

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2023

OR

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

For the transition period from _____ to _____

Commission file number: 001-38331

DOLPHIN ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of
incorporation or organization)

86-0787790

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

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

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

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

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

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

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

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

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

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

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

The number of shares of common stock outstanding was 14,200,672 as of August 11, 2023.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	<u>ASSETS</u>	June 30, 2023	December 31, 2022
Current			
Cash and cash equivalents	\$ 7,001,403	\$ 6,069,889	
Restricted cash	1,127,960	1,127,960	
Accounts receivable:			
Trade, net of allowance of \$ 1,003,898 and \$ 736,820, respectively	5,614,202	6,162,472	
Other receivables	3,312,398	5,552,993	
Notes receivable	4,630,416	4,426,700	
Other current assets	838,602	523,812	
Total current assets	<u>22,524,981</u>	<u>23,863,826</u>	
Capitalized production costs, net	2,064,775	1,598,412	
Employee receivable	700,085	604,085	
Right-of-use asset	6,401,715	7,341,045	
Goodwill	22,796,683	29,314,083	
Intangible assets, net	8,875,139	9,884,336	
Property, equipment and leasehold improvements, net	234,818	293,206	
Other long-term assets	2,221,421	2,477,839	
Total Assets	<u>\$ 65,819,617</u>	<u>\$ 75,376,832</u>	

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

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

	<u>LIABILITIES</u>	June 30, 2023	December 31, 2022
Current			
Accounts payable	\$ 3,602,074	\$ 4,798,221	
Term loan, current portion	409,232	408,905	
Notes payable, current portion	3,410,960	3,868,960	
Contingent consideration	—	500,000	
Accrued interest – related party	1,529,832	1,744,723	
Accrued compensation – related party	2,625,000	2,625,000	
Lease liability, current portion	2,040,918	2,073,547	
Deferred revenue	2,143,778	1,641,459	
Other current liabilities	6,597,678	7,626,836	
Total current liabilities	<u>22,359,472</u>	<u>25,287,651</u>	
Term loan, noncurrent portion	2,248,908	2,458,687	
Notes payable	3,115,000	500,000	
Convertible notes payable	5,150,000	5,050,000	
Convertible note payable at fair value	350,000	343,556	
Loan from related party	1,107,873	1,107,873	
Contingent consideration	—	238,821	
Lease liability	5,041,589	6,012,049	
Deferred tax liability	313,372	253,188	

Warrant liability	10,000	15,000
Other noncurrent liabilities	18,915	18,915
Total Liabilities	<u>39,715,129</u>	<u>41,285,740</u>
Commitments and contingencies (Note 18)		
STOCKHOLDERS' EQUITY		
Preferred Stock, Series C, \$0.001 par value, 50,000 shares authorized, 50,000 shares issued and outstanding at June 30, 2023 and December 31, 2022	1,000	1,000
Common stock, \$0.015 par value, 200,000,000 shares authorized, 13,868,003 and 12,340,664 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	208,020	185,110
Additional paid-in capital	146,038,511	143,119,461
Accumulated deficit	(120,143,043)	(109,214,479)
Total Stockholders' Equity	<u>26,104,488</u>	<u>34,091,092</u>
Total Liabilities and Stockholders' Equity	<u>\$ 65,819,617</u>	<u>\$ 75,376,832</u>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues	\$ 11,024,935	\$ 10,290,626	\$ 20,916,356	\$ 19,467,735
Expenses:				
Direct costs	217,245	939,389	436,141	2,022,279
Payroll and benefits	8,677,493	6,983,804	17,732,223	13,930,426
Selling, general and administrative	2,005,286	1,519,835	3,877,223	3,039,605
Depreciation and amortization	543,939	415,547	1,077,035	832,785
Impairment of goodwill	6,517,400	—	6,517,400	—
Change in fair value of contingent consideration	17,741	(237,557)	33,226	(76,106)
Legal and professional	496,570	613,971	1,259,847	1,552,186
Total expenses	18,475,674	10,234,989	30,933,095	21,301,175
(Loss) income from operations	(7,450,739)	55,637	(10,016,739)	(1,833,440)
Other (expenses) income:				
Change in fair value of convertible notes	4,000	244,022	(6,444)	531,880
Change in fair value of warrants	5,000	35,000	5,000	95,000
Interest income	103,104	68,454	205,121	113,221
Interest expense	(452,637)	(193,802)	(808,507)	(387,958)
Total other (expenses) income, net	(340,533)	153,674	(604,830)	352,143
(Loss) income before income taxes and equity in losses of unconsolidated affiliates	(7,791,272)	209,311	(10,621,569)	(1,481,297)
Income tax (expense)	(33,086)	(7,224)	(60,184)	(14,448)
Net (loss) income before equity in losses of unconsolidated affiliates	(7,824,358)	202,087	(10,681,753)	(1,495,745)
Equity in losses of unconsolidated affiliates	(134,886)	(23,400)	(246,811)	(43,400)
Net (loss) income	\$ (7,959,244)	\$ 178,687	\$ (10,928,564)	\$ (1,539,145)
(Loss) earnings per share:				
Basic	\$ (0.60)	\$ 0.02	\$ (0.85)	\$ (0.17)
Diluted	\$ (0.60)	\$ (0.01)	\$ (0.85)	\$ (0.23)
Weighted average number of shares outstanding:				
Basic	13,212,311	9,498,266	12,926,273	9,113,252
Diluted	13,212,311	9,626,143	12,926,273	9,243,684

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

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

	Six Months Ended June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (10,928,564)	\$ (1,539,145)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,077,035	832,785
Share-based compensation	165,200	114,062
Equity in losses of unconsolidated affiliates	246,811	43,400
Impairment of goodwill	6,517,400	—
Impairment of right-of-use asset	—	98,857
Impairment of capitalized production costs	49,412	87,323
Change in allowance for credit losses	255,032	251,728
Change in fair value of contingent consideration	33,226	(76,106)
Change in fair value of warrants	(5,000)	(95,000)
Change in fair value of convertible notes	6,444	(531,880)
Deferred income tax expense, net	60,184	14,448
Changes in operating assets and liabilities:		
Accounts receivable, trade and other	2,330,117	1,536,727
Other current assets	(314,791)	62,831
Capitalized production costs	(515,775)	(532,500)
Other long-term assets and employee receivable	(86,393)	(116,353)
Deferred revenue	502,319	(216,931)
Accounts payable	(1,196,147)	(60,517)
Accrued interest – related party	(214,890)	(64,891)
Other current liabilities	(1,024,321)	(1,519,747)
Lease liability, operating leases	(64,331)	(27,557)
Lease liability, finance leases	570	—
Other noncurrent liabilities	—	18,915
Net cash used in operating activities	(3,106,462)	(1,719,551)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(9,451)	(59,902)
Issuance of notes receivable	—	(2,238,800)
Net cash used in investing activities	(9,451)	(2,298,702)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from equity line of credit agreement	1,611,300	4,367,640
Cash settlement of contingent consideration for B/HI	—	(600,000)
Cash settlement of contingent consideration for Be Social	(506,587)	—
Proceeds from convertible notes payable	1,000,000	—
Proceeds from notes payable	2,215,000	—
Repayment of term loan	(214,286)	—
Repayment of notes payable	(58,000)	(252,502)
Net cash provided by financing activities	4,047,427	3,515,138
Net increase (decrease) in cash and cash equivalents and restricted cash	931,514	(503,115)
Cash and cash equivalents and restricted cash, beginning of period	7,197,849	8,230,626
Cash and cash equivalents and restricted cash, end of period	\$ 8,129,363	\$ 7,727,511

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

DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(unaudited)

	Six Months Ended June 30,	
	2023	2022
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest paid	\$ 940,162	\$ 454,975
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of commitment shares to Lincoln Park Capital LLC	\$ —	\$ 4,367,640
Receipt of CraftHouse equity in connection with marketing agreement	\$ —	\$ 1,000,000
Settlement of contingent consideration for B/HI (2022), The Door (2022) and Be Social (2023) in shares of common stock	\$ 265,460	\$ 1,539,444
Employee compensation paid in shares of common stock	\$ 165,200	\$ —
Issuance of shares of common stock for the conversion of two convertible notes payable	\$ 900,000	\$ —

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

	Six Months Ended June 30,	
	2023	2022

Cash and cash equivalents	\$ 7,001,403	\$ 7,185,628
Restricted cash	\$ 1,127,960	\$ 541,883
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statement of cash flows	<u>\$ 8,129,363</u>	<u>\$ 7,727,511</u>

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

DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)

