents or members has: (a) directly or indirectly given or agreed to give any illegal gift, contribution, payment or similar benefit to any supplier, client, governmental official or employee or other person in order to obtain favorable treatment for the Company (or assist in connection with any actual or proposed transaction with the Company) or made or agreed to make any illegal contribution, or reimbursed any illegal political gift or contribution made by any other person, to any candidate for federal, state, local or foreign public office which might subject the Company to any damage or penalty in any civil, criminal or governmental litigation or proceeding or (b) established or maintained any unrecorded fund or asset or intentionally made any false entries on any books or records for any purpose on behalf of the Company or as part of the duties of their employment with the Company.

Section 4.20 Bank Accounts and Powers of Attorney. Section 4.20 of the Disclosure Schedule sets forth each bank, savings institution and other financial institution with which the Company has an account or safe deposit box and the names of all persons authorized to draw thereon or to have access thereto. Each person holding a power of attorney or similar grant of authority on behalf of the Company is identified on Section 4.20 of the Disclosure Schedule. Except as disclosed on Section 4.20 of the Disclosure Schedule, the Company has not given any revocable or irrevocable powers of attorney to any person, firm, corporation or organization relating to the Business for any purpose whatsoever.

ARTICLE V.
REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser hereby represents and warrants to the Sellers that the following statements are true and correct as of the Closing Date:

Section 5.1 Organization and Business; Power and Authority; Effect of Transaction

(a) The Purchaser is a corporation duly organized, validly existing and in good standing under the Laws of the State of Florida, and possesses all requisite corporate power and authority to own, lease and operate its assets as now owned or leased and operated, and is duly qualified and in good standing in each other jurisdiction in which the character of the assets owned or leased by the Purchaser requires such qualification, except where the failure to be so qualified would not reasonably be expected to have a Material Adverse Effect. Section 5.1 of the Disclosure Schedule contains a complete and accurate list of the jurisdiction of organization of the Purchaser and any other jurisdictions in which the Purchaser is qualified to do business.

(b) The Purchaser has all requisite organizational power and authority necessary to enable it to execute and deliver, and to perform its obligations under, this Agreement and each Transaction Document and to consummate the transactions contemplated hereby and thereby; and the execution, delivery and performance by the Purchaser of this Agreement and each Transaction Document have been duly authorized by all requisite corporate action or similar action on the part of the Purchaser. This Agreement has been duly executed and delivered by the Purchaser and constitutes, and each Transaction Document executed or required to be executed by it pursuant hereto or thereto or to consummate the transactions contemplated hereby and thereby when executed and delivered by the Purchaser will constitute, a legal, valid and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with their respective terms. The Purchaser shall provide appropriate certificates of unanimous consent of its Board authorizing the person designated therein to bind the Purchaser, and to execute any documents in order to achieve the purpose of this Agreement.

(c) Neither the execution, delivery and performance by the Purchaser of this Agreement or any Transaction Document, nor the consummation of the transactions contemplated hereby and thereby, or compliance with the terms, conditions and provisions hereof or thereof by the Purchaser: (i) will conflict with, or but for any requirement of giving notice or passage of time or both could result in a breach or violation of, or constitute a default or permit the acceleration of any obligation or the termination of any rights under (A) any Organizational Document of the Purchaser or any of its subsidiaries, (B) any applicable Law or (C) any of the terms of any contract, agreement, license, lease, indenture, mortgage, loan agreement, note or other instrument to which the Purchaser or any of its subsidiaries may be bound and (ii) will not require the Purchaser or any subsidiary to obtain any authorization or make any filing with any Person or Authority, other than filings with Authorities relating to notifications of changes in ownership. Neither the Purchaser nor any of its subsidiaries are in default under, or in violation of, any provision of their Organizational Documents or any credit facilities, notes or other debt instruments to which they are a party.

Section 5.2 Capitalization. The authorized capital stock of the Purchaser immediately prior to the consummation of the transactions contemplated by this Agreement consists of:

(a) 10,000,000 shares of preferred stock of which:

(i) 4,000,000 shares have been duly designated Series B Convertible Preferred Stock, of which there are no shares issued and outstanding; and

(ii) 1,000,000 shares have been duly designated Series C Convertible Preferred Stock, all of which are 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 of Common Stock of which 14,502,580 shares are duly and validly issued and outstanding, fully paid and non-assessable, with no personal liability attaching to the ownership thereof.

(c) 5,890,000 shares of Common Stock have been duly reserved for issuance upon exercise of existing warrants, 10,124,582 shares of Common Stock have been duly reserved for issuance upon conversion of preferred stock, and 5,000,000 shares of Common Stock have been duly reserved for a private placement offering.

Section 5.3 Subsidiaries. Except as set forth on Section 5.3 of the Disclosure Schedule, the Purchaser does not control, directly or indirectly, or have a direct or indirect equity ownership or participation in, any Entity. Each of the Purchaser's subsidiaries set forth on Section 5.3 of the Disclosure Schedule (i) is duly organized, validly existing and in good standing under the Laws of the state of its formation, and possesses all requisite corporate power and authority to own, lease and operate its assets as now owned or leased and operated, and (ii) is duly qualified and in good standing in each jurisdiction in which the character of the assets owned or leased by such subsidiary requires such qualification, except where the failure to be so qualified would not reasonably be expected to have a Material Adverse Effect.

Section 5.4 Financial Statements; Undisclosed Liabilities; SEC Reports.

(a) Purchaser has provided to the Sellers copies of the unaudited balance sheet (the " Most Recent Purchaser Balance Sheet ") of Purchaser, dated as of September 30, 2016 (the "Purchaser Balance Sheet Date") and audited statements of operations and balance sheets for the fiscal years ended December 31, 2014 and December 31, 2015 (the "Purchaser Financial Statements"), which are attached to Section 5.4(a) of the Disclosure Schedule. The Financial Statements have been prepared on an accrual basis and show the financial condition and results of operation of the Purchaser as of the dates thereof and for the periods referred to therein, and all material obligations of the Purchaser have been reflected therein in accordance with GAAP. Other than as may have been reflected in filings made by the Purchaser with the SEC since the Most Recent Purchaser Balance Sheet Date, the Purchaser has conducted business in the ordinary course and there has not occurred a Material Adverse Effect or any event that would constitute a material adverse effect on the Purchaser or its subsidiaries.

(b) The consolidated financial statements of the Purchaser included in the forms, reports and documents required to be filed by the Purchaser with the SEC (each such filing, an "SEC Report") since the filing of the Purchaser's annual report on Form 10-K for the fiscal year ended December 31, 2014, including the footnotes thereto, have been prepared in accordance with GAAP consistently applied throughout the periods indicated. The consolidated balance sheets of the Purchaser contained in the SEC Reports fairly present, in all material respects, the financial condition of the Purchaser and its subsidiaries at the respective dates thereof, and the related statements of income and cash flows fairly present, in all material respects, the results of operations of the Purchaser and its subsidiaries for the respective periods indicated.

(c) Except as set forth in Section 5.4(c) of the Purchaser Disclosure Schedule, the Purchaser has filed or furnished, as applicable, on a timely basis all required SEC Reports since January 1, 2014. Each SEC Report filed since January 1, 2014 was, at the time of its filing or furnishment in compliance in all material respects with the applicable requirements of the Exchange Act and any rules and regulations promulgated thereunder applicable to the SEC Reports. As of their respective dates (or, if amended prior to the date hereof, as of the date of such amendment), the SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading.

Section 5.5 Investment Status.

(a) The Purchaser is acquiring the Membership Interests for investment and not with a view to, or for sale in connection with, any distribution thereof in violation of the Securities Act, or any other Law. The Purchaser understands that the Company has not registered the Membership Interests under the Securities Act, or under the Laws of any other jurisdiction (including the blue sky or securities laws of any state of the United States), that the Membership Interests constitute "restricted securities" under the Securities Act and that the Membership Interests constitute an illiquid investment, and the Purchaser agrees that it will not sell any of the Membership Interests unless the Membership Interests are registered under applicable securities Laws, or exempt pursuant to exemptions from registration thereunder, and such sale otherwise complies with all applicable Laws of relevant jurisdictions. The Purchaser further understands that, in view of the foregoing restrictions on dispositions of the Membership Interests, the Purchaser will be required to bear the economic risks of its ownership of the Membership Interests for an indefinite period of time.

(b) The Purchaser is acquiring the Membership Interests for its own account and not for the account of any other Person and shall not sell the Membership Interests or enter into any other arrangement pursuant to which any other Person shall be entitled to a beneficial interest in the Membership Interests without complying with all applicable requirements of applicable Law.

(c) The Purchaser is an "accredited investor" (as defined in Rule 501 under the Securities Act).

Section 5.6 Broker or Finder. Except for Canaccord Genuity Inc., no agent, broker, investment banker or financial advisor engaged by or on behalf of the Purchaser or any of its Affiliates is or will be entitled to a broker's or finder's fee or commission in connection with the transactions contemplated hereby or the execution, delivery or performance of this Agreement.

Section 5.7 No Other Representations or Warranties. In connection with its investment decision, the Purchaser, by itself and through its representatives, has inspected and conducted its own independent review, investigation and analysis (financial and otherwise) of, and reached its own independent conclusions regarding, the business, operations, assets, condition (financial or otherwise) and prospects of the Company. The Purchaser hereby acknowledges and agrees that, for purposes of this Agreement, except as set forth in Article III and Article IV of this Agreement and the Disclosure Schedule relating thereto, no other representations or warranties have been made, express or implied, at law or in equity, on behalf of the Sellers, to the Purchaser (or any other Affiliate of the Purchaser) by the Sellers or any other Person, and the Purchaser is not relying on any representations or warranties regarding the transactions contemplated by this Agreement other than the representations and warranties expressly set forth in Article III and Article IV of this Agreement. The Purchaser further acknowledges that no promise or inducement for this Agreement has been made to the Purchaser except as set forth herein or in another Transaction Document.

ARTICLE VI.
COVENANTS

Section 6.1 Agreement to Cooperate; Certain Other Covenants. The Parties shall cooperate with one another in the preparation of all Tax Returns, applications or other documents regarding any Taxes on transfer, recording, registration or other fees which relate to any period that begins on or before the Closing Date, or ends after the Closing Date. The Parties shall also cooperate with each other and each other's Representatives in connection with the preparation or audit of any Tax Returns and any Tax claim or litigation in respect of the Company or the Business that include taxable periods (or portions thereof), activities, operations or events ending on the Closing Date, which cooperation shall include, making available documents and employees, if any, capable of providing information or testimony.

Section 6.2 Tax Matters.

(a) Responsibility for Filing Tax Returns for Periods through Closing Date . The Sellers shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for the Company that are filed after the Closing Date that relate to Tax periods ending on or before the Closing Date. The Sellers shall permit the Purchaser to review and comment on each such Tax Return with respect to a Pre-Closing Tax Period at least thirty calendar days prior to filing and shall make such revisions as are reasonably requested by the Purchaser. The Purchaser shall prepare and file all other Tax returns subject to the final sentence of this Section 6.2(a); provided that, in the case of any Tax return relating to any Straddle Period (as defined below), such preparation shall be governed by the provisions of Section 6.2(c), below and, prior to filing. The Purchaser shall permit the Sellers to review and comment on each such Straddle Period Tax Return at least thirty calendar days prior to filing and shall make such revisions as are reasonably requested by the Sellers.

(b) Cooperation on Tax Matters. The Purchaser and the Sellers shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns pursuant to this Agreement and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Sellers agree to retain or cause to be retained all books and records with respect to Tax matters pertinent to the Company or its assets relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by the Purchaser or the Company, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any taxing Authority. The Purchaser and the Sellers further agree, upon request, to use their commercially reasonable efforts to obtain any certificate or other document from any Authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, with respect to the transactions contemplated hereby).

(c) Certain Taxes. All transfer, documentary, sales, use, stamp, registration and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement (collectively, "Transfer Taxes") shall be paid one-half by the Purchaser and one-half by the Sellers when they become due. The party responsible shall file all necessary Tax Returns and other documentation with respect to all such Transfer Taxes and, if required by applicable law, the other party will, and will cause its Affiliates to, join in the execution of any such Tax Returns and other documentation. The Parties shall cooperate in obtaining any available exemptions with respect to Transfer Taxes.