For the three and six months ended June 30, 2023

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance December 31, 2022	50,000	\$ 1,000	12,340,664	\$ 185,110	\$ 143,119,461	\$ (109,214,479)	\$ 34,091,092
Net loss for the three months ended March 31, 2023	—	—	—	—	—	(2,969,320)	(2,969,320)
Issuance of shares to Lincoln Park Capital LLC	—	—	250,000	3,750	525,700	—	529,450
Issuance of shares related to employment agreements	—	—	36,672	550	74,091	—	74,641
Balance March 31, 2023	50,000	\$ 1,000	12,627,336	\$ 189,410	\$ 143,719,252	\$ (112,183,799)	\$ 31,725,863
Net loss for the three months ended June 30, 2023	—	—	—	—	—	(7,959,244)	(7,959,244)
Issuance of shares to Lincoln Park Capital LLC	—	—	600,000	9,000	1,072,850	—	1,081,850
Conversion of convertible note payable	—	—	450,000	6,750	893,250	—	900,000
Issuance of shares related to the Be Social acquisition	—	—	145,422	2,181	263,279	—	265,460
Issuance of shares related to employment agreements	—	—	45,245	679	89,880	—	90,559
Balance June 30, 2023	50,000	\$ 1,000	13,868,003	\$ 208,020	\$ 146,038,511	\$ (120,143,043)	\$ 26,104,488

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

DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)

For the three and six months ended June 30, 2022

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance December 31, 2021	50,000	\$ 1,000	8,020,381	\$ 120,306	\$ 127,247,928	\$ (104,434,344)	\$ 22,934,890
Net loss for the three months ended March 31, 2022	—	—	—	—	—	(1,717,832)	(1,717,832)
Issuance of shares to Lincoln Park Capital LLC	—	—	622,019	9,330	2,506,020	—	2,515,350
Shares issuable for contingent consideration	—	—	—	—	2,381,869	—	2,381,869

Issuance of restricted shares, net of shares withheld for taxes	—	—	8,645	130	(130)	—	—
Share-based compensation	—	—	—	—	59,305	—	59,305
Balance March 31, 2022	50,000	\$ 1,000	8,651,045	\$ 129,766	\$ 132,194,992	\$ (106,152,176)	\$ 26,173,582
Net income for the three months ended June 30, 2022	—	—	—	—	—	178,687	178,687
Issuance of shares to Lincoln Park Capital LLC	—	—	450,000	6,750	1,845,540	—	1,852,290
Issuance of restricted shares, net of shares withheld for taxes	—	—	7,982	120	(120)	—	—
Issuance of shares to sellers of The Door Marketing Group LLC for earnout consideration	—	—	279,562	4,193	(4,193)	—	—
Issuance of shares to seller of B/HI Communication Inc for earnout consideration	—	—	163,369	2,451	513,796	—	516,247
Share-based compensation	—	—	—	—	54,757	—	54,757
Balance June 30, 2022	50,000	\$ 1,000	9,551,958	\$ 143,280	\$ 134,604,772	\$ (105,973,489)	\$ 28,775,563

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

DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – GENERAL

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Dolphin, and all of its wholly owned subsidiaries, comprising Dolphin Films, Inc. (“Dolphin Films”), Dolphin SB Productions LLC, Dolphin Max Steel Holdings, LLC, Dolphin JB Believe Financing, LLC, Dolphin JOAT Productions, LLC, 42West, The Door, Viewpoint, Shore Fire, Be Social, B/HI and Socialyte. The Company applies the equity method of accounting for its investments in entities for which it does not have a controlling financial interest, but over which it has the ability to exert significant influence.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of the Company’s management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of its financial position as of June 30, 2023, and its results of operations and cash flows for the three and six months ended June 30, 2023 and 2022. All significant inter-company balances and transactions have been eliminated from the condensed consolidated financial statements. Operating results for the three and six months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2023. The condensed consolidated balance sheet as of December 31, 2022 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by U.S. GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements should be read together with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The most significant estimates made by management in the preparation of the financial statements relate to the estimates in the fair value of acquisitions, estimates in assumptions used to calculate the fair value of certain liabilities and impairment assessments for investment in capitalized production costs, goodwill and long-lived assets. Actual results could differ materially from such

estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation. These reclassifications had no impact on the Company's condensed consolidated statements of operations or condensed consolidated statements of cash flows.

Recent Accounting Pronouncements

Accounting Guidance Adopted

In June 2016, the FASB issued new guidance on measurement of credit losses (ASU 2016-13, "Measurement of Credit Losses on Financial Instruments") with subsequent amendments issued in November 2018 (ASU 2018-19) and April 2019 (ASU 2019-04). This update changes the accounting for credit losses on loans and held-to-maturity debt securities and requires a current expected credit loss (CECL) approach to determine the allowance for credit losses. The Company adopted this guidance effective January 1, 2023 and the adoption of this accounting standard did not have a material impact on the Company's condensed consolidated financial statements.

DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2 – REVENUE

Disaggregation of Revenue

The Company's principal geographic markets are within the U.S. The following is a description of the principal activities, by reportable segment, from which we generate revenue. For more detailed information about reportable segments, see Note 15.

Entertainment Publicity and Marketing

The Entertainment Publicity and Marketing ("EPM") segment generates revenue from diversified marketing services, including public relations, entertainment and hospitality content marketing, strategic marketing consulting and content production of marketing materials. Within the EPM segment, we typically identify one performance obligation, the delivery of professional publicity services, in which we typically act as the principal. Fees are generally recognized on a straight-line or monthly basis, as the services are consumed by our clients, which approximates the proportional performance on such contracts.

We also enter into management agreements with a roster of social media influencers and are paid a percentage of the revenue earned by the social media influencer. Due to the short-term nature of these contracts, in which we typically act as the agent, the performance obligation is typically completed and revenue is recognized net at a point in time, typically the date of publication.

Content Production

The Content Production ("CPD") segment generates revenue from the production of original motion pictures and other digital content production. In the CPD segment, we typically identify performance obligations depending on the type of service, for which we generally act as the principal. Revenue from motion pictures is recognized upon transfer of control of the licensing rights of the motion picture or web series to the customer. For minimum guarantee licensing arrangements, the amount related to each performance obligation is recognized when the content is delivered, and the window for exploitation right in that territory has begun, which is the point in time at which the customer is able to begin to use and benefit from the content. For sales or usage-based royalty income, revenue is recognized starting at the exhibition date and is based on the Company's participation in the box office receipts of the theatrical exhibitor and the performance of the motion picture.

The revenues recorded by the EPM and CPD segments is detailed below:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Entertainment publicity and marketing	\$ 11,024,935	\$ 10,290,626	\$ 20,916,356	\$ 19,467,735
Content production	—	—	—	—
Total Revenues	\$ 11,024,935	\$ 10,290,626	\$ 20,916,356	\$ 19,467,735

Contract Balances

The opening and closing balances of our contract liability balances from contracts with customers as of June 30, 2023 and December 31, 2022 were as follows:

	Contract Liabilities
Balance as of December 31, 2022	\$ 1,641,459
Balance as of June 30, 2023	\$ 2,143,778
Change	\$ 502,319

Contract liabilities are recorded when the Company receives advance payments from customers for public relations projects or as deposits for promotional or brand-support video projects. Once the work is performed or the projects are delivered to the customer, the contract liabilities are deemed earned and recorded as revenue. Advance payments received are generally for short duration and are recognized once the performance obligation of the contract is met. Contract liabilities are presented within deferred revenue in the condensed consolidated balance sheets. The change in the contract liability balance relates to the advanced consideration received from customers under the terms of our contracts, primarily related to fees, which are generally recognized shortly after billing.

DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Uunaudited)

Revenues for the three and six months ended June 30, 2023 and 2022 include the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Amounts included in the beginning of year contract liability balance	\$ 481,134	\$ 15,000	\$ 1,170,151	\$ 329,937

The Company's unsatisfied performance obligations are for contracts that have an original expected duration of one year or less and, as such, the Company is not required to disclose the remaining performance obligation.

NOTE 3 — GOODWILL AND INTANGIBLE ASSETS

Goodwill

As of June 30, 2023, the Company has a balance of \$ 22,796,683 of goodwill on its condensed consolidated balance sheet arising from the prior acquisitions of 42West, The Door, Viewpoint, Shore Fire, Be Social, B/HI and Socialyte. All of the Company's goodwill is related to the entertainment, publicity and marketing segment.

The Company evaluates goodwill in the fourth quarter or more frequently if management believes indicators of impairment exist. Such indicators could include but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, (3) significant decline in market capitalization or (4) an adverse action or assessment by a regulator. During the three months ended June 30, 2023, the Company's stock price remained constant and has not responded as positively as expected to new information on the Company's future projects and forecasts; this, in combination with recurring net losses, has resulted in the Company's market capitalization to be less than the Company's book value. The Company considered this to be a triggering event, and therefore performed a quantitative analysis of the fair value of goodwill.

As a result of this quantitative analysis, the Company recorded an impairment of Goodwill amounting to \$ 6,517,400, which is included in the condensed consolidated statement of operations for the three and six months ended June 30, 2023.

Intangible Assets

Finite-lived intangible assets consisted of the following as of June 30, 2023 and December 31, 2022:

	June 30, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Customer relationships	\$ 13,350,000	\$ 6,591,362	\$ 6,758,638	\$ 13,350,000	\$ 5,842,498	\$ 7,507,502
Trademarks and trade names	4,640,000	2,533,499	2,106,501	4,640,000	2,283,166	2,356,834
Non-compete agreements	690,000	680,000	10,000	690,000	670,000	20,000
	<u>\$ 18,680,000</u>	<u>\$ 9,804,861</u>	<u>\$ 8,875,139</u>	<u>\$ 18,680,000</u>	<u>\$ 8,795,664</u>	<u>\$ 9,884,336</u>

Amortization expense associated with the Company's intangible assets was \$ 503,357 and \$341,833 for the three months ended June 30, 2023 and 2022, respectively, and \$1,009,197 and \$683,666 for the six months ended June 30, 2023 and 2022, respectively.

Amortization expense related to intangible assets for the remainder of 2023 and thereafter is as follows:

2023						
2024						\$ 1,006,714
2025						1,701,993
2026						1,597,789
2027						1,465,978
Thereafter						854,992
						<u>2,247,674</u>
						<u>\$ 8,875,139</u>

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The following table presents the changes in goodwill and intangible assets (in thousands):

	Goodwill	Intangible Assets
Balance December 31, 2022	\$ 29,314,083	\$ 9,884,336
Amortization expense	—	(505,840)
Balance March 31, 2023	<u>29,314,083</u>	<u>9,378,496</u>
Amortization expense	—	(503,357)
Impairment of goodwill	(6,517,400)	—
Balance June 30, 2023	<u>\$ 22,796,683</u>	<u>\$ 8,875,139</u>

NOTE 4 —ACQUISITIONS

Socialyte, LLC

On November 14, 2022 ("Closing Date"), the Company, through its wholly owned subsidiary, Social MidCo LLC, ("MidCo"), acquired all of the issued and outstanding membership interests of Socialyte, a Delaware limited liability company (the "Socialyte Purchase"), pursuant to a membership interest purchase agreement dated the Closing Date (the "Socialyte Purchase Agreement") between the Company and NSL Ventures, LLC (the "Socialyte Seller"). Socialyte is a New York and Los Angeles-based creative agency specializing in social media influencer marketing campaigns for brands.

The total consideration paid to the Socialyte Seller in respect to the Socialyte Purchase was \$ 14,290,504, including a provisional working capital adjustment in the amount of \$2,103,668. The Purchase Agreement provided for the Socialyte Seller to earn up to an additional \$ 5,000,000 upon meeting certain financial targets in 2022 that were not met. On the Closing Date, the Company paid the Seller \$5,053,827 cash, issued the Seller 1,346,257 shares of its common stock and issued the Seller a \$3,000,000 unsecured promissory note (the "Socialyte Promissory Note"), which is to be repaid in two equal installments on June 30, 2023 and September 30, 2023. In addition, the Company issued the Seller 685,234 shares of its common stock in satisfaction of the Closing Date working capital adjustment. The first installment on the Socialyte Promissory Note was not made pending agreement of the post-close working capital adjustment. The Company partially financed the cash portion of the consideration with a \$3,000,000 five-year secured loan from Bank Prov with MidCo and Socialyte as co-borrowers, which the Company guaranteed. The common stock that was issued as part of the consideration was not registered under the Securities Act.

The condensed consolidated statement of operations includes revenues and net loss from Socialyte amounting to \$ 1,285,718 and \$(26,504), respectively, for the three months ended June 30, 2023 and \$2,433,955 and \$(337,183), respectively, for the six months ended June 30, 2023.

The following table summarizes the fair value of the consideration transferred:

Closing common stock (Consideration)	\$ 4,133,009
Common stock issued at Closing Date as working capital adjustment	2,103,668
Cash consideration paid at closing	5,053,827
Cash consideration paid subsequent to closing (Unsecured Promissory Note issued to Seller)	3,000,000
Fair value of the consideration transferred	\$ 14,290,504

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed by the Socialyte Purchase on the Closing Date. Amounts in the table are estimates that may change, as described below. There were no measurement period adjustments during the three and six months ended June 30, 2023. The measurement period of the Socialyte Purchase concludes on November 14, 2023.

	November 14, 2022
Cash	\$ 314,752
Accounts receivable	2,758,265
Accrued revenue	1,040,902
Property, equipment and leasehold improvements	30,826
Prepaid expenses	351,253
Intangibles	5,210,000
Total identifiable assets acquired	9,705,998
Accounts payable	(3,043,871)
Accrued expenses and other current liabilities	(1,397,292)
Deferred revenue	(1,173,394)
Total liabilities assumed	(5,614,557)
Net identifiable assets acquired	4,091,441
Goodwill	10,199,063
Fair value of the consideration transferred	\$ 14,290,504

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NOTE 5 — NOTES RECEIVABLE

The notes receivable held by the Company are unsecured convertible note receivables from JDDC Elemental LLC ("Midnight Theatre") (the "Notes Receivable"). The Notes Receivable are recorded at their principal face amount plus accrued interest. Due to their short-term maturity and conversion terms, these have been recorded at the face value of the note and an allowance for credit losses has not been established.

As of June 30, 2023, the Notes Receivable amount to \$ 4,630,416, inclusive of \$522,336 of interest receivable, and are convertible at the option of the Company into Class A and B Units of Midnight Theatre. The Notes Receivable each originally had maturity dates six months from their issuance date but the maturity date for all of the Notes Receivable has been extended to September 30, 2023. The Notes Receivable allow the Company to convert the principal and accrued interest into common interest of Midnight Theatre on the maturity date. In connection with the Notes Receivable, the Company recorded \$103,104 and \$68,454 of interest income for the three months ended June 30, 2023 and 2022, respectively, and \$ 205,121 and \$113,221 for the six months ended June 30, 2023 and 2022, respectively. On July 21, 2023, Midnight Theatre made an interest payment of \$105,000 related to the Notes Receivable.

NOTE 6 — EQUITY METHOD INVESTMENTS

The Company's equity method investment consisted of: (i) Class A and Class B units of Midnight Theatre and (ii) Series 2 common interest of Stanton South LLC, which operates CraftHouse Cocktails ("CraftHouse Cocktails").

The Company evaluated these investments under the Variable Interest Entity guidance and determined the Company is not the primary beneficiary of either Midnight Theatre or CraftHouse Cocktails, however it does exercise significant influence over Midnight Theatre and CraftHouse Cocktails; as a result, it accounts for these investments under the equity method of accounting. Equity method investments are included within other long-term assets in the condensed consolidated balance sheets.

As of June 30, 2023, the investment in Midnight Theatre and CraftHouse Cocktails amounted to \$ 732,654 and \$273,748 respectively.

Midnight Theatre

As of June 30, 2023 and December 31, 2022, the investment in Midnight Theatre amounted to \$ 732,654 and \$891,494, respectively. The

Company recorded losses of \$77,069 and \$158,841, for the three and six months ended June 30, 2023, respectively, in connection with its equity method investment in Midnight Theatre. Midnight Theatre commenced operations in late June 2022. The equity in earnings or losses during the three and six months ended June 30, 2022 were negligible, and were recorded in subsequent periods of 2022.

Crafthouse Cocktails

As of June 30, 2023 and December 31, 2022, the investment in Crafthouse Cocktails amounted to \$ 273,748 and \$361,717, respectively. The Company recorded losses in connection with its equity method investment in Crafthouse Cocktails amounting to \$57,817 and \$23,400 for the three months ended June 30, 2023 and 2022, respectively, and \$87,970 and \$43,400 for the six months ended June 30, 2023 and 2022, respectively.

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NOTE 7 — OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following:

	June 30, 2023	December 31, 2022
Accrued funding under Max Steel production agreement	\$ 620,000	\$ 620,000
Accrued audit, legal and other professional fees	440,250	573,049
Accrued commissions	630,532	702,410
Accrued bonuses	474,192	469,953
Talent liability	2,588,542	3,990,984
Accumulated customer deposits	1,158,246	550,930
Other	685,916	719,510
	<u>\$ 6,597,678</u>	<u>\$ 7,626,836</u>

NOTE 8 — DEBT

Total debt of the Company was as follows as of June 30, 2023 and December 31, 2022:

Debt Type	June 30, 2023	December 31, 2022
Convertible notes payable	\$ 5,150,000	\$ 5,050,000
Convertible note payable - fair value option	350,000	343,556
Non-convertible promissory notes	3,525,960	1,368,960
Non-convertible promissory notes – Socialyte	3,000,000	3,000,000
Loans from related party (see Note 9)	1,107,873	1,107,873
Term loan, net of debt issuance costs (see Note 12)	2,658,140	2,867,592
Total debt	<u>\$ 15,791,973</u>	<u>\$ 13,737,981</u>
Less current portion of debt	(3,820,192)	(4,277,697)
Noncurrent portion of debt	<u>\$ 11,971,781</u>	<u>\$ 9,460,284</u>

The table below details the maturity dates of the principal amounts for the Company's debt as of June 30, 2023:

Debt Type	Maturity Date	2023	2024	2025	2026	2027	Thereafter
Convertible notes payable	Ranging between October 2024 and March 2030	\$ —	\$ 1,300,000	\$ 800,000	\$ 450,000	\$ 2,600,000	\$ 500,000
Nonconvertible promissory notes	Ranging between November 2023 and March 2028	410,960	500,000	400,000	—	—	2,215,000
Nonconvertible promissory notes - Socialyte	September 2023	3,000,000	—	—	—	—	—
Term loan	November 14, 2027	200,797	408,233	408,233	408,233	1,232,644	—
Loans from related party	December 2026	—	—	—	1,107,873	—	—
		<u>\$ 3,611,757</u>	<u>\$ 2,208,233</u>	<u>\$ 1,608,233</u>	<u>\$ 1,966,106</u>	<u>\$ 3,832,644</u>	<u>\$ 2,715,000</u>

Convertible Notes Payable

On January 9, 2023, January 13, 2023 and June 15, 2023, the Company issued three convertible notes payable in the aggregate amount of \$1,000,000. The convertible notes payable bear interest at a rate of 10% per annum, with initial maturity dates on the second anniversary of their respective issuances. The balance of each convertible note payable and any accrued interest may be converted at the noteholder's option at any time at a purchase price based on a 90-day average closing market price per share of the common stock. Five of the convertible notes payable may not be converted at a price less than \$2.50 per share and six of the convertible notes payable may not be converted at a price less than \$ 2.00 per share. As of June 30, 2023 and December 31, 2022, the principal balance of the convertible notes payable of \$5,150,000 and \$5,050,000, respectively, was recorded in noncurrent liabilities under the caption "Convertible Notes Payable" on the Company's condensed consolidated balance sheets.