(d) Purchase Price Allocation. The Parties agree to treat for federal income tax purposes the purchase of the Membership Interests as a purchase of assets by the Purchaser in exchange for the Purchase Price plus the assumption of liabilities to the extent treated as purchase price for federal income Tax purposes (the "Adjusted Purchase Price"), and a sale of Membership Interests by the Sellers for the Purchase Price, unless otherwise required by a taxing Authority, which Purchase Price is subject to adjustment as described herein. Annex 6.2(d) sets forth the methodology to be used in connection with the allocation of the Adjusted Purchase Price (the methodology on such adjusted schedule being the "Final Purchase Price Allocation Methodology"). The Parties hereto agree that, to the extent any liabilities are assumed in such deemed asset purchase that would have been deductible if paid by the Company prior to the Closing, such assumption shall be treated as deemed additional Purchase Price and a deemed payment of such liability by the Company immediately prior to the Closing, reportable by the Company (in the case of such deduction) on its final Pre-Closing Tax Period income Tax Returns. Subject to the first sentence of this Section 6.2(d), the Purchaser, the Company, and the Sellers shall file all Tax Returns in a manner consistent with the Final Purchase Price Allocation Methodology, and Sellers shall provide copies of all Tax Returns including an allocation consistent with the Final Purchase Price Allocation Methodology to Purchaser at least thirty calendar days prior to filing, and shall make such revisions as are reasonably requested by the Purchaser; provided that such revisions are consistent with Annex 6.2(d). The Parties hereto also agree that (x) shares of Common Stock issued at Closing and assumption of liabilities are being paid for assets other than goodwill and going concern value ("Hard Assets"), to the extent of the value of the Hard Assets, and that (y) all other payments are being paid in consideration solely of goodwill and going concern value.

(e) Allocation of Straddle Period Tax. To the extent permitted by applicable law with respect to any particular Tax regarding the Company, the Sellers shall cause the Company to elect to treat the Closing Date as the last day of the taxable period. For purposes of determining the amount of Taxes that are attributable to the Pre-Closing Tax Period with respect to any taxable period that includes (but does not end on) the Closing Date (a "Straddle Period"), (i) in the case of any Taxes other than Taxes based upon or related to income or receipts, be deemed to be the amount of such Tax for the entire Tax period (excluding any increase in Taxes for the period as a result of the transfer of the Membership Interests pursuant to this Agreement) multiplied by a fraction the numerator of which is the number of days in the Tax period ending on the Closing Date and the denominator of which is the number of days in the entire Tax period, and (ii) in the case of any Tax based upon or related to income or receipts, be deemed equal to the amount which would by payable if the relevant Tax period ended on the Closing Date.

(f) Withholding. Notwithstanding any other provision in this Agreement, Purchaser shall have the right to deduct and withhold the Taxes described on Annex 6.2(f) from any payments to be made hereunder. To the extent that amounts are so withheld and paid to the appropriate taxing authority, such withheld amounts shall be treated for all purposes of this Agreement as having been delivered and paid to the applicable Seller or any other recipient of payment in respect of which such deduction and withholding was made.

Section 6.3 Conduct of Business.

(a) Subject to the terms and conditions of this Agreement, and without limiting any rights of the Principal Sellers pursuant to the Employment Agreements, subsequent to the Closing, the Purchaser will have the sole power and right to control the Business and operations of the Purchaser (including the New Business Segment) in its sole discretion; provided, however, that, prior to the end of the Third Year Period the Purchaser shall not, directly or indirectly, take any action, or refrain from taking action that will materially adversely affect (x) the ability of the Sellers to earn the Additional Consideration or (y) the ability of the New Business Segment to achieve the Additional Consideration Target in any Measuring Period, provided further, however, that any action (or refraining from action) taken directly or indirectly by the Purchaser with the written consent of the Principal Sellers should not constitute a violation of this obligation. Additionally, prior to the end of the Third Year Period, except in each case with the prior written consent of the Principal Sellers, which consent shall not be unreasonably withheld:

(i) The Purchaser shall operate the New Business Segment as a separate division and maintain separate books and records for the New Business Segment in a manner reasonably calculated to facilitate the determination of the Working Capital Adjustment and the Additional Consideration in a manner consistent with the terms and conditions of this Agreement;

(ii) Except for (a) an indirect sale, transfer, assignment or disposition of the Membership Interests in connection with the sale of a controlling stake in the Purchaser, (b) in connection with a reincorporation, reorganization or other change in corporate form of the Purchaser for tax efficiencies or otherwise or (c) an assignment of the Membership Interests to a wholly-owned Subsidiary of the Purchaser for tax efficiency purposes, the Purchaser shall not directly or indirectly (1) sell, transfer or reassign the Membership Interests to any third party or any Affiliate of the Purchaser, (2) sell, lease or dispose of all or any material part of the assets or business of the New Business Segment, or any portion of the Business, to any third party or any Affiliate of the Purchaser, (3) merge, consolidate or amalgamate the New Business Segment with or into another Person, or another Person with or into the New Business Segment, (4) wind down, terminate, liquidate or cancel all or any material segment of the New Business Segment, or (5) cause the New Business Segment to acquire the equity, assets or business of another Person, other than the purchase of assets in the ordinary course of business;

(iii) The Purchaser shall operate the Business solely out of the New Business Segment, and shall not provide any services similar to those provided by the Business through an Entity, division or business segment other than the New Business Segment or transfer the business of any client of the New Business Segment to any other Person;

(iv) The Purchaser shall not relocate the New Business Segment's offices outside of their applicable current city; and

(v) The Purchaser shall operate and shall cause the New Business Segment to operate the Business in good faith, and will allow the Company's current management (including, without limitation, the Principal Sellers) to manage the New Business Segment in a manner that is generally consistent with the management of the Company prior to the Closing, in the ordinary course of business.

(b) The budget and capital expenditure plan of the New Business Segment will be determined by the Purchaser's Board of Directors (the "Board") in good faith, with due regard to the business interests of the New Business Segment.

Section 6.4 Public Announcements. Unless otherwise required by applicable Law (based upon the reasonable advice of counsel) or any rules or requirements of any stock exchange or regulatory or other supervisory body or authority of competent jurisdiction, no Party to this Agreement shall make any public announcements in respect of this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without the prior written consent of the other Party (which consent shall not be unreasonably withheld or delayed), and the Parties shall cooperate as to the timing and contents of any such announcement.

Section 6.5 Seller Guarantees. As soon as practicable following the Closing, the Purchaser shall use its reasonable best efforts to arrange for the release of any Principal Seller guarantees of the Company line of credit with City National Bank (the "Seller Guarantees"). If the Purchaser is unable to obtain such release, then from and after the Closing, the Purchaser shall indemnify the providers of such Seller Guarantees from any Losses arising under the Seller Guarantees to the extent arising on and after the Closing pursuant to Section 7.4(b).

Section 6.6 Unincorporated Business Taxes. Following the Closing, the Purchaser shall cause the Company to file any forms related to, and pay when due, any unincorporated business taxes with respect to the Purchase Price, as may be required by the City of New York (the "UBT"). The parties acknowledge and agree that estimated amount of UBT payable in connection with the Closing is set forth in the calculation of "Company Indebtedness" for purposes of this Agreement. The Purchaser and the Principal Sellers shall determine in good faith the amounts of UBT payable by the Company with respect to any future payments of Purchase Price payable after the Closing and shall hold back the agreed-upon UBT amount from such future payment of Purchase Price.

Section 6.7 Further Assurances. At any time and from time to time after the Closing Date, at the reasonable request of the Purchaser, as promptly as reasonably practicable, the Sellers shall (i) execute and deliver to the Purchaser such instruments of transfer, conveyance, assignment and confirmation, in addition to those executed and delivered by the Sellers at the Closing, (ii) take such actions as the Purchaser may reasonably deem necessary or desirable in order to more effectively consummate the transactions contemplated hereby, and permit the Purchaser to exercise all rights as a holder of the Membership Interests and otherwise to give full effect to the provisions of this Agreement, the Transaction Documents and the transactions contemplated hereby and thereby. The Sellers agree to furnish any additional information reasonably requested by the Purchaser or any of its Affiliates to ensure compliance with the Securities Laws in connection with the issuance of the Dolphin Shares.

ARTICLE VII.
INDEMNIFICATION

Section 7.1 General Statement; Survival Period.

(a) General Statement. From and after the Closing, the Parties shall indemnify each other as provided in this Article VII.

(b) Survival Period.

(i) Representations and Warranties. Each representation and warranty contained in Article III and Article IV herein shall survive until the applicable Survival Date, and shall terminate and be of no further force or effect upon the passing of the applicable Survival Date with respect to such representation or warranty (except with respect to pending claims pursuant to Section 7.3(b)).

(ii) Covenants and Obligations. None of the covenants or other agreements contained in this Agreement shall survive the Closing Date other than those which by their terms contemplate performance after the Closing Date, and each such surviving covenant and agreement shall survive the Closing for the period contemplated by its terms; provided that the covenants and obligations set forth in Section 6.2, Article VII and Article VIII shall survive indefinitely (unless the performance of such covenant or obligation is completed, in which case such covenant or obligation shall terminate upon its completion).

Section 7.2 Sellers' Indemnification Obligations. (i) The Sellers shall, jointly and severally (except as otherwise provided in Section 7.2(a)), to the extent of the right of offset as set forth in Section 7.3(g); and (ii) the Principal Sellers shall, jointly and severally (except as otherwise provided in Section 7.2(a)), to the extent the right of offset as set forth in Section 7.3(g) shall be unavailable, indemnify, defend, save and keep each Purchaser Indemnitee harmless against and from, and shall pay to each Purchaser Indemnitee the amount of, and reimburse each Purchaser Indemnitee for, all Losses which any Purchaser Indemnitee may suffer, sustain, incur or become subject to, as a result of, in connection with, relating to, arising out of, or by virtue of:

(a) any inaccuracy in or breach of any representation and warranty made by the Sellers to the Purchaser under Article III or Article IV; provided that, with respect to any inaccuracy or breach of any representation and warranty made by any Seller to the Purchaser under Article III, each Seller shall have such indemnification obligations with respect to his, her or its individual representations therein, and each Seller's indemnification obligations shall be several, and not joint and several;

(b) the breach by the Sellers of, or failure of the Sellers to comply with or fulfill, any of the covenants or obligations under this Agreement (including the Sellers' obligations under this Article VII);

(c) any claim or assertion for broker's or finder's fees or expenses arising out of the transactions contemplated by this Agreement by any Person claiming to have been engaged by either Sellers or any of their Affiliates;

(d) any Company Indebtedness (other than Indebtedness outstanding under the Credit Agreement, the Cynthia Swartz Payment or the amount reserved for UBT as set forth on Annex 2.2(b)) not included in the calculation of the Closing Working Capital that remains outstanding as of the Closing;

(e) any Pre-Closing Taxes;

(f) any Excluded Liability; and

(g) any Legal Action, investigation, audit, or other proceeding alleging or relating to any disputes the Company has with the Motion Picture Industry Pension, Individual Account, and Health Plans regarding the Company's alleged contribution obligations to such plans for the period between March 25, 2012 through March 26, 2016 (the "Guild Dispute").

For the avoidance of doubt, no disclosure related to an Excluded Liability in the Disclosure Schedule shall prevent the Purchaser from seeking indemnification with respect to any Excluded Liability.

Section 7.3 Limitation on the Sellers' Indemnification Obligations. The Sellers' obligations pursuant to the provisions of Section 7.2 are subject to the following limitations:

(a) Indemnity Threshold. The Purchaser Indemnitees shall not be entitled to recover under Section 7.2(a) until the total amount which the Purchaser Indemnitees would recover under Section 7.2(a), but for this Section 7.3(a), exceeds an amount equal to $100,000 (the "Indemnity Threshold"), after which the Purchaser Indemnitees shall be entitled to recover all Losses in excess of the Indemnity Threshold; provided, however, that the foregoing limitations shall not apply to recovery for any recovery under Section 7.2(a) for breaches of one or more of the Fundamental Representations. For purposes of calculating the amount of any Losses incurred in connection with any breach of a representation or warranty, any and all reference to "material" or "Material Adverse Effect" (or other correlative or similar terms) shall be disregarded.

(b) Claims Cut-Off. The Purchaser Indemnitees shall not be entitled to recover under Section 7.2 unless a claim has been asserted in good faith with reasonable specificity by written notice delivered to the Sellers on or prior to the applicable Survival Date (regardless of when the Losses in respect thereof may actually be incurred), in which case the applicable claim shall not be barred by the passing of the applicable Survival Date and such claim shall survive until finally resolved.

(c) Indemnification Cap. The Purchaser Indemnitees shall not be entitled to recover under Section 7.2(a) for an amount of Losses in excess of $2,200,000, provided, however, that the foregoing limitation shall not apply to recovery for any recovery under Section 7.2(a) for breaches of one or more of the Fundamental Representations; and the aggregate amount of all Losses for which the Sellers shall be liable pursuant to this Article VII shall not exceed one hundred percent (100%) of the total net Purchase Price actually received by the Sellers (before payment of any applicable Taxes).