The Company recorded interest expense related to these convertible notes payable of \$ 141,583 and \$67,500 during the three months ended June 30, 2023 and 2022, respectively, and \$286,139 and \$135,000 during the six months ended June 30, 2023 and 2022, respectively. In addition, the Company made cash interest payments amounting to \$305,573 and \$135,000 during the six months ended June 30, 2023 and 2022, respectively, related to the convertible notes payable.

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On June 8, 2023, the holder of two convertible notes converted the aggregate principal balance of \$ 900,000 into 450,000 shares of common stock at a conversion price of \$2.00 per share. At the moment of conversion, accrued interest related to this note amounted to \$ 9,500 and was paid in cash.

Convertible Note Payable at Fair Value

The Company has one convertible promissory note outstanding with aggregate principal amount of \$ 500,000 as of June 30, 2023 for which it elected the fair value option. As such, the estimated fair value of the note was recorded on its issue date. At each balance sheet date, the Company records the fair value of the convertible promissory note with any changes in the fair value recorded in the condensed consolidated statements of operations.

The Company had a balance of \$ 350,000 and \$343,556 in noncurrent liabilities as of June 30, 2023 and December 31, 2022, respectively, on its condensed consolidated balance sheets related to the convertible note payable measured at fair value.

The Company recorded a gain in fair value of \$ 4,000 and \$244,022 for the three months ended June 30, 2023 and 2022, respectively, and a loss in fair value of \$6,444 and a gain in fair value of \$ 531,880 for the six months ended June 30, 2023 and 2022, respectively, on its condensed consolidated statements of operations related to this convertible promissory note at fair value.

The Company recorded interest expense related to these convertible notes payable at fair value of \$ 9,863 for both the three months ended June 30, 2023 and 2022, and \$19,726 for both the six months ended June 30, 2023 and 2022, respectively. In addition, the Company made cash interest payments amounting to \$19,726 for both the six months ended June 30, 2023 and 2022, related to the convertible promissory notes at fair value.

Nonconvertible Promissory Notes

On February 22, 2023, the Company issued an unsecured nonconvertible promissory note in the amount of \$ 2,215,000 and received proceeds of \$2,215,000. As of June 30, 2023, the Company has outstanding unsecured nonconvertible promissory notes in the aggregate amount of \$ 3,525,960, which bear interest at a rate of 10% per annum and mature between November 2023 and March 2028.

As of June 30, 2023 and December 31, 2022, the Company had a balance of \$ 410,960 and \$868,960, respectively, net of debt discounts recorded as current liabilities and \$3,115,000 and \$500,000 respectively, in noncurrent liabilities on its condensed consolidated balance sheets related to these unsecured nonconvertible promissory notes.

During the three and six months ended June 30, 2023, one unsecured nonconvertible promissory note amounting to \$ 400,000 matured and was extended for an additional period of two years, now maturing on June 14, 2025.

The Company recorded interest expense related to these nonconvertible promissory notes of \$ 153,468 and \$23,393 for the three months ended June 30, 2023 and 2022, respectively, and \$210,053 and \$48,277 for the six months ended June 30, 2023 and 2022, respectively. The Company made interest payments of \$127,211 and \$50,249 during the six months ended June 30, 2023 and 2022, respectively, related to the nonconvertible promissory notes.

Nonconvertible unsecured promissory notes - Socialyte Promissory Note

As discussed in Note 4, as part of the Socialyte Purchase, the Company entered into the Socialyte Promissory Note amounting to \$ 3,000,000. The Socialyte Promissory Note matures on September 30, 2023 and is payable in two payments: \$1,500,000 on June 30, 2023 and \$1,500,000 on September 30, 2023. The Socialyte Promissory Note carries an interest of 4% per annum, which accrues monthly, and all accrued interest shall be due and payable on September 30, 2023.

The Socialyte Purchase Agreement allows the Company to offset a working capital deficit against the Socialyte Promissory Note. As such, on June 30, 2023, the Company deferred the payment of the first installment in the amount of \$1,500,000 until the final post-closing working capital adjustment is agreed upon with the Socialyte Seller.

Credit and Security Agreement

In connection with the Socialyte Acquisition discussed in Note 4, Socialyte, with MidCo entered into a Credit and Security Agreement with BankProv ("Credit Agreement"), which includes a \$3,000,000 secured term note ("Term Loan") and \$ 500,000 of a secured revolving line of credit ("Revolver"). The Credit Agreement carries an annual facility fee of \$5,000 payable on the first anniversary of the Closing Date and of \$ 875 on each one year anniversary thereafter.

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The Credit Agreement contains financial covenants that require the Socialyte to maintain: (1) a quarterly minimum debt service ratio of 1.25:1.00; (2) a quarterly senior funded debt to EBITDA (as defined in the Credit Agreement) not to exceed 3.00:1.00 and (3) quarterly total funded debt to EBITDA (as defined in the Credit Agreement) not to exceed 5.00:1.00, as well as the Company to maintain a minimum liquidity of \$1,500,000. The Credit Agreement also contains covenants that limit Socialyte's and MidCo's ability to, among other things, grant liens, incur additional indebtedness, make acquisitions or investments, dispose of certain assets, change the nature of their businesses, enter into certain transactions with affiliates or amend the terms of material indebtedness.

Term Loan

The Term Loan has a term of five years, with a maturity date of November 14, 2027. The Company shall repay the Term Loan through 60 consecutive monthly payments of principal, based upon a straight-line amortization period of 84 months, based on the principal amount outstanding, plus interest at an annual rate of 7.37%, commencing on December 14, 2022, and continuing on the corresponding day of each month thereafter until it is paid in full. Any remaining unpaid principal balance, including accrued and unpaid interest and fees, if any shall be due and payable in full on November 14, 2027, its maturity date. Interest is calculated on the basis of actual days elapsed and a three hundred sixty (360) day year.

Interest on the Term Loan shall be payable on a monthly basis. Interest shall be computed on the basis of a three hundred sixty (360) day year, for the actual number of days elapsed. Default interest shall be charged in accordance with the terms of the Term Loan. During the six months ended June 30, 2023, the Company made a payment of \$321,487, inclusive of \$107,201 of interest. As of June 30, 2023, there was \$ 2,658,140, net of debt origination fees, outstanding under the Term Loan.

Revolver

There is no amount drawn on the Revolver as of June 30, 2023 and no amounts were drawn during the three and six months ended June 30, 2023. When drawn, the outstanding principal balance of the revolver shall accrue interest from the date of the draw of the greater of (i) 5.50% per annum, or (ii) the Prime Rate (as defined in the Revolver) plus 0.75% per annum.

NOTE 9 — LOANS FROM RELATED PARTY

The Company issued Dolphin Entertainment, LLC ("DE LLC"), an entity wholly owned by the Company's Chief Executive Officer, William O'Dowd (the "CEO"), a promissory note (the "DE LLC Note") which matures on December 31, 2026.

As of both June 30, 2023 and December 31, 2022, the Company had a principal balance of \$ 1,107,873, and accrued interest amounted to \$221,574 and \$166,637 as of June 30, 2023 and December 31, 2022, respectively. For both the six months ended June 30, 2023 and 2022, the Company did not repay any principal balance on the DE LLC Note.

The Company recorded interest expense of \$27,621 for both the three months ended June 30, 2023 and 2022, and \$ 54,938 for both the six months ended June 30, 2023 and 2022, respectively, related to this loan from related party. The Company did not make cash payments during both the six months ended June 30, 2023 and 2022, related to this loan from related party.

NOTE 10 — FAIR VALUE MEASUREMENTS

The Company's non-financial assets measured at fair value on a nonrecurring basis include goodwill and intangible assets. The determination of our intangible fair values includes several assumptions and inputs (Level 3) that are subject to various risks and uncertainties. Management believes it has made reasonable estimates and judgments concerning these risks and uncertainties. All other financial assets and liabilities are carried at amortized cost.