(d) Benefits and Recoveries. The amount of any indemnity provided in Section 7.2 shall be computed net of (i) any insurance proceeds actually received by a Purchaser Indemnitee in connection with or as a result of any claim giving rise to an indemnification claim hereunder (reduced by all related costs and expenses and any premium increases), (ii) the amount of any indemnity or contribution actually recovered by any Purchaser Indemnitee from any third party, net of any costs incurred in connection with recovering any such amounts, and/or (iii) the amount of any Tax Benefit (as defined below) to the Purchaser Indemnitee or its Affiliates on account of such Losses ((i), (ii) and (iii) collectively, "Benefits and Recoveries"). The determination if any such Tax Benefit exists shall be made in good faith by the Purchaser Indemnitee and, if requested by the Sellers, shall be verified in writing by an independent certified public accounting firm selected by the Sellers. Each Purchaser Indemnitee shall exercise commercially reasonable best efforts to obtain any possible Benefits and Recoveries to the extent available. If an indemnity amount is paid by the Sellers prior to the Purchaser Indemnitee's actual receipt of Benefits and Recoveries related thereto, and a Purchaser Indemnitee subsequently receives such Benefits and Recoveries, then the Purchaser Indemnitee shall promptly pay to the Sellers (as applicable) the amount of Benefits and Recoveries subsequently received (reduced, without duplication, by all related costs and expenses and any premium increases resulting therefrom), but not more, in the aggregate, than the indemnity amount paid by such Seller.

(e) No Duplicate Recovery. Any Loss for which any Purchaser Indemnitee is entitled to indemnification under this Section 7.3 shall be determined without duplication of recovery by reason of the state of facts giving rise to such Loss constituting a breach of more than one representation, warranty or covenant.

(f) No Recovery for Working Capital or Purchase Price Adjustments. No Purchaser Indemnitee shall be entitled to indemnification under this Agreement for any Loss arising from a breach of any representation, warranty or covenant set forth herein (and the amount of any Loss incurred in respect of such breach shall not be included in the calculation of any limitations on indemnification set forth herein) to the extent such liability, matter or item is included as a liability in the calculation of the Closing Working Capital or any Working Capital Adjustment made pursuant to Section 2.4(d).

(g) Right of Offset. Subject to the other limitations set forth in this Section 7.3, any Losses payable by the Sellers in respect of indemnification claims made by a Purchaser Indemnitee under Section 7.2 shall be satisfied pursuant to the right of offset in accordance with the provisions of Section 2.6 hereof, and finally, from the Sellers directly (other than for Losses resulting from breaches of one or more of the individual Seller representations and warranties in Article III, which shall be satisfied first pursuant to the right of offset against such Seller in accordance with the provisions of Section 2.6 hereof and second directly from such Seller); provided, however, that the Sellers shall have the right, in their sole discretion, to pay any Losses owed to the Purchaser in cash in lieu of the application of the right of offset by the Purchaser.

Notwithstanding anything expressed or implied herein to the contrary, any limitations on indemnification set forth in this Article VII shall not apply to any claim for Losses as a result of or arising out of or by virtue of intentional misrepresentation (including any intentional omission), willful misconduct or intentional fraud in connection with this Agreement.

Section 7.4 The Purchaser's Indemnification Obligations. The Purchaser shall indemnify, defend, save and keep each Seller Indemnitee harmless against and from, and shall pay to each Seller Indemnitee the amount of, and reimburse each Seller Indemnitee for, all Losses which any Seller Indemnitee may suffer, sustain, incur or become subject to, as a result of, in connection with, relating to, arising out of, or by virtue of:

(a) any inaccuracy in or breach of any representation and warranty made by the Purchaser to the Sellers herein;

(b) any breach by the Purchaser of, or failure by the Purchaser to comply with or fulfill, any of the covenants or obligations under this Agreement (including the Purchaser's obligations under this Article VII); and

(c) any claim or assertion for broker's or finder's fees or expenses arising out of the transactions contemplated by this Agreement by any Person claiming to have been engaged by either the Purchaser or any of its Affiliates.

Section 7.5 Purchaser Indemnification Cap. The Seller Indemnitees' sole and exclusive remedy under Section 7.2(b) for any action or inaction taken by the Purchaser not otherwise in compliance with Section 6.3(a), shall be the issuance of the Additional Consideration, if any, that the Sellers would have otherwise received had such action or inaction not occurred.

Section 7.6 Third-Party Claims. The following provisions shall govern the defense and settlement of Third-Party Claims:

(a) Promptly following the receipt of notice of a Third-Party Claim, the party receiving the notice of the Third-Party Claim shall (i) notify the other party of its existence setting forth with reasonable specificity the facts and circumstances of which such party has received notice and (ii) if the party giving such notice is an Indemnified Party, specifying the basis hereunder upon which the Indemnified Party's claim for indemnification is asserted; provided, however, that the failure to provide such notice promptly shall not affect the obligations of the Indemnifying Party hereunder except to the extent the Indemnifying Party is actually and materially prejudiced thereby (and then only to the extent of such prejudice).

(b) Within fifteen (15) Business Days of its receipt from the Indemnified Party of the notice of the Third-Party Claim, the Indemnifying Party may deliver to the Indemnifying Party a written notice of its intention to assume the defense of such Third-Party Claim (each, a "Defense Notice"). Upon timely delivery of a Defense Notice to the Indemnified Party, the Indemnifying Party shall have the right to conduct at its expense the defense against such Third-Party Claim in its own name, or, if necessary, in the name of the Indemnified Party; provided, however, that if the Indemnifying Party is a Seller and (i) if the claims at issue would impose liability on the Indemnified Party for which the Indemnified Party is not entitled to indemnification hereunder, other than as a result of the Indemnity Threshold, or (ii) such claim seeks solely injunctive or other equitable relief involving the Purchaser or any of its Affiliates or the Business, or (iii) any insurance carrier for the Purchaser or any of its Affiliates requires, as a condition to such Person's eligibility to recover insurance proceeds on account of any such claim, that such carrier control the defense of any such claim, then, in any such case, the Purchaser (or its Affiliates, as applicable) shall be entitled to conduct the defense against such claim, at its own expense. When the Indemnifying Party conducts the defense, the Indemnified Party shall have the right to approve the defense counsel representing the Indemnifying Party in such defense, which approval shall not be unreasonably withheld or delayed, and in the event the Indemnifying Party and the Indemnified Party cannot agree upon such counsel within ten (10) Business Days after the Defense Notice is provided, then the Indemnifying Party shall propose an alternate defense counsel, which shall be subject again to the Indemnified Party's approval, which approval shall not be unreasonably withheld or delayed.

(c) In the event that the Indemnifying Party shall fail to give the Defense Notice within the time and as prescribed by Section 7.6(b), or if the Indemnifying Party does not have the right to defend such Third-Party Claim pursuant to Section 7.6(b), then in either such event, the Indemnified Party shall have the sole right and authority to conduct such defense in good faith, but the Indemnified Party (or any insurance carrier defending such Third-Party Claim on the Indemnified Party's behalf) shall be prohibited from compromising or settling the claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however, that from and after any such failure to consent, the Indemnifying Party shall be obligated to assume the defense of such claim, suit, action or proceeding and any and all Losses in connection therewith in excess of the amount of unindemnifiable Losses which the Indemnified Party would have been obligated to pay under the proposed settlement or compromise. Failure at any time of the Indemnifying Party to diligently defend a Third-Party Claim as required herein shall entitle the Indemnified Party to assume the defense and settlement of such Third-Party Claim as if the Indemnifying Party had never elected to do so as provided in this Section.

(d) In the event that the Indemnifying Party does deliver a Defense Notice and thereby elects to conduct the defense of such Third-Party Claim in accordance with Section 7.6(b), the Indemnified Party will cooperate with and make available to the Indemnifying Party such assistance, personnel, witnesses and materials as the Indemnifying Party may reasonably request, all at the expense of the Indemnifying Party. Notwithstanding an election by the Indemnifying Party to assume and control the defense of such Third-Party Claim, the Indemnified Party shall have the right to employ separate legal counsel, at the sole cost and expense of the Indemnified Party, and to participate in the defense of such Third-Party Claim. Each Indemnified Party shall reasonably consult and cooperate with each Indemnifying Party with a view towards mitigating Losses, in connection with claims for which a Party seeks indemnification under this Article VII. The Indemnifying Party (or any insurance carrier defending such Third-Party Claim on the Indemnifying Party's behalf) will not enter into any settlement of any Third-Party Claim without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld or delayed) if, pursuant to or as a result of such settlement, such settlement (i) requires the Indemnified Party to take or restrain from taking any action, creates an encumbrance on any assets of the Indemnified Party, or includes an injunction; (ii) does not release the Indemnified Party from any liability in connection with such Third-Party Claim; (iii) contains a finding or admission of a violation of Law or the rights of any Person by the Indemnified Party; and (iv) requires the Indemnified Party to admit or acknowledge to any fact or event, including any violation of Law. If the Indemnifying Party receives a firm offer to settle a Third-Party Claim, which offer the Indemnifying Party is required to obtain consent to settle from the Indemnified Party under this Section 7.6, and the Indemnifying Party desires to accept such offer, the Indemnifying Party will give written notice to the Indemnified Party to that effect. Subject to the limitations set forth in Section 7.3, if the Indemnified Party objects to such firm offer within ten (10) days after its receipt of such notice, the Indemnified Party may continue to contest or defend such Third-Party Claim and, in such event, the maximum liability of the Indemnifying Party as to such Third-Party Claim will not exceed the costs and expenses paid or incurred by the Indemnified Party up to the point such notice had been delivered, to the extent indemnifiable hereunder, plus the lesser of (x) the amount of the settlement offer that the Indemnified Party declined to accept or (y) the final aggregate Losses of the Indemnified Party with respect to such Third-Party Claim.

(e) Any judgment entered or settlement agreed upon in the manner provided herein shall be binding upon the Indemnifying Party and the Indemnified Party, and shall be conclusively deemed to be an obligation with respect to which the Indemnified Party is entitled to prompt indemnification in accordance with the terms of this Article VII (including any limitations on indemnification set forth herein), subject to the Indemnifying Party's right to appeal an appealable judgment or order.

Section 7.7 Direct Indemnification Claims. In the event any Indemnified Party should have a claim against any Indemnifying Party hereunder which does not involve a Third-Party Claim, the Indemnified Party shall transmit to the Indemnifying Party a written notice (the "Indemnity Notice") describing in reasonable detail the nature of the claim and the basis of the Indemnified Party's request for indemnification under this Agreement. After receipt of the Indemnity Notice, the Indemnifying Party shall have forty-five (45) days to review the Indemnity Notice. During such time, the Indemnified Party shall provide the Indemnifying Party with access to all documents, records, work papers, facilities and personnel as reasonably requested by the Indemnifying Party in order to investigate the matter or circumstance alleged to give rise to such claim. If the Indemnifying Party does not respond to the Indemnified Party within forty-five (45) days from its receipt of the Indemnity Notice, the Indemnifying Party shall be deemed to be disputing such claim specified by the Indemnified Party in the Indemnity Notice. Disputed claims for indemnification shall be resolved either (i) in a written agreement signed by the Indemnified Party and the Indemnifying Party, or (ii) by the final, non-appealable, judgment, order, award, decision or decree of a court, arbitrator or other trier of fact. If the Indemnifying Party provides notice that it acknowledges and agrees to all or a portion of the claim, the Indemnified Party shall, subject to the other provisions of this Article VII, be entitled to any indemnifiable Losses related to such claim for indemnification, or the uncontested portion thereof in accordance with the terms of this Article VII.

Section 7.8 Treatment of Indemnification Payments. All amounts paid by the Purchaser or the Sellers pursuant to the indemnification provisions of this Agreement shall be treated as adjustments to the Purchase Price for all Tax purposes to the extent permitted by Law.

Section 7.9 Subrogation; Mitigation. The Indemnifying Party shall not be entitled to require that any action be brought against any other Person before action is brought against it hereunder by the Indemnified Party. Upon making any payment to an Indemnified Party in respect of any Losses, the Indemnifying Party will, to the extent of such payment and to the extent not prohibited by applicable Law or any existing contract, be subrogated to all rights of the Indemnified Party (and its Affiliates) against any third party in respect to the Losses to which such payment relates. The Indemnified Parties shall have a duty to take all reasonable steps to mitigate any Losses upon becoming aware of any event or circumstance that would be reasonably be expected to, or does, give rise to an indemnification claim hereunder.

Section 7.10 Indemnification Exclusive Remedy. Except for claims or causes of action based on criminal activity, intentional misrepresentation (including any intentional omission), willful misconduct or intentional fraud in connection with this Agreement, or actions seeking equitable remedies (including injunctive relief and specific performance), indemnification pursuant to the provisions of this Article VII shall be the exclusive remedy of the Parties with respect to any matter relating to this Agreement or its subject matter or arising in connection herewith, including for any misrepresentation or breach of any representation, warranty or covenant contained herein.

ARTICLE VIII.
MISCELLANEOUS

Section 8.1 Waivers; Amendments. Except as expressly provided herein, neither this Agreement nor any term hereof may be amended, modified, supplemented, waived, discharged or terminated other than by a written instrument signed by the Principal Sellers and the Purchaser expressly stating that such instrument is intended to amend, modify, supplement, waive, discharge or terminate this Agreement or such term hereof. No delay on the part of either party at any time or times in the exercise of any right or remedy shall operate as a waiver thereof. Any waiver or consent may be given subject to satisfaction of conditions stated therein. The failure to insist upon the strict provisions of any covenant, term, condition or other provision of this Agreement or any Transaction Document or to exercise any right or remedy hereunder shall not constitute a waiver of any such covenant, term, condition or other provision hereof or default in connection therewith. The waiver of any covenant, term, condition or other provision hereof or default hereunder shall not affect or alter this Agreement or any Transaction Document in any other respect, and each and every covenant, term, condition or other provision of this Agreement or any Transaction Document shall, in such event, continue in full force and effect, except as so waived, and shall be operative with respect to any other then existing or subsequent default in connection herewith, unless specifically stated so in writing.

Section 8.2 Fees, Expenses and Other Payments. All costs and expenses incurred in connection with any transfer taxes, sales taxes, recording or documentary taxes, stamps or other charges levied by any Authority in connection with this Agreement, the Transaction Documents, and the consummation of the transactions contemplated hereby and thereby shall be divided equally between the Sellers and the Purchaser. All other costs and expenses (including fees and expenses of counsel, accountants, investment bankers, brokers, finders, financial advisers and other consultants, advisers and Representatives for all activities of such Persons undertaken pursuant to the provisions of this Agreement) incurred in connection with the negotiation, preparation, performance and enforcement of this Agreement, whether or not such transactions are consummated, incurred by the Parties shall be borne solely and entirely by the Party that has incurred such costs and expenses, except to the extent otherwise specifically set forth in this Agreement; provided, however, that the Purchaser shall pay for or reimburse the Company for all BDO Audit Expenses.

Section 8.3 Notices. All notices and other communications which by any provision of this Agreement are required or permitted to be given shall be given in writing and shall be sent to such other person(s), address(es), email address(es) or facsimile number(s) as the Party to receive any such notice or communication may have designated by written notice to the other Party. Such notice shall be deemed given: (a) when received if given in person, (b) on the date of transmission if sent by facsimile, electronic mail or other wire transmission (receipt confirmed), (c) three (3) days after being deposited in the U.S. mail, certified or registered mail, postage prepaid, (d) if sent domestically by a nationally recognized overnight delivery service, the first day following the date given to such overnight delivery service and (e) if sent internationally by an internationally recognized overnight delivery service, the second (2nd) day following the date given to such overnight delivery service.

If to the Purchaser:	Dolphin Digital Media, Inc. 2151 LeJeune Road Suite 150-Mezzanine Coral Gables, FL 33134 Attention: William O'Dowd Fax: (305) 774-0405 Email: billodowd@dolphinentertainment.com
with a copy to (which shall not constitute notice to the Purchaser):	Greenberg Traurig, P.A. 333 Avenue of the Americas Miami, FL 33131 Attention: Randy Bullard Fax No: (305) 961-5532 Email: Bullardr@gtlaw.com
If to the Sellers:	Leslee Dart Attention: Leslee Dart Amanda Lundberg Attention: Amanda Lundberg Allan Mayer Attention: Allan Mayer Beatrice B. Trust Attention: Marc I. Stern
with a copy to (which shall not constitute notice to the Sellers):	Davis & Gilbert LLP 1740 Broadway New York, New York 10019 Attention: Brad J. Schwartzberg, Esq. Fax No.: (212) 468-4888 Email: Bschwartzberg@dglaw.com

Section 8.4 Specific Performance; Other Rights and Remedies. The Parties recognize and agree that in the event that any Party should refuse to perform any of its obligations under this Agreement, the remedy at Law would be inadequate and agrees that for breach of such obligation, the other Parties shall, in addition to such other remedies as may be available to them as provided in Article VII, be entitled to injunctive relief and to enforce their rights by an action for specific performance to the extent permitted by applicable Law. Subject in all respects to Section 7.10, nothing herein contained shall be construed as prohibiting any Party from pursuing any other remedies available to it pursuant to the provisions of this Agreement or applicable Law for such breach or threatened breach, including the recovery of damages.

Section 8.5 Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument, binding upon all of the Parties. In pleading or proving any provision of this Agreement, it shall not be necessary to produce more than one set of such counterparts. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or by electronic mail shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 8.6 Headings. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

Section 8.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to the conflicts of law rules thereof that require the application of the Laws of another jurisdiction.

Section 8.8 Jurisdiction; Forum. The Parties agree that the appropriate and exclusive forum for any dispute between any of the Parties arising out of this Agreement shall be in any state or federal court in New York, New York, and the Parties further agree that the Parties will not (and will permit their respective Affiliates to) bring suit with respect to any disputes arising out of this Agreement in any court or jurisdiction other than the above-specified courts; provided, however, that the foregoing shall not limit the rights of a Party to obtain execution of judgment in any other jurisdiction. The Parties waive any defense of inconvenient forum to the maintenance of any dispute so brought in the above-specified courts. The Parties further agree, to the extent permitted by applicable Law, that final and non-appealable judgment in any dispute contemplated above shall be conclusive and may be enforced in any other jurisdiction within or outside the United States by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the fact and amount of such judgment. The Parties irrevocably consent to the service of process in any dispute by the mailing of copies thereof by registered or certified mail, return receipt requested, first class postage prepaid to the addresses set forth in Section 8.3 or such other address as specified pursuant to a Party in accordance with Section 8.3. Nothing in this Agreement will affect the right of any Party to serve process in any other manner permitted by applicable Law.

Section 8.9 Entire Agreement. This Agreement (together with the Transaction Documents and any other documents delivered or to be delivered in connection herewith) constitutes the entire agreement of the Parties with respect to the subject matter hereof and supersedes all prior agreements, arrangements, covenants, promises, conditions, undertakings, inducements, representations, warranties and negotiations, expressed or implied, oral or written, between the Parties, with respect to the subject matter hereof.

Section 8.10 Assignment. No Party may assign its rights or obligations hereunder without the prior written consent of the other Parties, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however that following the Closing, the Purchaser may assign its remaining rights and obligations hereunder to a wholly-owned Subsidiary of the Purchaser; and provided further that, notwithstanding any such assignment, the Purchaser shall remain liable for, and will guarantee the performance of, any and all of its covenants, obligations and liabilities hereunder. No assignment shall relieve the assigning Party of any of its obligations hereunder.

Section 8.11 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party (including any permitted assignee of the Purchaser successor to any party by operation of Law, or by way of merger, consolidation or sale of all or substantially all of its assets) and any indemnified Persons, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement or any Transaction Document.

Section 8.12 Waiver of Trial by Jury. EACH OF THE PARTIES HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BROUGHT ON OR WITH RESPECT TO THIS AGREEMENT, INCLUDING TO ENFORCE OR DEFEND ANY RIGHTS HEREUNDER, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

Signature Page Follows

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date first written above.

THE PURCHASER:

DOLPHIN DIGITAL MEDIA, INC.

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

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date first written above.

SELLERS:

/s/ Leslee Dart
LESLEE DART

/s/ Amanda Lundberg
AMANDA LUNDBERG

/s/ Allan Mayer
ALLAN MAYER

BEATRICE B. TRUST

By: /s/ Marc I. Stern
Marc I. Stern, Trustee

APPENDIX A

DEFINITIONS

"Additional Consideration" has the meaning set forth in Section 2.5(a).

"Additional Consideration Target" means, for each of the First Year Period, the Second Year Period and the Third Year Period, an EBITDA of $3,750,000.

"Adjusted Earn-Out Stock Issuance" has the meaning set forth in Section 2.5(c)(iii)(B).

"Adjusted First Year Stock Issuance" has the meaning set forth in Section 2.5(c)(i)(B).

"Adjusted Purchase Price" has the meaning set forth in Section 6.2(d).

"Adjusted Second Year Stock Issuance" has the meaning set forth in Section 2.5(c)(ii)(B).

"Adjusted Third Year Stock Issuance" has the meaning set forth in Section 2.5(c)(iii)(B).

"Affiliate" and "Affiliated" means, with respect to any specified Person: (a) any other Person at the time directly or indirectly controlling, controlled by or under direct or indirect common control with such Person, (b) any officer or director of such Person, (c) with respect to any partnership, joint venture, limited liability company or similar Entity, or any general partner or manager thereof and (d) when used with respect to an individual, shall include any member of such individual's immediate family or a family trust.

"Affiliate Transactions" means any agreement, arrangement or understanding between or among the Company or any Seller, on the one hand, and any Affiliates of any Seller or the Company, on the other hand.

"Agreement" means this Agreement as originally in effect, including, unless the context otherwise specifically requires, this Appendix A and the other Appendices, Annexes and Exhibits hereto, and the Disclosure Schedule, as any of the same may from time to time be supplemented, amended, modified or restated in the manner herein provided.

"Arbitrating Accountant" means a nationally or regionally recognized accounting firm selected by mutual agreement of the Purchaser and the Sellers that has not performed accounting, Tax or auditing services for the Purchaser, the Sellers or any of their respective Affiliates during the past three (3) years.

"Authority" means any governmental or quasi-governmental body, whether administrative, executive, judicial, legislative, police, regulatory, taxing, or other authority, or any combination thereof, whether international, federal, state, territorial, county, city or municipal.

"BDO" means BDO USA LLC and its Affiliates.

"BDO Audit Expenses" means the fees and expenses of BDO's engagement in the preparation of the Company's audited financial statements for calendar years 2014, 2015 and 2016.

"Benefits and Recoveries" has the meaning set forth in Section 7.3(d).

"Books and Records" means all minute books, corporate records, books of account and accounting records of the Company, and listings of (i) all bank accounts, investment accounts and lock boxes maintained by the Company that references the names and addresses of the financial institutions where they are maintained and (ii) the names of all Persons that are registered with such financial institutions as authorized signatories to operate such bank accounts, investment accounts and lock boxes.

"Business" has the meaning set forth in the recitals.

"Business Day" shall mean any day other than Saturday, Sunday or a day on which banking institutions in New York, New York are required or authorized by Law to be closed.

"Closing" has the meaning set forth in Section 2.7.

"Closing Balance Sheet" has the meaning set forth in Section 2.3.

"Closing Date" has the meaning set forth in Section 2.7.

"Closing Dolphin Shares" means (x) the number of shares of Common Stock obtained by dividing the sum of Sections 2.2(a)(i)(A) through (C) by the Closing Share Price, *minus* (y) (i) the Post-Closing Dolphin Shares, (ii) the Closing Stock Bonuses, and (iii) the Special Stock Bonuses.

"Closing Share Price" means $4.61.

"Closing Stock Bonuses" means 311,654 shares of Common Stock issuable to the Designated Employees in accordance with Annex 2.2(b).

"Closing Working Capital" means, as of 12:01 a.m. eastern standard time on the Closing Date, an amount equal to (a) the current assets of the Company minus (b) the current liabilities of the Company, all as determined in accordance with the standards set forth in Section 2.3. Closing Working Capital shall not take into account financing, restructuring or other transactions effected by the Purchaser. Notwithstanding anything to the contrary herein, the Company Indebtedness, the Company Transaction Expenses, the BDO Audit Expenses, any liabilities to Designated Employees to be satisfied by the delivery of the Closing Stock Bonuses and any liabilities to employees to be satisfied by delivery of the Special Stock Bonuses shall not be considered current liabilities.

"Code" means the Internal Revenue Code of 1986, as amended.

"Common Stock" has the meaning set forth in the recitals of this Agreement.

"Company" has the meaning set forth in the recitals of this Agreement.

"Company Balance Sheet Date" has the meaning set forth in Section 4.5(a).

"Company Financial Statements" has the meaning set forth in Section 4.5(a).

"Company Indebtedness" means, without duplication, as of 12:01 a.m. eastern standard time on the Closing Date, all obligations of Indebtedness of the Company, as set forth in Section 4.5(c) of the Disclosure Schedule.

"Company Transaction Expenses" means unpaid expenses relating to the transactions contemplated hereby incurred by or on behalf of the Sellers or the Company and for which the Company is or may become liable, including but not limited to, any legal, accounting, financial advisory and other third party advisory or consulting fees, as set forth in Annex 2.2(b). For the avoidance of doubt, Company Transaction Expenses shall not include any liabilities included in Company Indebtedness or the Closing Working Capital. In addition, the liability to pay the Closing Stock Bonuses and Special Stock Bonuses shall not be deemed Company Transaction Expenses as such term is used in this Agreement.

"Contracts" means all contracts, leases, deeds, mortgages, licenses, instruments, notes, commitments, undertakings, indentures, joint ventures and all other agreements, commitments and legally binding arrangements, whether written or oral.

"Credit Agreement" means the Company's existing line of credit with City National Bank, N.A., evidenced by a promissory note dated January, 26, 2009, and all amendments thereto.

"Cynthia Swartz Payment" means Company Indebtedness in an amount in cash equal to $525,000 to be paid on behalf of the Company to Cynthia Swartz pursuant to her purchase and separation agreement dated August 31, 2011 by and between Cynthia Swartz and the Company.

"Defense Notice" has the meaning set forth in Section 7.6(b).

"Designated Employees" means each of the employees eligible to receive a share of Purchase Price pursuant to the terms of their employment agreements or, in the case of Elliot Goldman, pursuant to the terms of his termination agreement, as set forth on Exhibit A hereto.