The Company's cash balances are representative of their fair values, as these balances are comprised of deposits available on demand. The carrying amounts of accounts receivable, notes receivable, prepaid and other current assets, accounts payable and other non-current liabilities approximate their fair values because of the short turnover of these instruments.

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DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS** **(Unaudited)**

Financial Disclosures about Fair Value of Financial Instruments

The tables below set forth information related to the Company's consolidated financial instruments:

	Level in Fair Value Hierarchy	June 30, 2023		December 31, 2022	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	1	\$ 7,001,403	\$ 7,001,403	\$ 6,069,889	\$ 6,069,889
Restricted cash	1	1,127,960	1,127,960	1,127,960	1,127,960
Liabilities:					
Convertible notes payable	3	\$ 5,150,000	\$ 4,780,000	\$ 5,050,000	\$ 4,865,000
Convertible note payable at fair value	3	350,000	350,000	343,556	343,556
Warrant liability	3	10,000	10,000	15,000	15,000
Contingent consideration	3	—	—	738,821	738,821

Convertible notes payable

As of June 30, 2023, the Company has eleven outstanding convertible notes payable with aggregate principal amount of \$ 5,150,000. See Note 8 for further information on the terms of these convertible notes.

	Level	June 30, 2023		December 31, 2022	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
10% convertible notes due in October 2024	3	\$ 800,000	\$ 806,000	\$ 800,000	\$ 817,000
10% convertible notes due in November 2024	3	—	—	500,000	\$ 513,000
10% convertible notes due in December 2024	3	500,000	499,000	900,000	\$ 912,000
10% convertible notes due in January 2025	3	800,000	806,000	—	—
10% convertible notes due in November 2026	3	300,000	277,000	300,000	\$ 285,000
10% convertible notes due in December 2026	3	150,000	138,000	150,000	\$ 143,000
10% convertible notes due in June 2027	3	200,000	179,000	—	—
10% convertible notes due in August 2027	3	2,000,000	1,735,000	2,000,000	\$ 1,834,000
10% convertible notes due in September 2027	3	400,000	340,000	400,000	\$ 361,000
		\$ 5,150,000	\$ 4,780,000	\$ 5,050,000	\$ 4,865,000

The estimated fair value of the convertible notes was computed using a Monte Carlo Simulation, using the following assumptions:

Fair Value Assumption – Convertible Debt	June 30, 2023	December 31, 2022
Stock Price	\$ 1.72	\$ 1.81
Minimum Conversion Price	\$ 2.00 - 2.50	\$ 2.00 - 2.50
Annual Asset Volatility Estimate	100%	100%
Risk Free Discount Rate (based on U.S. government treasury obligation with a term similar to that of the convertible note)	4.27% - 5.26%	4.02% - 4.49%

Fair Value Option ("FVO") Election – Convertible note payable and freestanding warrants

Convertible note payable, at fair value

As of June 30, 2023, the Company has one outstanding convertible note payable with a face value of \$ 500,000 (the "March 4th Note"), which is accounted for under the Accounting Standards Codification ("ASC") 825-10-15-4 FVO election. Under the FVO election, the financial instrument is initially measured at its issue-date estimated fair value and subsequently remeasured at estimated fair value on a recurring basis at each reporting period date. The estimated fair value adjustment is presented as a single line item within other (expenses) income in the accompanying condensed consolidated statements of operations under the caption "Change in fair value of convertible notes."

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The March 4th Note is measured at fair value and categorized within Level 3 of the fair value hierarchy. The following is a reconciliation of the fair values from December 31, 2022 to June 30, 2023:

	March 4th Note
Beginning fair value balance reported on the condensed consolidated balance sheet at December 31, 2022	\$ 343,556
Loss on the change in fair value reported in the condensed consolidated statements of operations	6,444
Ending fair value balance reported on the condensed consolidated balance sheet at June 30, 2023	<u><u>\$ 350,000</u></u>

The estimated fair value of the March 4th Note as of June 30, 2023 and December 31, 2022, was computed using a Black-Scholes simulation of the present value of its cash flows using a synthetic credit rating analysis and a required rate of return, using the following assumptions:

	June 30, 2023	December 31, 2022
Face value principal payable	\$ 500,000	\$ 500,000
Original conversion price	\$ 3.91	\$ 3.91
Value of common stock	\$ 1.72	\$ 1.81
Expected term (years)	6.68	7.18
Volatility	100%	100%
Risk free rate	4.00%	3.96%

Warrants

In connection with the March 4th Note, the Company issued the Series I Warrants. The Series I Warrants are measured at fair value and categorized within Level 3 of the fair value hierarchy. The following is a reconciliation of the fair values from December 31, 2022 to June 30, 2023:

Fair Value:	Series I
Beginning fair value balance reported on the condensed consolidated balance sheet at December 31, 2022	\$ 15,000
Gain on the change in fair value reported in the condensed consolidated statements of operations	5,000
Ending fair value balance reported on the condensed consolidated balance sheet at June 30, 2023	<u><u>\$ 10,000</u></u>

The estimated fair value of the Series "I" Warrants was computed using a Black-Scholes valuation model, using the following assumptions:

Fair Value Assumption - Series "I" Warrants	June 30, 2023	December 31, 2022
Exercise Price per share	\$ 3.91	\$ 3.91
Value of common stock	\$ 1.72	\$ 1.81
Expected term (years)	2.17	2.67
Volatility	80%	100%
Dividend yield	0%	0%
Risk free rate	4.80%	4.28%

Contingent consideration

The Company records the fair value of the contingent consideration liability in the consolidated balance sheets under the caption "Contingent consideration" and records changes to the liability against earnings or loss under the caption "Change in fair value of contingent consideration" in the consolidated statements of operations. As of June 30, 2023, the Company had paid off all contingent consideration related to the acquisition of Be Social.

For the contingent consideration, which is measured at fair value categorized within Level 3 of the fair value hierarchy, the following is a reconciliation of the fair values from December 31, 2022 to June 30, 2023:

	Be Social
Beginning fair value balance reported on the condensed consolidated balance sheet at December 31, 2022	\$ 738,821
Loss on change of fair value reported in the condensed consolidated statements of operations	33,226
Settlement of contingent consideration ⁽¹⁾	(772,047)
Ending fair value balance reported in the condensed consolidated balance sheet at June 30, 2023	<u><u>\$ —</u></u>

(1) On April 25, 2023, the Company settled the contingent consideration liability related to Be Social through payment of \$ 500,000 in cash and 148,687 shares of the Company's common stock, with a value of \$ 272,047.

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NOTE 11 — STOCKHOLDERS' EQUITY

2021 Lincoln Park Transaction

On December 29, 2021, the Company entered into a purchase agreement (the "LP 2021 Purchase Agreement") and a registration rights agreement (the "LP 2021 Registration Rights Agreement") with Lincoln Park Capital Fund, LLC ("Lincoln Park"), pursuant to which Lincoln Park agreed to purchase from the Company up to \$25,000,000 of the Company's common stock (subject to certain limitations) from time to time during the term of the LP 2021 Purchase Agreement. Pursuant to the terms of the LP 2021 Purchase Agreement, at the time the Company signed the LP 2021 Purchase Agreement and the LP 2021 Registration Rights Agreement, the Company issued 51,827 shares of the Company's common stock to Lincoln Park as consideration for its commitment ("2021 LP commitment shares") to purchase shares of the Company's common stock under the LP 2021 Purchase Agreement. Pursuant to the LP 2021 Purchase Agreement, the Company issued an additional 37,019 LP commitment shares on March 7, 2022.

During the three and six months ended June 30, 2022, excluding the additional commitment shares disclosed above, the Company sold 450,000 and 1,035,000 shares of common stock, respectively, at prices ranging between \$ 3.47 and \$5.15 pursuant to the LP 2021 Purchase Agreement and received proceeds of \$1,852,290 and \$4,367,640, respectively.

The LP 2021 Purchase Agreement was terminated effective August 12, 2022.

2022 Lincoln Park Transaction

On August 10, 2022, the Company entered into a new purchase agreement (the "LP 2022 Purchase Agreement") and a registration rights agreement (the "LP 2022 Registration Rights Agreement") with Lincoln Park, pursuant to which the Company could sell and issue to Lincoln Park, and Lincoln Park was obligated to purchase, up to \$25,000,000 in value of its shares of the Company's common stock from time to time over a 36-month period.

The Company may direct Lincoln Park, at its sole discretion, and subject to certain conditions, to purchase up to 50,000 shares of its common stock on any business day (a "Regular Purchase"). The amount of a Regular Purchase may be increased under certain circumstances up to 75,000 shares if the closing price is not below \$7.50 and up to 100,000 shares if the closing price is not below \$10.00, provided that Lincoln Park's committed obligation for Regular Purchases on any business day shall not exceed \$2,000,000. In the event we purchase the full amount allowed for a Regular Purchase on any given business day, we may also direct Lincoln Park to purchase additional amounts as accelerated and additional accelerated purchases. The purchase price of shares of the Company's common stock related to the future funding will be based on the then prevailing market prices of such shares at the time of sales as described in the LP 2022 Purchase Agreement.