"Designated Employee Percentage" means 21.75%, provided, however, that such percentage shall be reduced for purposes of calculating the amount of any payment to be paid to the Designated Employees to remove the Designated Employee Pro Rata Share of any Designated Employee who loses his or her right to receive such payment pursuant to the terms of his or her employment agreement or termination agreement, as applicable.

"Designated Employee Pro Rata Share" means, with respect to any amounts paid or Common Stock issued, as the case may be, to the Designated Employees hereunder, the percentage of such amounts or shares to which a particular Designated Employee is entitled, as set forth on Exhibit A.

"Disclosure Schedule" means the Disclosure Schedule dated as of the Closing Date and delivered by the Sellers or the Purchaser, as applicable, concurrently with the execution and delivery of this Agreement.

"Dispute" means any dispute regarding (a) the elements of, or amounts reflected on the Working Capital Schedule and affecting the calculation of the number of shares of Common Stock to be delivered pursuant to Section 2.4(d) or (b) the elements of or amounts reflected on an Earn-Out Report and affecting the calculation of any payments of Additional Consideration, as applicable.

"Dispute Notice" means a written notice of a Dispute presented to the Purchaser within the Dispute Period.

"Dispute Period" means the period beginning on receipt by the Sellers from the Purchaser of the Working Capital Schedule or an Earn-Out Report, as applicable, and ending at 5: 00 p.m., New York time, on the date forty-five (45) days after such date.

"Disputed Items" means the elements and amounts with which the Sellers disagree as set forth in the Purchaser's preparation of (a) the Working Capital Schedule or (b) an Earn-Out Report, as applicable.

"Dolphin Shares" means the Closing Dolphin Shares, the Post-Closing Dolphin Shares and any additional shares of Common Stock issued to the Sellers as part of the Additional Consideration, or as otherwise issued to the Sellers pursuant to the terms of this Agreement.

"Earn-Out Report" has the meaning set forth in Section 2.5(d).

"Earn-Out Stock Issuance" has the meaning set forth in Section 2.5(c)(iii)(A).

"EBITDA" means, for any relevant Measuring Period, the net income (loss) of the New Business Segment for such Measuring Period, but before provision for any interest, taxes, depreciation or amortization expense for such Measuring Period, determined in accordance with GAAP; provided, however, that:

(a) neither the proceeds from nor any dividends or refunds with respect to, nor any increases in the cash surrender value of, any life insurance policy under which the Company or the New Business Segment is the named beneficiary or otherwise entitled to recovery, shall be included as income, and the annual premium expense or any other annual expense in excess of $30,000 related to any such life insurance policy shall not be treated as an expense;

(b) any gain or loss as a result of an event or transaction that is outside the ordinary course, not related to ordinary activities of the New Business Segment and unlikely to recur in the foreseeable future shall not be included in the calculation of EBITDA;

(c) inter-company management fees charged by the Purchaser or any Affiliate of the Purchaser to the New Business Segment shall not be treated as an expense;

(d) any general overhead and administrative expenses of the Purchaser or any of its Affiliates (other than the New Business Segment) shall not be treated as an expense, except for expenses requested and consented to by the Sellers;

(e) any write-off or amortization of goodwill or other intangibles arising out of the Purchaser's purchase of the Membership Interests pursuant to this Agreement shall not be treated as an expense;

(f) indemnifiable Losses of the Purchaser Indemnitees, to the extent such Losses (i) have been satisfied through direct indemnification by the Sellers in accordance with Article VII or through the Purchaser's right of offset set forth in Section 2.6, or (ii) are not subject to indemnification under this Agreement as a result of the Indemnity Threshold, shall not be treated as an expense;

(g) any indemnity payments made by a Purchaser Indemnitee to the Sellers shall not be treated as an expense;

(h) there shall be no charge against income for the payment or accrual of any component of any Purchase Price payment payable hereunder, including any Additional Consideration;

(i) the fees and disbursements of the Company's (or the New Business Segment's, as applicable) attorneys, accountants and financial advisors incurred prior to or after the Closing in connection with the negotiation, preparation and execution of this Agreement and the other Transaction Documents delivered at such Closing that have either (x) been expensed and paid prior to such Closing or (y) accrued for on the Closing Balance Sheet, shall not be treated as an expense;

(j) the fees and expenses of (i) the accountants engaged in preparing the Working Capital Schedule and any Earn-Out Report, or any element or component thereof, (ii) the Arbitrating Accountants, with respect to their engagement in connection with this Agreement or the transactions contemplated hereby and (iii) any preparation of income Tax Returns, reports and related schedules and audited financial statements, in excess of $55,000 in any calendar year, shall not be treated as an expense;

(k) any severance payments paid or payable to any employee (including the Principal Sellers) upon a termination of such employee's employment, if such employee was terminated without cause at the request of the Purchaser, shall not be treated as an expense;

(l) any costs and expenses relating to (i) the stock issuances to be made to the Designated Employees in connection with the transactions contemplated hereby or (ii) the issuance of the Special Stock Bonuses shall not be treated as an expense;

(m) the expenses, fees and costs incurred with respect to the combination and the integration of the business of the Company with the Purchaser and/or one of its Affiliates shall not be treated as an expense unless mutually agreed upon by the Parties or as required by applicable Law;

(n) any expenses, fees and costs, including attorneys' and accountants' fees, incurred by the Company prior to Closing with respect to the Guild Dispute shall not be treated as an expense;

(o) any transaction fees incurred by the Company or the New Business Segment resulting from a financing or refinancing transaction shall not be treated as an expense;

(p) any payments made with respect to the Company Indebtedness existing at Closing shall not be treated as an expense;

(q) any payments made to the Sellers by the Company in order to fulfill the Purchaser's obligations under the Seller Put Agreements or under Article VII of this Agreement, or to the Designated Employees in order to fulfill any obligations the Purchaser may have to such Designated Employees, and any additional costs, expenses or payments made by the Company related to such payments, including with respect to any additional Indebtedness the Company accumulates as a result of such payments, shall not be treated as an expense; and

(r) the BDO Audit Expenses shall not be treated as an expense.

"EBITDA Floor" has the meaning set forth in Section 2.5(c)(i)(B).

"Employee Benefit Plans" means any employee benefit, including, any pension, profit-sharing, or other retirement plan, deferred compensation plan, bonus plan, severance plan, fringe benefit plan, health, group insurance, or other welfare benefit plan or other similar plan, agreement, policy, or understanding, including any "employee benefit plan" within the meaning of Section 3(3) of ERISA.

"Employment Agreement" means an employment agreement to be executed by each Principal Seller, in substantially the form attached hereto as Exhibit D.

"Entity" means any corporation, firm, unincorporated organization, association, partnership, limited liability company, trust (inter vivos or testamentary), estate of a deceased, insane or incompetent individual, business trust, joint Membership Interests company, joint venture or other organization, entity or business, whether acting in an individual, fiduciary or other capacity, or any Authority.

"ERISA" means the Employee Retirement Income Security Act of 1974 or any successor Law, and the rules and regulations thereunder or under any successor Law, all as from time to time in effect.

"ERISA Affiliate" means each person (as defined in Section 3(9) of ERISA) which together with the Company or its Affiliates would be deemed to be a (single employer) within the meaning of Section 4(14) of ERISA.

"Excluded Liability" means any Losses arising from, based on or relating to the matters described in Item 10 of Section 4.2(a) of the Disclosure Schedule relating to the Third-Party Consent with Third Avenue Tower Owner, LLC, regarding the Company's lease at 600 Third Avenue in New York.

"Final Adjustment Payment" has the meaning set forth in Section 2.5(c)(iv).

"Final Purchase Price Allocation Methodology" has the meaning set forth in Section 6.2(d).

"First Year Period" means January 1, 2017 through December 31, 2017.

"First Year Stock Issuance" has the meaning set forth in Section 2.5(c)(i)(A)

"Fundamental Representations" means the representations and warranties contained in Section 3.1 (Organization; Authority of Each Seller), Section 3.2 (Ownership), Section 4.1 (Organization and Business; Power and Authority), Section 4.11 (Tax Matters), and Section 4.15 (Broker or Finder).

"GAAP" means United States generally accepted accounting principles consistently applied, as in effect from time to time.

"General Enforceability Exceptions" means those exceptions to enforceability due to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally, and general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

"Guild Dispute" has the meaning set forth in Section 7.2(e).

"Hard Assets" has the meaning set forth in Section 6.2(d).

"Indebtedness" means with respect to any Person: (a) all indebtedness of such Person, whether or not contingent, for borrowed money, (b) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (c) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person, (d) all obligations, contingent or otherwise, of such Person under acceptance, letter of credit or similar facilities, (e) all indebtedness of others referred to in clauses (a) through (d) above guaranteed directly or indirectly in any manner by such Person, and (f) all indebtedness referred to in clauses (a) through (e) above secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such indebtedness.

"Indemnified Party" means, with respect to a particular matter, a Person who is entitled to indemnification from another Party pursuant to Article VII.

"Indemnifying Party" means, with respect to a particular matter, a Person who is required to provide indemnification under Article VII to another Person.

"Indemnity Notice" has the meaning set forth in Section 7.7.

"Indemnity Threshold" has the meaning set forth in Section 7.3(a).

"Ineligible Employee" has the meaning set forth in Section 2.2(b)(iii).

"Ineligible Employee Shares" has the meaning set forth in Section 2.2(b)(iii).

"Intellectual Property" means (a) all patents, patent applications, inventions, discoveries, and processes that may be patentable, (b) all copyrights in published and unpublished materials, and copyright registrations and applications, (c) all trademarks, service marks, protectable trade dress and domain name registrations, together with goodwill associated with any of the foregoing, (d) all know-how and trade secrets that, in each case, are material to the operation of the Business in the ordinary course of business, and (e) domain names.

"Knowledge" means both the actual knowledge, following reasonably prudent inquiry, of each Seller and Thomas Reno.

"Law" means: (a) any administrative, judicial, or legislative code, finding, law, interpretation, ordinance, policy statement, proclamation, regulation, requirement, rule, statute, or writ of any Authority or the common law.

"Legal Action" means, with respect to any Person, any and all litigation or legal or other actions, arbitrations, claims, counterclaims, disputes, grievances, investigations, proceedings (including condemnation proceedings), subpoenas, requests for material information by or pursuant to the order of any Authority, at Law or in arbitration, equity or admiralty, whether or not purported to be brought on behalf of such Person, affecting such Person or any of such Person's business, property or assets.

"Lien" means any: mortgage; lien (statutory or other) or encumbrance; or other security agreement, arrangement or interest; hypothecation, pledge or other deposit arrangement; assignment; charge; levy; executory seizure; attachment; garnishment; encumbrance; (including any unallocated title reservations or any other title matters which impairs marketability of title); conditional sale, title retention or other similar agreement, arrangement, device or restriction; preemptive or similar right; rights of first refusal or rights of first offer, any financing lease involving substantially the same economic effect as any of the foregoing; the filing of any financing statement under the Uniform Commercial Code or comparable Law of any jurisdiction; restriction on sale, transfer, assignment, disposition or other alienation.

"Losses" means losses, damages, liabilities, deficiencies, Legal Actions, judgments, interest, awards, penalties, fines, costs or expenses of whatever kind, including reasonable attorneys' and accounting fees and expenses; provided, however, that "Losses" shall not include special, consequential or punitive damages, except in the case of fraud in connection with this Agreement or to the extent actually awarded by an Authority in connection with a Third-Party Claim.

"Material Adverse Effect" means any effect or change that is materially adverse to the business, assets, operations or financial conditions of the Company or the Business, as context may require, taken as a whole; provided, however, that a Material Adverse Effect shall not include any such effects or changes to the extent resulting from (i) changes to the U.S., or global economy, in each case, as a whole, or that affect the industry or markets in which the Company or the Business operates as a whole, (ii) the announcement or disclosure of the transactions contemplated herein, (iii) any hurricane, earthquake or other natural disasters (including airport closures and/or delays as a result therefrom), (iv) general economic, regulatory or political conditions in North America, (v) changes in accounting rules, (vi) changes in the North American debt or securities markets, (vii) military action or any act or credible threat of terrorism, (viii) changes in currency exchange rates or commodities prices, (ix) changes in Law, (x) compliance with the terms of this Agreement, (xi) any act or omission of the Company or the Business taken with the prior consent of, or at the request of, the Purchaser (xii) any failure of the Company or the Business to meet projections or forecasts (provided that the underlying causes of such failure shall be considered in determining whether there is or has been a Material Adverse Effect) or (xiii) any matter of which the Purchaser is actually aware on the date hereof.

"Material Contracts" has the meaning set forth in Section 4.6(a).

"Measuring Periods" means each of the First Year Period, the Second Year Period and the Third Year Period.

"Membership Interests" has the meaning set forth in the recitals of this Agreement.

"Missed First Year Target" has the meaning set forth in Section 2.5(c)(i)(B).

"Missed Second Year Target" has the meaning set forth in Section 2.5(c)(ii)(B).

"Missed Target" has the meaning set forth in Section 2.5(c)(iii)(B).

"Missed Target Year" has the meaning set forth in Section 2.5(c)(iv)(A).

"Missed Third Year Target" has the meaning set forth in Section 2.5(c)(iii)(B).

"Most Recent Company Balance Sheet" has the meaning set forth in Section 4.5(a).

"Most Recent Purchaser Balance Sheet" has the meaning set forth in Section 5.4(a).

"Multiemployer Plan" has the meaning set forth in Section 4.17.

"New Business Segment" means the operations of the Company, as operated by the Purchaser post-Closing.

"Orders" means any writ, order, judgment, injunction, decree, ruling or consent of or by an Authority.

"Organizational Documents" means, with respect to a Person that is a corporation, its charter, its by-laws and all shareholder agreements, voting trusts and similar arrangements applicable to any of its capital Membership Interests, with respect to a Person that is a partnership, its agreement and certificate of partnership, any agreements among partners, and any management and similar agreements between the partnership and any general partners (or any Affiliate thereof) and with respect to a Person that is a limited liability company, its certificate of formation or articles of organization, its limited liability company operating agreement, any agreements among members of such Person and similar agreements.

"Owned Intellectual Property" means the Intellectual Property that is owned by the Company.

"Permitted Liens" means (i) liens for Taxes not yet due and payable; (ii) mechanics, carriers', workmen's, repairmen's or other like liens arising or incurred in the ordinary course of business consistent with past practice or amounts that are not delinquent and which are not, individually or in the aggregate, material to the business of the Company; or (iii) liens arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business consistent with past practice which do not, individually or in the aggregate, have a Material Adverse Effect on the Company or the Business.

"Person" means any natural individual or any Entity.

"Post-Closing Dolphin Shares" means 1,535,129 shares of Common Stock, subject to the right of offset as set forth in Section 2.6 and Section 7.3(g).

"Post-Closing Stock Bonuses" means 426,700 shares of Common Stock issued to the Designated Employees in accordance with Annex 2.2(b).

"Pre-Closing Tax Period" means any taxable period ending on or before the Closing Date and the portion through the end of the Closing Date for any Straddle Period.

"Pre-Closing Taxes" means any and all Taxes of the Company for any Pre-Closing Tax Period.

"Principal Sellers" means Leslee Dart, Amanda Lundberg and Allan Mayer.

"Pro Rata Share" means, with respect to any amounts paid or Common Stock issued, as the case may be, to the Sellers hereunder, the percentage of such amounts or shares to which a particular Seller is entitled, as set forth on Exhibit A.

"Purchase Price" has the meaning set forth in Section 2.2(a).

"Purchaser" has the meaning set forth in the preamble of this Agreement.

"Purchaser Balance Sheet Date" has the meaning set forth in Section 5.4(a).

"Purchaser Financial Statements" has the meaning set forth in Section 5.4(a).

"Purchaser Indemnitees" means the Purchaser, its Affiliates and each of their respective directors, managers, officers, members, stockholders, partners, employees, agents, representatives, lenders, successors and assigns, and the term "Purchaser Indemnitee" means any one of the foregoing Purchaser Indemnitees.

"Real Property" means the real property owned, leased or subleased by the Company, together with all buildings, structures and facilities located thereon.

"Registration Rights Agreement" means the registration rights agreement to be executed by the Parties, in the form attached hereto as Exhibit F.

"Remaining Disputed Items" means any Disputes that remain unresolved by the Purchaser and the Sellers within the thirty (30) day period after the Purchaser's receipt of a Dispute Notice.

"Representatives" means a Party's Affiliates, officers, managers, directors, employees, accountants, auditors, counsel, financial and other advisors, consultants and other representatives and agents.

"SEC" has the meaning set forth in Section 2.2(b)(i).

"Second Year Period" means January 1, 2018 through December 31, 2018.

"Second Year Stock Issuance" has the meaning set forth in Section 2.5(c)(ii)(A).

"Securities Act" means the Securities Act of 1933, as amended.

"Securities Laws" has the meaning set forth in Section 3.3.

"SEC Reports" has the meaning set forth in Section 5.4(b).

"Seller Guarantees" has the meaning set forth in Section 6.5.

"Seller Indemnitees" means the Sellers and their respective successors and assigns, and the term " Seller Indemnitee" means any one of the foregoing Seller Indemnitees.

"Seller Put Agreements" means put agreements to be executed by the Purchaser, on one hand, and each Seller, on the other hand, in substantially the form attached hereto as Exhibit E.

"Seller Release" means a release to be executed by each Seller, each in substantially the form attached hereto as Exhibit G.

"Sellers" has the meaning set forth in the preamble of this Agreement.

"Special Stock Bonuses" the amount of shares of Common Stock obtained by dividing $547,000 by the Closing Share Price, in bonuses expected to be paid to certain employees of the Company, as designated by the Principal Sellers.

"Survival Date" means (a) for claims based on an alleged breach of any of the Fundamental Representations (other than the representations and warranties set forth in Section 4.13 (Tax Matters)), there shall be no cut-off date and such representations and warranties and claims shall survive for a period of unlimited duration, (b) for claims or based on an alleged breach of any of the representations and warranties set forth in Section 4.11 (Tax Matters) and Section 4.17 (Employee Benefit Plans) or of any covenant or obligation of a Party to be performed by such party after Closing, the date which is sixty (60) days after the date upon which the applicable statute of limitations with respect to the liabilities in question would bar such claim (after giving effect to any extensions or waivers thereof), and (c) for all other claims based on an alleged breach of a representation and warranty, the date that is fifteen (15) months after the Closing Date. For the avoidance of doubt, the foregoing is intended to alter and replace the applicable statute of limitations for making claims to the extent expressly set forth herein.

"Target Percentage" means the number, expressed as a percentage, obtained from dividing (x) the actual amount of EBITDA of the New Business Segment in excess of $2,900,000 of the New Business Segment for the period at issue by (y) $850,000.

"Target Working Capital" means $500,000.

"Tax Benefit" means the sum of the amount of the deduction relating to any payment made by the Purchaser Indemnitee multiplied by the applicable federal income tax rate of the applicable Purchaser Indemnitee.

"Tax Return" means all returns, consolidated or otherwise (including estimated returns, information returns, withholding returns and any other forms or reports) relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Taxes" means, with respect to any Person, all taxes (domestic or foreign), including any income (net, gross or other including recapture of any tax items such as investment tax credits), alternative or add-on minimum tax, gross income, gross receipts, gains, sales, use, leasing, lease, user, ad valorem, transfer, recording, franchise, profits, property (real or personal, tangible or intangible), escheat, fuel, license, withholding on amounts paid to or by such Person, payroll, employment, unemployment, social security, excise, severance, stamp, occupation, premium, environmental or windfall profit tax, custom, duty or other tax, or other like assessment or charge of any kind whatsoever, together with any interest, levies, assessments, charges, penalties, additions to tax or additional amount imposed by any Authority, whether disputed or not.

"Third Year Period" means January 1, 2019 through December 31, 2019.

"Third Year Stock Issuance" has the meaning set forth in Section 2.5(c)(iii)(A).

"Third-Party Claims" means any Legal Action which is asserted or threatened by a Person other than the Parties, their Affiliates, their successors and permitted assigns, against any Indemnified Party or to which any Indemnified Party is subject.

"Third-Party Consents" means any authorizations or Orders from any Authority or any consents, approvals, or authorizations from any third party which are required to consummate transactions contemplated under this Agreement and the Transaction Documents.

"Transaction Documents" means the Employment Agreements, the Registration Rights Agreement, the Seller Put Agreements, the Seller Releases, and any and all other agreements, instruments, documents and certificates described in this Agreement to be delivered hereunder from time to time or as closing documents.

"Transfer Taxes" has the meaning set forth in Section 6.2(c).

"UBT" has the meaning set forth in Section 6.6.

"Working Capital Adjustment" has the meaning set forth in Section 2.4(d).

"Working Capital Schedule" has the meaning set forth in Section 2.3.

Annex 6.2(d)

Final Purchase Price Allocation Methodology

The Adjusted Purchase Price shall be allocated in accordance with Section 1060 of the Internal Revenue Code of 1986, as amended (the “Code”), to all tangible assets and intangible assets, except for assets as defined under Section 197 of the Code, according to net tax value as of the Closing Date, which is the current fair market value for such assets. The remainder of the Adjusted Purchase Price shall be allocated to goodwill and other intangible assets as defined by Section 197 of the Code.

EXHIBIT A
MEMBERSHIP INTERESTS
AND
DESIGNATED EMPLOYEES

EXHIBIT B

FORM OF TRANSFERS AND ASSIGNMENT OF MEMBERSHIP INTERESTS

EXHIBIT C
ACCREDITED INVESTOR QUESTIONNAIRE

EXHIBIT D

FORM OF EMPLOYMENT AGREEMENT

EXHIBIT E

FORM OF SELLER PUT AGREEMENT

EXHIBIT F

FORM OF REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT, dated as of March 30, 2017 (this "Agreement"), is entered into by and among Leslee Dart, Amanda Lundberg, Allan Mayer and the Beatrice B. Trust (collectively, the "Shareholders" and each individually a "Shareholder"), and Dolphin Digital Media, Inc., a Florida corporation (the "Company").

WHEREAS, the Company, the Shareholders and the Beatrice B. Trust have entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") pursuant to which the Shareholders will receive shares of the Company's common stock, par value $0.015 ("Common Stock"), in consideration for all of the membership interests in 42West, LLC, a Delaware limited liability company, held by the Shareholders, all upon the terms and subject to the conditions set forth in the Purchase Agreement.

NOW, THEREFORE, in consideration of the promises and the mutual agreements and covenants hereinafter set forth, the Company and the Shareholders hereby agree as follows:

ARTICLE I
DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings:

"Additional Consideration Shares" means those shares of Common Stock issued to each of the Shareholders pursuant to Section 2.6 of the Purchase Agreement.

"Board" means the board of directors of the Company.

"Business Day" means any day that is not a Saturday, Sunday or other day on which banks are required or authorized by law to be closed in the City of New York.

"Closing Dolphin Shares" has the meaning ascribed to such term in the Purchase Agreement.

"Commission" means the United States Securities and Exchange Commission and any successor agency.

"Exchange Act" means the United States Securities Exchange Act of 1934, as amended.

"Person" means any individual, firm, corporation, partnership, limited partnership, limited liability company, association, trust, unincorporated organization or other entity, as well as any syndicate or group that would be deemed to be a person under Section 13(d)(3) of the Exchange Act, including the rules promulgated thereunder.

"Prospectus" means the prospectus or prospectuses included in any Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective Registration Statement in reliance on Rule 430A under the Securities Act or any successor rule thereto), as amended or supplemented by any prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement and by all other amendments and supplements to the prospectus, including post-effective amendments and all material incorporated by reference in such prospectus or prospectuses.

"register," "registered" and "registration" shall refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act and the declaration or ordering of effectiveness of such registration statement or document.

"Registrable Securities" means the Shareholder Shares; provided, however, that any Registrable Securities shall cease to be Registrable Securities when (i) a registration statement covering such Registrable Securities has been declared effective and such Registrable Securities has been disposed of pursuant to such effective registration statement, (ii) such Registrable Securities may be sold without manner of sale, volume or other restriction pursuant to Rule 144 (or any successor provision) under the Securities Act, or (iii) such Registrable Securities cease to be outstanding.

"Registration Statement" means any registration statement of the Company, including the Prospectus, amendments and supplements to such registration statement, including post-effective amendments, all exhibits and all material incorporated by reference in such registration statement.

"Securities Act" means the United States Securities Act of 1933, as amended.

"Shareholder Shares" means the Closing Dolphin Shares, the Post-Closing Dolphin Shares and the Additional Consideration Shares, if any, whether or not subject to transfer or other restrictions, now or hereafter beneficially owned by the Shareholders, including any securities issued or issuable in respect of the Closing Dolphin Shares, the Post-Closing Dolphin Shares or the Additional Consideration Shares, if any, as a result of conversion, exchange, recapitalization, reorganization, replacement, stock dividend, stock split or other distribution.

ARTICLE II
REGISTRATION RIGHTS

Section 2.1 Demand Registration.

(a) At any time after the one-year anniversary of this Agreement, holders of at least a majority of the Registrable Securities then outstanding may request registration under the Securities Act of up to 25% of the aggregate Registrable Securities held by all holders of Registrable Securities at that time pursuant to a Registration Statement on Form S-1 or any successor form thereto (each, a "Long-Form Registration"). Each request for a Long-Form Registration shall specify the number of Registrable Securities requested to be included in the Long-Form Registration. Upon receipt of any such request, the Company shall promptly (but in no event later than ten (10) days following receipt thereof) deliver notice of such request to all other holders of Registrable Securities who will then have five (5) days from the date such notice is given to notify the Company in writing of their desire to be included in such registration; provided, however, in the event the aggregate amount of Registrable Securities requested to be included by holders of Registrable Securities exceeds 25% of the aggregate Registrable Securities held by all holders of Registrable Securities at that time, the number of Regsitrable Securities to be included by each such holder shall be allocated among them as agreed upon by such holders. The Company shall prepare and file with (or confidentially submit to) the Commission a Registration Statement on Form S-1 or any successor form thereto covering all of the Registrable Securities that the holders thereof have requested to be included in such Long-Form Registration within ninety (90) days after the date on which the initial request is given and shall use its reasonable efforts to cause such Registration Statement to be declared effective by the Commission as soon as practicable thereafter. The Company shall not be required to effect a Long-Form Registration more than once for the holders of Registrable Securities as a group; provided, that a Registration Statement shall not count as a Long-Form Registration requested under this Section 2.1(a) unless and until it has become effective and the holders requesting such registration are able to register and sell at least 50% of the Registrable Securities requested to be included in such registration.