Pursuant to the terms of the LP 2022 Purchase Agreement, at the time the Company signed the LP 2022 Purchase Agreement and the LP 2022 Registration Rights Agreement, the Company issued 57,313 shares of its common stock to Lincoln Park as consideration for its commitment ("LP 2022 commitment shares") to purchase shares of its common stock under the LP 2022 Purchase Agreement. The commitment shares were recorded as a period expense and included within selling, general and administrative expenses in the consolidated statements of operations.

During the three and six months ended June 30, 2023, the Company sold 600,000 and 850,000 shares of its common stock, respectively, at prices ranging between \$1.65 and \$2.27 pursuant to the LP 2022 Purchase Agreement and received proceeds of \$ 1,081,850 and \$1,611,300, respectively. Subsequent to June 30, 2023, the Company sold 300,000 shares of its common stock at prices ranging between \$ 1.70 and \$1.98 pursuant to the LP 2022 Purchase Agreement and received proceeds of \$550,850.

The Company evaluated the contract that includes the right to require Lincoln Park to purchase shares of its common stock in the future ("put right") considering the guidance in ASC 815-40, "Derivatives and Hedging — Contracts on an Entity's Own Equity" ("ASC 815-40") and concluded that it is an equity-linked contract that does not qualify for equity classification, and therefore requires fair value accounting. The Company has analyzed the terms of the freestanding put right and has concluded that it has insignificant value as of June 30, 2023.

NOTE 12 — SHARE-BASED COMPENSATION

Shares issued related to employment agreements

Pursuant to the employment agreement between the Company and Mr. Anthony Francisco, he is entitled to receive share awards amounting to \$25,000 at each of certain dates in 2023 and 2024, in the aggregate amounting to \$ 100,000. Relating to this agreement, on January 11, 2023, the Company issued to Mr. Francisco 6,366 shares of common stock at a price of \$ 2.24 per share, the 30-day trailing closing sale price for the common stock on the date the shares were issued. On July 28, 2023, the Company issued to Mr. Francisco 7,966 shares of common stock at a price of \$ 2.01 per share.

During the three and six months ended June 30, 2023, the Company paid the salary of certain employees at one of its subsidiaries in fully vested shares of the Company's common stock. During the three and six months ended June 30, 2023, the Company issued an aggregate of 45,245 and 75,551 shares, respectively, amounting to \$90,559 and \$150,930, respectively, in the aggregate on different dates though the six months ended June 30, 2023, following the normal payroll cycle.

DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13 — EARNINGS (LOSS) PER SHARE

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

Numerator	Three Months Ended		Six Months Ended	
	June 30,	2023	June 30,	2022
Net (loss) income	\$ (7,959,244)	\$ 178,687	\$ (10,928,564)	\$ (1,539,145)
Net income attributable to participating securities	—	3,647	—	—
Net (loss) income attributable to Dolphin Entertainment common stock shareholders and numerator for basic (loss) earnings per share	(7,959,244)	175,040	(10,928,564)	(1,539,145)
Undistributed earnings for the three months ended June 30, 2022 attributable to participating securities	—	3,647	—	—
Change in fair value of convertible notes payable	—	(244,022)	—	(531,880)
Change in fair value of warrants	—	—	—	(95,000)
Interest expense	—	9,863	—	19,726

Numerator for diluted loss per share	\$ (7,959,244)	\$ (55,472)	\$ (10,928,564)	\$ (2,146,299)
Denominator				
Denominator for basic EPS - weighted-average shares	13,212,311	9,498,266	12,926,273	9,113,252
Effect of dilutive securities:				
Warrants	—	—	—	2,555
Convertible notes payable	—	127,877	—	127,877
Denominator for diluted EPS - adjusted weighted-average shares	13,212,311	9,626,143	12,926,273	9,243,684
Basic (loss) earnings per share	\$ (0.60)	\$ 0.02	\$ (0.85)	\$ (0.17)
Diluted loss per share	\$ (0.60)	\$ (0.01)	\$ (0.85)	\$ (0.23)

Basic (loss) earnings per share is computed by dividing income or loss attributable to the shareholders of common stock (the numerator) by the weighted-average number of shares of common stock outstanding (the denominator) for the period. Diluted (loss) earnings per share assume that any dilutive equity instruments, such as convertible notes payable and warrants were exercised and outstanding common stock adjusted accordingly, if their effect is dilutive.

One of the Company's convertible notes payable, the warrants and the Series C Preferred Stock have clauses that entitle the holder to participate if dividends are declared to the common stockholders as if the instruments had been converted into shares of common stock. As such, the Company uses the two-class method to compute earnings per share and attributes a portion of the Company's net income to these participating securities. These securities do not contractually participate in losses. For the three months ended June 30, 2022, the Company attributed \$3,647 of the Company's net income to these participating securities and reduced the net income available to common shareholders by that amount when calculating basic earnings per share. For the three months ended June 30, 2023 and the six months ended June 30, 2023 and 2022, the Company had a net loss and as such the two-class method is not presented.

For the three and six months ended June 30, 2023 potentially dilutive instruments including 2,653,993 shares and 2,993,588 shares, respectively, of common stock issuable upon conversion of convertible notes payable were not included in the diluted loss per share as inclusion was considered to be antidilutive. For the three and six months ended June 30, 2023, the warrants were not included in diluted loss per share because the warrants were not "in the money".

For the three and six months ended June 30, 2022, the convertible promissory notes, except for the convertible notes carried at fair value, were not included in diluted income (loss) per share because inclusion was considered to be anti-dilutive. For the six months ended June 30, 2022, the warrants were included in diluted loss per share but were not included in the diluted income per share for the three months ended June 30, 2022 because the warrants were "in the money".

DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 14 — RELATED PARTY TRANSACTIONS

As part of the employment agreement with its CEO, the Company provided a \$ 1,000,000 signing bonus in 2012, which has not been paid and is recorded in accrued compensation on the consolidated balance sheets, along with unpaid base salary of \$1,625,000 in aggregate attributable for the period from 2012 through 2018. Any unpaid and accrued compensation due to the CEO under his employment agreement will accrue interest on the principal amount at a rate of 10% per annum from the date of his employment agreement until it is paid. Even though the employment agreement expired and has not been renewed, the Company has an obligation under the agreement to continue to accrue interest on the unpaid balance.

As of June 30, 2023 and December 31, 2022, the Company had accrued \$ 2,625,000 of compensation as accrued compensation and has balances of \$1,308,257 and \$ 1,578,088, respectively, in accrued interest in current liabilities on its condensed consolidated balance sheets, related to the CEO's employment agreement. Amounts owed under this arrangement are payable on demand. The Company recorded interest expense related to the accrued compensation in the condensed consolidated statements of operations amounting to \$65,445 for both the three months ended June 30, 2023 and 2022 and \$130,171 for both the six months ended June 30, 2023 and 2022. During the six months ended June 30, 2023, the Company made interest payments in the amount of \$400,000 in connection with the accrued compensation to the CEO.

The Company entered into the DE LLC Note with an entity wholly owned by our CEO. See Note 9 for further discussion.

NOTE 15 — SEGMENT INFORMATION

The Company operates in two reportable segments, Entertainment Publicity and Marketing Segment ("EPM") and Content Production Segment ("CPD").

- The Entertainment Publicity and Marketing segment is composed of 42West, The Door, Viewpoint, Shore Fire, Be Social, B/HI and Socialyte. This segment primarily provides clients with diversified marketing services, including public relations, entertainment and hospitality content marketing, strategic marketing consulting and content production of marketing materials.
- The Content Production segment is composed of Dolphin Entertainment and Dolphin Films. This segment engages in the production and distribution of digital content and feature films. The activities of our Content Production segment also include all corporate overhead activities.

The profitability measure employed by our chief operating decision maker for allocating resources to operating segments and assessing operating segment performance is operating income (loss) which is the same as (Loss) income from operations on the Company's condensed consolidated statements of operations for the three and six months ended June 30, 2023 and 2022. Salaries and related expenses include salaries, bonuses, commissions and other incentive related expenses. Legal and professional expenses primarily include professional fees related to financial statement audits, legal, investor relations and other consulting services, which are engaged and managed by each of the segments. In addition, general and administrative expenses include rental expense and depreciation of property, equipment and leasehold improvements for properties occupied by corporate office employees. All segments follow the same accounting policies as those described in the Annual Report on Form 10-K for the year ended December 31, 2022.

In connection with the acquisitions of 42West, The Door, Viewpoint, Shore Fire, Be Social, B/HI and Socialyte, the Company assigned \$8,875,139 of intangible assets, net of accumulated amortization of \$ 9,804,861, and goodwill of \$22,796,683, net of impairment of \$6,517,400, as of June 30, 2023 to the EPM segment. Equity method investments are included within the EPM segment.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues:				
EPM	\$ 11,024,935	\$ 10,290,626	\$ 20,916,356	\$ 19,467,735
CPD	—	—	—	—
Total	\$ 11,024,935	\$ 10,290,626	\$ 20,916,356	\$ 19,467,735
Segment Operating Income (Loss):				
EPM	\$ 254,502	\$ 1,783,722	\$ (9,174,979)	\$ 1,373,178
CPD	(7,705,241)	(1,728,085)	(841,760)	(3,206,618)
Total operating (loss) income	(7,450,739)	55,637	(10,016,739)	(1,833,440)
Interest expense, net	(349,533)	(125,348)	(603,386)	(274,737)
Other income (expenses), net	9,000	279,022	(1,444)	626,880
(Loss) income before income taxes and equity in losses of unconsolidated affiliates	\$ (7,791,272)	\$ 209,311	\$ (10,621,569)	\$ (1,481,297)

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DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	As of June 30, 2023	As of December 31, 2022
Total assets:		
EPM	\$ 58,601,457	\$ 68,678,335
CPD	7,218,160	6,698,497
Total	\$ 65,819,617	\$ 75,376,832

NOTE 16 — LEASES

The Company and its subsidiaries are party to various office leases with terms expiring at different dates through November 2027. The amortizable life of the right-of-use asset is limited by the expected lease term. Although certain leases include options to extend the Company did not include these in the right-of-use asset or lease liability calculations because it is not reasonably certain that the options will be executed.

	As of June 30, 2023	As of December 31, 2022
Operating Leases		
Assets		
Right-of-use asset	\$ 6,342,200	\$ 7,341,045
Liabilities		
Current		
Lease liability	\$ 2,021,359	\$ 2,073,547
Noncurrent		
Lease liability	\$ 5,001,239	\$ 6,012,049
Total operating lease liability	\$ 7,022,598	\$ 8,085,596

	As of June 30, 2023	As of December 31, 2022
Finance Lease		
Assets		
Right-of-use asset	\$ 59,515	\$ —
Liabilities		
Current		
Lease liability	\$ 19,559	\$ —
Noncurrent		
Lease liability	\$ 40,350	\$ —
Total finance lease liability	\$ 59,909	\$ —

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DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The table below shows the lease income and expenses recorded in the condensed consolidated statements of operations incurred during the three and six months ended June 30, 2023 and 2022.

Lease costs	Classification	Three Months Ended June 30,		Six Months Ended June 30,	
		2023	2022	2023	2022

Operating lease costs	Selling, general and administrative expenses	\$ 706,140	\$ 590,072	\$ 1,409,593	\$ 1,166,611
Sublease income	Selling, general and administrative expenses	(107,270)	(76,568)	(220,382)	(121,983)
Net operating lease costs		<u>\$ 598,870</u>	<u>\$ 513,504</u>	<u>\$ 1,189,211</u>	<u>\$ 1,044,628</u>

Lease costs	Classification	Three Months Ended June 30,		Six Months Ended June 30,	
		2023	2022	2023	2022
Amortization of right-of-use assets	Selling, general and administrative expenses	3,501	—	3,501	—
Interest on lease liability	Selling, general and administrative expenses	834	—	834	—
Total finance lease costs		<u>\$ 4,335</u>	<u>\$ —</u>	<u>\$ 4,335</u>	<u>\$ —</u>

Lease Payments

For the six months ended June 30, 2023 and 2022, the Company made payments in cash related to its operating leases in the amounts of \$1,386,214 and \$1,063,972, respectively.

Future minimum lease payments for leases for the remainder of 2023 and thereafter, were as follows:

Year	Operating Leases	Finance Leases
2023	\$ 1,253,949	\$ 13,787
2024	2,531,307	23,635
2025	1,979,589	23,635
2026	1,782,057	5,910
2027	719,795	—
Total lease payments	\$ 8,266,697	\$ 66,967
Less: Imputed interest	(1,244,099)	(7,058)
Present value of lease liabilities	<u>\$ 7,022,598</u>	<u>\$ 59,909</u>

As of June 30, 2023, the Company's weighted average remaining lease term on its operating leases is 3.4 years and the Company's weighted average discount rate is 8.71% related to its operating leases. As of June 30, 2023, the Company's weighted average remaining lease term on its finance leases is 2.8 years and the Company's weighted average discount rate is 8.6% related to its finance leases.

NOTE 17 — COLLABORATIVE ARRANGEMENT

IMAX Co-Production Agreement

On June 24, 2022, the Company entered into an agreement with IMAX Corporation ("IMAX") to co-produce and co-finance a documentary motion picture on the flight demonstration squadron of the United States Navy, called The Blue Angels ("Blue Angels Agreement"). IMAX and Dolphin have each agreed to fund 50% of the production budget. As of December 31, 2022, the Company had paid \$1,500,000 pursuant to the Blue Angels Agreement, which were recorded as capitalized production costs. On April 26, 2023, the Company paid the remaining \$500,000 pursuant to the Blue Angels Agreement.

As production of the documentary motion picture is not complete, no income or expense has been recorded in connection with the Blue Angels Agreement during the three and six months ended June 30, 2023.

We have evaluated the Blue Angels Agreement and have determined that it is a collaborative arrangement under FASB ASC Topic 808 "Collaborative Arrangements". We will reevaluate whether an arrangement qualifies or continues to qualify as a collaborative arrangement whenever there is a change in either the roles of the participants or the participants' exposure to significant risks and rewards, dependent upon the ultimate commercial success of documentary motion picture.

On April 25, 2023, IMAX entered into an acquisition agreement with Amazon Content Services, LLC for the distribution rights of Blue Angels. The Company estimates that it will derive approximately \$3.5 million from the acquisition agreement and it expects that the documentary motion picture will be released in the first quarter of 2024.

DOLPHIN ENTERTAINMENT, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 18 — COMMITMENTS AND CONTINGENCIES

Litigation

The Company may be subject to legal proceedings, claims, and liabilities that arise in the ordinary course of business. The Company is not aware of any pending litigation as of the date of this report and, therefore, in the opinion of management and based upon the advice of its outside counsels, the liability, if any, from any pending litigation is not expected to have a material effect in the Company's financial position, results of operations and cash flows.

IMAX Co-Production Agreement

As discussed in Note 17, on June 24, 2022, the Company entered into the Blue Angels Agreement with IMAX. Under the terms of this agreement, on April 26, 2023, the Company funded the remaining \$500,000 commitment and through June 30, 2023 has now funded its full \$ 2,000,000 commitment of the production budget.

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

OVERVIEW

We are a leading independent entertainment marketing and premium content production company. Through our subsidiaries, 42West, The Door, Shore Fire, Viewpoint, Be Social and Socialyte, we provide expert strategic marketing and publicity services to many of the top brands, both individual and corporate, in the entertainment, hospitality and music industries. 42West, The Door and Shore Fire are each recognized global leaders in the PR services for the industries they serve. Viewpoint adds full-service creative branding and production capabilities and Be Social and Socialyte provide influencer-marketing capabilities through their roster of highly engaged social media influencers. Dolphin's legacy content production business, founded by our Emmy-nominated Chief Executive Officer, Bill O'Dowd, has produced multiple feature films and award-winning digital series, primarily aimed at family and young adult markets. Our common stock trades on The Nasdaq Capital Market under the symbol "DLPN."

We have established an acquisition strategy based on identifying and acquiring companies that complement our existing entertainment publicity and marketing services and content production businesses. We believe that complementary businesses, such as live event production, can create synergistic opportunities and bolster profits and cash flow. We have identified potential acquisition targets and are in various stages of discussion with such targets.

We have also established an investment strategy, "Dolphin 2.0," based upon identifying opportunities to develop internally owned assets, or acquire ownership stakes in others' assets, in the categories of entertainment content, live events and consumer products. We believe these categories represent the types of assets wherein our expertise and relationships in entertainment marketing most influences the likelihood of success. We are in various stages of internal development and outside conversations on a wide range of opportunities within Dolphin 2.0. We intend to enter into additional investments during 2023, but there is no assurance that we will be successful in doing so, whether in 2023 or at all.

We operate in two reportable segments: our entertainment publicity and marketing segment and our content production segment. The entertainment publicity and marketing segment is composed of 42West, The Door, Shore Fire, Viewpoint, Be Social, B/HI and Socialyte and provides clients with diversified services, including public relations, entertainment content marketing, strategic communications, social media marketing, creative branding, and the production of promotional video content. The content production segment is composed of Dolphin Films, Inc. ("Dolphin Films") and Dolphin Digital Studios, which produce and distribute feature films and digital content. The activities of our Content Production segment also include all corporate overhead activities.

Dolphin 2.0

We believe our ability to engage a broad consumer base through our best-in-class pop culture marketing assets provides us an opportunity to make investments in products or companies which would benefit from our collective marketing power. We call these investments "Dolphin 2.0" (with "Dolphin 1.0" being the underlying businesses of each of our subsidiaries mentioned above). Simply put, we seek to own an interest in some of the assets we are marketing. Specifically, we want to own an interest in assets where our experience, industry relationships and marketing power will most influence the likelihood of success. This leads us to seek investments in the following categories of assets: 1) Content; 2) Live Events; and 3) Consumer Products.

The first of our Dolphin 2.0 investments has been in the new world of Non-Fungible Tokens ("NFTs"). On October 2, 2022, we minted (offered for sale) our first collection, "Creature Chronicles: Exiled Aliens", a generative art collection of 7,777 unique avatars designed by Anthony Francisco, former Marvel Studio artist. The collection generated approximately 13,175 SOL, equaling approximately \$435,000.