(b) The Company shall use its reasonable efforts to qualify and remain qualified to register the offer and sale of securities under the Securities Act pursuant to a Registration Statement on Form S-3 or any successor form thereto. At such time as the Company shall have qualified for the use of a Registration Statement on Form S-3 or any successor form thereto, the holders of at least a majority of the Registrable Securities then outstanding shall have the right to request a single registration under the Securities Act of up to 25% of the aggregate Registrable Securities held by all holders of Registrable Securities at that time pursuant to a Registration Statement on Form S-3 or any similar short-form Registration Statement (each, a "Short-Form Registration" and, together with each Long-Form Registration, a "Demand Registration"). Each request for a Short-Form Registration shall specify the number of Registrable Securities requested to be included in the Short-Form Registration. Upon receipt of any such request, the Company shall promptly (but in no event later than ten (10) days following receipt thereof) deliver notice of such request to all other holders of Registrable Securities who shall then have five (5) days from the date such notice is given to notify the Company in writing of their desire to be included in such registration. The Company shall prepare and file with (or confidentially submit to) the Commission a Registration Statement on Form S-3 or any successor form thereto covering all of the Registrable Securities that the holders thereof have requested to be included in such Short-Form Registration within sixty (60) days after the date on which the initial request is given and shall use its reasonable efforts to cause such Registration Statement to be declared effective by the Commission as soon as practicable thereafter.

(c) The Company may postpone for up to ninety (90) days the filing or effectiveness of a Registration Statement for a Demand Registration if the Board determines in its reasonable good faith judgment that such Demand Registration would (i) materially interfere with a significant acquisition, corporate organization, financing, securities offering or other similar transaction involving the Company; (ii) require premature disclosure of material information that the Company has a bona fide business purpose for preserving as confidential; or (iii) render the Company unable to comply with requirements under the Securities Act or Exchange Act; provided that in such event the holders of at least a majority of the Registrable Securities initiating such Demand Registration shall be entitled to withdraw such request and, if such request for a Demand Registration is withdrawn, such Demand Registration shall not count as one of the permitted Demand Registrations hereunder and the Company shall pay all registration expenses in connection with such registration.

(d) If a Demand Registration involves an underwritten offering and the managing underwriter of the requested Demand Registration advises the Company and the holders of Registrable Securities in writing that in its reasonable and good faith opinion the number of shares of Common Stock proposed to be included in the Demand Registration, including all Registrable Securities and all other shares of Common Stock proposed to be included in such underwritten offering, exceeds the number of shares of Common Stock which can be sold in such underwritten offering and/or the number of shares of Common Stock proposed to be included in such Demand Registration would adversely affect the price per share of the Common Stock proposed to be sold in such underwritten offering, the Company shall include in such Demand Registration (i) first, the shares of Common Stock that the holders of Registrable Securities propose to sell, and (ii) second, the shares of Common Stock proposed to be included therein by any other Persons (including shares of Common Stock to be sold for the account of the Company and/or other holders of Common Stock) allocated among such Persons in such manner as they may agree. If the managing underwriter determines that less than all of the Registrable Securities proposed to be sold can be included in such offering, then the Registrable Securities that are included in such offering shall be allocated pro rata among the respective holders thereof on the basis of the number of Registrable Securities owned by each such holder.

Section 2.2 Registration Procedures. In connection with the obligations of the Company with respect to any registration pursuant to this Agreement, the Company shall, as expeditiously as possible:

(a) before filing with the Commission a registration statement or prospectus thereto with respect to the Registrable Securities and any amendments or supplements thereto, at the Company's expense, furnish to counsel to the Shareholders (or if applicable, the Shareholder Representative) copies of all such documents (other than documents that are incorporated by reference) proposed to be filed and such other documents reasonably requested by the Shareholders (or if applicable, the Shareholder Representative) and provide a reasonable opportunity for review and comment on such documents by counsel to the Shareholders (or if applicable, the Shareholder Representative);

(b) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities covered by such registration statement and as may be necessary to keep such registration statement effective;

(c) furnish to each Shareholder selling Registrable Securities such numbers of copies of the registration statement and the prospectus included therein (including each preliminary prospectus and any amendments or supplements thereto) and any exhibits filed therewith or documents incorporated by reference therein as such Shareholder may reasonably request to facilitate the disposition of such Registrable Securities;

(d) use all reasonable efforts to register or qualify the Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdiction within the United States and Puerto Rico as shall be reasonably appropriate for the distribution of the Registrable Securities covered by the registration statement; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business in any jurisdiction where it would not be required to qualify but for the requirements of this paragraph (d); provided, further, that the Company shall not be required to qualify such Registrable Securities in any jurisdiction in which the securities regulatory authority requires that any Shareholder submit any shares of its Registrable Securities to the terms, provisions and restrictions of any escrow, lockup or similar agreement(s) for consent to sell Registrable Securities in such jurisdiction unless such Shareholder agrees to do so;

(e) use all reasonable efforts to cause all Registrable Securities covered by such registration statement to be registered and approved by such other domestic governmental agencies or authorities, if any, as may be necessary to enable the Shareholders to consummate the disposition of such Registrable Securities;

(f) promptly notify each Shareholder at any time when a prospectus relating to the sale of Registrable Securities is required to be delivered under the Securities Act of the happening of any event, as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made, and at the request of a Shareholder promptly prepare and furnish to such Shareholder a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made;

(g) to the extent any registration pursuant to Section 2.1 is by means of an underwritten offering, enter into customary agreements (including, if the method of distribution is by means of an underwriting, an underwriting agreement in customary form);

(h) provide a transfer agent and registrar for all Registrable Securities covered by such registration statement not later than the effective date of such registration statement;

(i) notify each Shareholder, promptly after it shall receive notice thereof, of the time when such registration statement, or any post-effective amendments to the registration statement, shall have become effective, or a supplement to any prospectus forming part of such registration statement has been filed;

(j) respond as soon as reasonably practicable to any and all comments received from the Commission or the staff of the Commission with a view towards causing such registration statement or any amendment thereto to be declared effective by the Commission as soon as reasonably practicable;

(k) advise each Shareholder promptly after it shall receive notice or obtain knowledge thereof, of (i) the issuance of any stop order, injunction or other order or requirement by the Commission suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for such purpose, (ii) the issuance by any state securities or other regulatory authority of any order suspending the qualification or exemption from qualification of any of the Registrable Securities under state securities or "blue sky" laws or the initiation or threat of initiation of any proceedings for that purpose and (iii) the removal of any such stop order, injunction or other order or requirement or proceeding or the lifting of any such suspension; and

(l) within the deadlines specified by the Securities Act, make all required filing fee payments in respect of any registration statement or prospectus used under this Agreement (and any offering covered thereby).

Section 2.3 Furnish Information. The Shareholders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them, and the intended method of disposition of such securities as the Company shall reasonably request and as shall be required in connection with the registration of the Registrable Securities.

Section 2.4 Expenses of Registration. All expenses incurred in connection with each registration statement pursuant to this Agreement, excluding underwriters' discounts and commissions, but including without limitation all registration, filing and qualification fees, word processing, duplicating, printers' and accounting fees, stock exchange fees, messenger and delivery expenses, all fees and expenses of complying with state securities or blue sky laws and the fees and disbursements of counsel for the Company shall be paid by the Company.

Section 2.5 Underwriting Requirements. In connection with any underwritten offering pursuant to Section 2.1, the Company shall not be required to include shares of Registrable Securities in such underwritten offering unless the holders of such shares of Registrable Securities accept the terms of the underwriting of such offering that have been agreed upon between the Company and the underwriters and such holders of Registrable Securities complete and execute all questionnaires, powers of attorney, indemnities and other documents required under the terms of such underwriting agreement; provided, that no Shareholder selling Registrable Securities in any such underwritten registration shall be required to make any representations or warranties to the Company or the underwriters (other than representations and warranties regarding such Shareholder, such Shareholder's ownership of Registrable Securities to be sold in the offering, such Shareholder's intended method of distribution and any other representation required by law). If any Shareholder selling Registrable Securities in any such underwritten registration disapproves of the terms of such underwriting, then such Shareholder may elect to withdraw therefrom by delivering written notice to the Company and the managing underwriter, which notice must be delivered no later than the date immediately preceding the date on which the underwriters price such offering.

Section 2.6 **<u>Covenants Relating to Rule 144</u>**. With a view to making available the benefits of certain rules and regulations of the Commission that may permit the Shareholders' sale of the Registrable Securities to the public without registration, the Company agrees, so long as a Shareholder owns any Registrable Securities, to:

(a) make and keep public information regarding the Company available, as those terms are understood and defined in Rule 144 under the Securities Act;

(b) use its best efforts to file with the Commission in a timely manner all reports and other documents required to be filed by the Company under the Securities Act and the Exchange Act; and

(c) furnish, unless otherwise available at no charge by access electronically to the Commission's EDGAR filing system, to a Shareholder forthwith upon request (i) a copy of the most recent annual or quarterly report of the Company, and (ii) such other reports and documents of the Company so filed with the Commission (other than comment letters and other correspondence between the Company and the Commission or its staff) as such Shareholder may reasonably request in availing itself of any rule or regulation of the Commission allowing such Shareholder to sell any such securities without registration.

Section 2.7 **<u>Indemnification</u>**. In the event any Registrable Securities is included in a registration statement under this Agreement:

(a) The Company shall indemnify, defend and hold harmless each Shareholder, such Shareholder's directors and officers, each person who participates in the offering of such Registrable Securities, and each person, if any, who controls such Shareholder or participating person within the meaning of the Securities Act, against any losses, claims, damages, liabilities, expenses or actions, joint or several, to which they may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages, liabilities, expenses or actions (or proceedings in respect thereof) arise out of or are based on any untrue or alleged untrue statement of any material fact contained in such registration statement on the effective date thereof (including any prospectus filed under Rule 424 under the Securities Act or any amendments or supplements thereto) or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse each such Shareholder, such Shareholder's directors and officers, such participating person or controlling person for any documented legal or other expenses reasonably incurred by them (but not in excess of expenses incurred in respect of one counsel for all of them) in connection with investigating or defending any such loss, claim, damage, liability, expense or action; <u>provided</u>, <u>however</u>, that the indemnity agreement contained in this <u>Section 2.7(a)</u> shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the reasonable consent of the Company; <u>provided</u>, <u>further</u>, that the Company shall not be liable to any Shareholder, such Shareholder's directors and officers, participating person or controlling person in any such case for any such loss, claim, damage, liability, expense or action to the extent that it arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in connection with such registration statement, preliminary prospectus, final prospectus or amendments or supplements thereto, in reliance upon and in conformity with written information furnished expressly for use therein, by any such Shareholder, such Shareholder's directors and officers, participating person or controlling person. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of any such Shareholder, such Shareholder's directors and officers, participating person or controlling person, and shall survive the transfer of such securities by such Shareholder.

(b) Each Shareholder whose shares of Registrable Securities are included in the registration being effected shall, severally and not jointly, indemnify, defend and hold harmless the Company, each of its directors and officers, each person, if any, who controls the Company within the meaning of the Securities Act, and each agent for the Company against any losses, claims, damages, liabilities, expenses or actions to which the Company or any such director, officer, controlling person, agent or underwriter may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages, liabilities, expenses or actions (or proceedings in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in such registration statement on the effective date thereof (including any prospectus filed under Rule 424 under the Securities Act or any amendments on supplements thereto) or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in such registration statement, preliminary or final prospectus, or amendments or supplements thereto, in reliance upon and in conformity with written information furnished by or on behalf of such Shareholder expressly for use therein; and each such Shareholder shall reimburse any documented legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person or agent (but not in excess of expenses incurred in respect of one counsel for all of them) in connection with investigating or defending any such loss, claim, damage, liability, expense or action; provided, however, that the indemnity agreement contained in this Section 2.7(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, expense or action if such settlement is effected without the reasonable consent of such Shareholder; provided, further, that the liability of each Shareholder hereunder shall be limited to the proportion of any such loss, claim, damage, liability, expense or action which is equal to the proportion that the net proceeds from the sale of the shares sold by such Shareholder under such registration statement bears to the total net proceeds from the sale of all securities sold thereunder, but not in any event to exceed the net proceeds received by such Shareholder (after the deduction of all underwriters' discounts and commissions and all other expenses paid by such Shareholder in connection with such registration) from the sale of Registrable Securities covered by such registration statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company, the Company's directors and officers, participating person or controlling person, and shall survive the transfer of such securities by such Shareholder.

(c) Promptly after receipt by an indemnified party under this Section 2.7 of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.7, notify the indemnifying party in writing of the commencement thereof and the indemnifying party shall have the right to participate in and assume the defense thereof with counsel selected by the indemnifying party and reasonably satisfactory to the indemnified party (unless (i) such indemnified party reasonably objects to such assumption on the grounds that there may be defenses available to it which are different from or in addition to those available to such indemnifying party, (ii) the indemnifying party and such indemnified party shall have mutually agreed to the retention of such counsel or (iii) in the reasonable opinion of such indemnified party representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding, in which case the indemnified party shall be reimbursed by the indemnifying party for the reasonable expenses incurred in connection with retaining separate legal counsel); provided, however, that an indemnified party shall have the right to retain its own counsel, with all fees and expenses thereof to be paid by such indemnified party, and to be apprised of all progress in any proceeding the defense of which has been assumed by the indemnifying party. The failure to notify an indemnifying party promptly of the commencement of any such action shall not relieve the indemnifying party from any liability in respect of such action which it may have to such indemnified party on account of the indemnity contained in this Section 2.7, unless (and only to the extent) the indemnifying party was prejudiced by such failure, and in no event shall such failure relieve the indemnifying party from any other liability which it may have to such indemnified party. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any claim or pending or threatened proceeding in respect of which the indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability arising out of such claim or proceeding.

(d) (i) To the extent any indemnification by an indemnifying party is prohibited or limited by law, the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified party in connection with the actions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities, expenses or actions referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding.

(ii) The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 2.7(d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act,) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(iii) The liability of each Shareholder in respect of any contribution obligation of such Shareholder under this Agreement with respect to a particular registration shall not exceed the net proceeds (after the deduction of all underwriters' discounts and commissions and all other expenses paid by such Shareholder in connection with such registration) received by such Shareholder from the sale of the Registrable Securities covered by such registration statement.

ARTICLE III
REPRESENTATIONS AND WARRANTIES

Section 3.1 Representations and Warranties of the Company. The Company represents and warrants to the Shareholders as follows:

(a) the Company has the requisite corporate power and authority to execute, deliver and perform this Agreement;

(b) this Agreement has been duly and validly authorized, executed and delivered by the Company and constitutes a valid and binding obligation of the Company, enforceable in accordance with its terms, except that (i) such enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium or other laws, now or hereafter in effect relating to or limiting creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief and certain equitable defenses and to the discretion of the court before which any proceedings therefor may be brought;

(c) the execution, delivery and performance of this Agreement by the Company do not violate or conflict with or constitute a default under the Company's certificate of incorporation or bylaws; and

(d) no holders of Common Stock or any securities converted into Common Stock have been granted as of the date of this Agreement registration rights superior to or *pari passu* to those granted to the Shareholders.

Section 3.2 Representations and Warranties of the Shareholders. Each Shareholder represents and warrants to the Company as follows:

(a) such Shareholder has the requisite power and authority (whether corporate or otherwise) to execute, deliver and perform this Agreement;

(b) this Agreement has been duly and validly authorized, executed and delivered by such Shareholder and constitutes a valid and binding obligation of such Shareholder, enforceable in accordance with its terms, except that (i) such enforcement may be subject to any bankruptcy, insolvency, reorganization, moratorium or other similar laws, now or hereafter in effect relating to or limiting creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief and certain equitable defenses and to the discretion of the court before which any proceedings therefor may be brought; and

(c) as of the date of this Agreement, such Shareholder does not own any securities of the Company other than the Company's Common Stock received pursuant to the Purchase Agreement.

ARTICLE IV
MISCELLANEOUS

Section 4.1 <u>Interpretation</u>.

(a) The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

(b) In the event of an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

(c) The definitions of the terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (ii) any reference herein to any Person shall be construed to include the Person's successors and permitted assigns, (iii) the words "herein," "hereof" and "hereunder," and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, and (iv) all references herein to Articles and Sections shall be construed to refer to Articles and Sections of this Agreement.

Section 4.2 <u>Amendments</u>. No amendment, modification or waiver in respect of this Agreement shall be effective unless it shall be in writing and signed by the Company and each of the Shareholders (or if applicable, the Shareholder Representative).

Section 4.3 <u>Assignment</u>. Except where otherwise expressly provided herein, this Agreement and the rights and obligations hereunder shall not be assignable or transferable by the parties hereto (except by operation of law in connection with a merger, or pursuant sale of substantially all the assets, of a party hereto) without the prior written consent of the Company, in the case of a Shareholder, or the Shareholders (or if applicable, the Shareholder Representative), in the case of the Company. Any attempted assignment in violation of this <u>Section 4.3</u> shall be void.

Section 4.4 **No Third-Party Beneficiaries**. This Agreement is for the sole benefit of the parties hereto and their respective permitted assigns, and nothing herein expressed or implied shall give or be construed to give to any Person, other than the parties hereto and such assigns, any legal or equitable rights hereunder.

Section 4.5 **Notices**.

(a) All notices and other communications under this Agreement shall be in writing and shall be deemed given (i) when delivered personally by hand (with written confirmation of receipt), (ii) when sent by facsimile (with written confirmation of transmission) or (iii) one Business Day following the day sent by overnight courier (with written confirmation of receipt), in each case at the following addresses and facsimile numbers (or to such other address or facsimile number as a party may have specified by notice given to the other party pursuant to this provision):

If to the Company:

Dolphin Digital Media, Inc.
2151 LeJeune Road
Suite 150-Mezzanine
Coral Gables, FL 33134
Attention: William O'Dowd
Fax: (305) 774-0405
Email: billodowd@dolphinentertainment.com

with a copy to (which shall not constitute notice to the Company):

Greenberg Traurig, P.A.
333 Avenue of the Americas
Miami, FL 33131
Attention: Randy Bullard
Fax No: (305) 961-5532
Email: Bullardr@gtlaw.com

If to a Shareholder, to the respective address set forth on Appendix A.

with a copy to (which shall not constitute notice to any Shareholder):

Davis & Gilbert LLP
1740 Broadway
New York, New York 10019
Attention: Brad J. Schwartzberg, Esq.
Fax No.: (212) 468-4888
Email: Bschwartzberg@dglaw.com

(b) Any party hereto may change its address specified for notices herein by designating a new address by notice in accordance with this Section 4.5.

Section 4.6 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties and delivered to the other party. Copies of executed counterparts transmitted by telecopy, telefax or other electronic transmission service, including by email attachment, shall be considered original executed counterparts for purposes of this Agreement.

Section 4.7 Severability. If any provision of this Agreement (or any portion thereof) or the application of any such provision (or any portion thereof) to any Person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof (or the remaining portion thereof) or the application of such provision to any other Persons or circumstances.

Section 4.8 Governing Law; Jurisdiction; Waiver of Jury Trial.

(a) This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, applicable to contracts executed in and to be performed entirely within that State, without regard to conflicts of laws principles.

(b) All actions and proceedings arising out of or relating to this Agreement shall be heard and determined in any state or federal court sitting in New York, New York, and the parties hereby irrevocably submit to the exclusive jurisdiction of such court (and, in the case of appeals, appropriate appellate courts therefrom) in any such action or proceeding and irrevocably waive the defense of an inconvenient forum to the maintenance of any such action or proceeding. The consent to jurisdiction set forth in this paragraph shall not constitute general consents to service of process in the State of New York and shall have no effect for any purpose except as provided in this paragraph and shall not be deemed to confer rights on any Person other than the parties or as specifically provided herein. The parties agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by applicable law. Each party irrevocably consents to the service of any and all process in any such action, suit or proceeding by the delivery of such process to such party at the address and in the manner provided in Section 4.5.

(c) EACH OF THE PARTIES HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT.

Section 4.9 Specific Performance. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

Section 4.10 Shareholder Representative. The Shareholders, from time to time, by holders of a majority of the Registrable Securities held by all Shareholders, may appoint one of the Shareholders, as the Shareholder Representative, as his or her true and lawful attorney-in-fact (i) to give and receive all notices and communications required or permitted under this Agreement, (ii) to agree to, negotiate, enter into settlements and compromises with respect to this Agreement, (iii) to negotiate, agree and enter into any amendments to this Agreement as per Section 4.2 of this Agreement, and (iv) to communicate to the Company any elections of the Shareholders with respect to the registration rights provided for in ARTICLE II hereof. If so designated, the Shareholder Representative may take all actions necessary or appropriate in the judgment of the Shareholder Representative for the accomplishment of any of the foregoing, each Shareholder agreeing to be fully bound by the acts, decisions and agreements of the Shareholder Representative taken and done pursuant to the authority herein granted. The Shareholder Representative shall not be liable, responsible or accountable in damages or otherwise to the Shareholders for any loss or damage incurred by reason of any act or failure to act by the Shareholder Representative, and each Shareholder shall jointly and severally indemnify and hold harmless the Shareholder Representative against any loss or damage except to the extent such loss or damage shall have been the result of the individual gross negligence or willful misconduct of the Shareholder Representative. In the event that the Shareholder Representative dies, becomes incapacitated or otherwise stops fulfilling his or her duties, the Shareholders shall promptly select an alternate person to serve as the Shareholder Representative and shall promptly notify the Company of such selection. The Company may conclusively and absolutely rely, without inquiry, upon any decision, act, consent, notice or instruction of the Shareholder Representative as being the decision, act, consent, notice or instruction of each of and all of the Shareholders. The Company is hereby relieved from any liability to any Person, including any Shareholder, for any acts done by it in accordance with or reliance on such decision, act, consent, notice or instruction of the Shareholder Representative. All notices or other communications required to be made or delivered by the Company to the Shareholders shall be made to the Shareholder Representative for the benefit of the Shareholders, and any notices so made shall discharge in full all notice requirements of the Company to the Shareholders with respect thereto. All notices or other communications required to be made or delivered by the Shareholders to the Company shall be made by the Shareholder Representative for the benefit of the Shareholders, and any notices so made shall discharge in full all notice requirements of the Shareholders to the Company with respect thereto.

Section 4.11 Termination. The provisions of this Agreement shall terminate as to a particular Shareholder at such time as the Shareholder no longer holds any Registrable Securities.

Section 4.12 Change in Law. In the event any law, rule or regulation comes into force or effect which conflicts with the terms and conditions of this Agreement, the parties shall negotiate in good faith to revise this Agreement to achieve the parties' intention set forth herein.

[signature page follows]

IN WITNESS WHEREOF, the parties have caused this Registration Rights Agreement to be duly executed as of the date first above written.

THE COMPANY: **DOLPHIN DIGITAL MEDIA, INC.**

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

SHAREHOLDERS:

/s/ Leslee Dart
Leslee Dart

/s/ Amanda Lundberg
Amanda Lundberg

/s/ Allan Mayer
Allan Mayer

[Signature Page to Registration Rights Agreement]

BEATRICE B. TRUST

By: /s/ Marc I. Stern
Marc I. Stern, as Trustee

[Signature Page to Registration Rights Agreement]

APPENDIX A
SHAREHOLDERS

Leslee Dart

Amanda Lundberg

Allan Mayer

Beatrice B. Trust

Exhibit 21.1

SUBSIDIARIES OF DOLPHIN DIGITAL MEDIA, INC.

DOLPHIN DIGITAL STUDIOS, INC
DOLPHIN KIDS CLUBS LLC
CYBERGEDDON PRODUCTIONS LLC
HIDING PRODUCTIONS LLC
DOPHIN SB PRODUCTIONS LLC
CLUB CONNECT LLC
DDM MUSIC PUBLISHING LLC
DOLPHIN JOAT PRODUCTIONS LLC
DOLPHIN FILMS INC
(The following are subsidiaries of Dolphin Films, Inc.)
YOUNGBLOOD PRODUCTIONS LLC
DOLPHIN MAX STEEL HOLDINGS LLC
DOLPHIN JB BELIEVE FINANCING LLC
DOLPHIN ASK ME PRODUCTIONS LLC
DOLPHIN FILMS MUSIC PUBLISHING INC
DOLPHIN SPINNING THE GLOBE LLC
THE WISHING SEASON PRODUCTIONS LLC
42WEST LLC

Exhibit 31.1

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 Annual Report on Form 10-K of the Registrant;

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report.

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f) for the Registrant and have:

   a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information.

   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: April 17, 2017

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

Exhibit 31.2

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 Annual Report on Form 10-K of the Registrant;

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report.

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)for the Registrant and have:

   a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d) Disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information.

   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: April 17, 2017

By: /s/ Mirta A Negrini

Mirta A Negrini
Chief Financial Officer

Exhibit 32.1

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 Annual Report of Dolphin Digital Media, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William O’Dowd IV, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 17, 2017

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

Exhibit 32.2

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 Annual Report of Dolphin Digital Media, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mirta A Negrini, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 17, 2017

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