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Our second Dolphin 2.0 investment was made in October, 2021, when we acquired an ownership interest in Midnight Theatre, a state-of-the-art contemporary variety theater and restaurant in the heart of Manhattan. An anchor of Brookfield Properties' recently opened \$4.5 billion Manhattan West development, the Midnight Theatre opened on September 21, 2022. The restaurant, Hidden Leaf, opened on July 6, 2022.

Our third Dolphin 2.0 investment was made in December, 2021, when we acquired an ownership interest in CraftHouse Cocktails, a pioneering brand of ready-to-drink, all-natural classic cocktails. During the third quarter of 2022, CraftHouse Cocktails began its first international operations, with distribution in London, United Kingdom.

We have also made our first content investment under Dolphin 2.0. See Note 17 above for details regarding our Collaborative Arrangement with IMAX for production and distribution of the documentary feature "The Blue Angels."

Revenues

For the three and six months ended June 30, 2023 and 2022, we derived all of our revenues from our entertainment publicity and marketing segment. The entertainment publicity and marketing segment derives its revenues from providing public relations services for celebrities and musicians, as well as for entertainment and targeted content marketing for film and television series, strategic communications services for corporations and public relations, marketing services and brand strategies for hotels and restaurants and digital marketing through its roster of social media influencers. We expect to generate income in our content production segment over the next eighteen months with the release of "The Blue Angels" documentary motion picture, discussed in the "Project Development and Related Services."

Entertainment Publicity and Marketing

Our revenue is directly impacted by the retention and spending levels of existing clients and by our ability to win new clients. We believe that we have a stable client base, and we have continued to grow organically through referrals and by actively soliciting new business. We earn revenues primarily from the following sources: (i) celebrity talent services; (ii) content marketing services under multiyear master service agreements in exchange for fixed project-based fees; (iii) individual engagements for entertainment content marketing services for durations of generally between three and six months; (iv) strategic communications services; (v) engagements for marketing of special events such as food and wine festivals; (vi) engagement for marketing of brands; (vii) arranging strategic marketing agreements between brands and social media influencers and (viii) content production of marketing materials on a project contract basis. For these revenue streams, we collect fees through either fixed fee monthly retainer agreements, fees based on a percentage of contracts or project-based fees.

We earn entertainment publicity and marketing revenues primarily through the following:

- **Talent** – We earn fees from creating and implementing strategic communication campaigns for performers and entertainers, including Oscar, Tony and Emmy winning film, theater and television stars, directors, producers, celebrity chefs and Grammy winning recording artists. Our services in this area include ongoing strategic counsel, media relations, studio and/or network liaison work, and event and tour support. We believe that the proliferation of content, both traditional and on social media, will lead to an increasing number of individuals seeking such services, which will drive growth and revenue in our Talent departments for several years to come.

- **Entertainment Marketing and Brand Strategy** – We earn fees from providing marketing direction, public relations counsel and media strategy for entertainment content (including theatrical films, television programs, DVD and VOD releases, and online series) from virtually all the major studios and streaming services, as well as content producers ranging from individual filmmakers and creative artists to production companies, film financiers, DVD distributors, and other entities. In addition, we provide entertainment marketing services in connection with film festivals, food and wine festivals, awards campaigns, event publicity and red-carpet management. As part of our services, we offer marketing and publicity services tailored to reach diverse audiences. We also provide marketing direction targeted to the ideal consumer through a creative public relations and creative brand strategy for hotel and restaurant groups. We expect that increased digital streaming marketing budgets at several large key clients will drive growth of revenue and profit in 42West's Entertainment Marketing division over the next several years.

- **Strategic Communications** – We earn fees by advising companies looking to create, raise or reposition their public profiles, primarily in the entertainment industry. We also help studios and filmmakers deal with controversial movies, as well as high-profile individuals address sensitive situations. We believe that growth in the Strategic Communications division will be driven by increasing demand for these varied services by traditional and non-traditional media clients who are expanding their activities in the content production, branding, and consumer products PR sectors.
- **Creative Branding and Production** – We offer clients creative branding and production services from concept creation to final delivery. Our services include brand strategy, concept and creative development, design and art direction, script and copywriting, live action production and photography, digital development, video editing and composite, animation, audio mixing and engineering, project management and technical support. We expect that our ability to offer these services to our existing clients in the entertainment and consumer products industries will be accretive to our revenue.
- **Digital Media Influencer Marketing Campaigns** – We arrange strategic marketing agreements between brands and social media influencers, for both organic and paid campaigns. We also offer services for social media activations at events. Our services extend beyond our own captive influencer network, and we manage custom campaigns targeting specific demographics and locations, from ideation to delivery of results reports. We expect that our relationship with social media influencers will provide us the ability to offer these services to our existing clients in the entertainment and consumer products industries and will be accretive to our revenue.

Content Production

Project Development and Related Services

We have a team that dedicates a portion of its time to identifying scripts, story treatments and novels for acquisition, development and production. The scripts can be for either digital, television or motion picture productions. We have acquired the rights to certain scripts that we intend to produce and release in the future, subject to obtaining financing. We have not yet determined if these projects would be produced for digital, television or theatrical distribution.

We have completed development of several feature films, which means that we have completed the script and can begin pre-production once financing is obtained. We are planning to fund these projects through third-party financing arrangements, domestic distribution advances, pre-sales, and location-based tax credits, and if necessary, sales of our common stock, securities convertible into our common stock, debt securities or a combination of such financing alternatives; however, there is no assurance that we will be able to obtain the financing necessary to produce any of these feature films.

In June 2022, we entered into an agreement with IMAX Corporation ("IMAX") to co-produce and co-finance a documentary motion picture on the flight demonstration squadron of the United States Navy called the Blue Angels. IMAX and Dolphin have each agreed to fund 50% of the production budget which is estimated at approximately \$4 million. In April of 2023, IMAX entered into an agreement with Amazon Content Services LLC for the distribution rights of the Blue Angels. We estimate that we will derive approximately \$3.5 million from the acquisition agreement and expect that the documentary motion picture will be released in early 2024.

Expenses

Our expenses consist primarily of:

- (1) Direct costs – includes certain costs of services, as well as certain production costs, related to our entertainment publicity and marketing business. Included within direct costs are immaterial impairments for any of our content production projects.
- (2) Payroll and benefits expenses – includes wages, stock-based compensation, payroll taxes and employee benefits.
- (3) Selling, general and administrative expenses – includes all overhead costs except for payroll, depreciation and amortization and legal and professional fees that are reported as a separate expense item.

- (4) Depreciation and amortization – includes the depreciation of our property and equipment and amortization of intangible assets and leasehold improvements.
- (5) Impairment of goodwill – includes an impairment charge as a result of triggering events identified during the second quarter of 2023.
- (6) Change in fair value of contingent consideration – includes changes in the fair value of the contingent earn-out payment obligations for the Company's acquisitions. The fair value of the related contingent consideration is measured at every balance sheet date and any changes recorded on our consolidated statements of operations.
- (7) Legal and professional fees – includes fees paid to our attorneys, fees for investor relations consultants, audit and accounting fees and fees for general business consultants.

Other Income and Expenses

For the three and six months ended June 30, 2023, other income and expenses consisted primarily of: (1) changes in fair value of convertible

notes; (2) interest income; and (3) interest expense. For the three and six months ended June 30, 2022 other income and expenses consisted primarily of: (1) changes in fair value of convertible notes; (2) changes in fair value of warrants; and (3) interest expense.

RESULTS OF OPERATIONS

Three and six months ended June 30, 2023 as compared to three and six months ended June 30, 2022

Revenues

For the three and six months ended June 30, 2023 and 2022 revenues were as follows:

	For the three months ended		For the six months ended	
	June 30, 2023	2022	June 30, 2023	2022
Revenues:				
Entertainment publicity and marketing	\$ 11,024,935	\$ 10,290,626	\$ 20,916,356	\$ 19,467,735
Total revenue	\$ 11,024,935	\$ 10,290,626	\$ 20,916,356	\$ 19,467,735

Revenues from entertainment publicity and marketing increased by approximately \$0.7 million and \$1.4 million for the three and six months ended June 30, 2023, respectively, as compared to the same periods in the prior year. The increase is primarily driven by inclusion of Socialyte revenues for 2023, which were not present in 2022.

We did not derive any revenues from the content production segment as we have not produced and distributed any of the projects discussed above and the projects that were produced and distributed in 2013 and 2016 have mostly completed their normal revenue cycles. We expect to begin generating income in our content production segment in the early 2024 with the release of the Blue Angels documentary film.

Expenses

For the three and six months ended June 30, 2023 and 2022, our expenses were as follows:

	For the three months ended		For the six months ended	
	June 30, 2023	2022	June 30, 2023	2022
Expenses:				
Direct costs	\$ 217,245	\$ 939,389	\$ 436,141	\$ 2,022,279
Payroll and benefits	8,677,493	6,983,804	17,732,223	13,930,426
Selling, general and administrative	2,005,286	1,519,835	3,877,223	3,039,605
Depreciation and amortization	543,939	415,547	1,077,035	832,785
Impairment of goodwill	6,517,400	—	6,517,400	—
Change in fair value of contingent consideration	17,741	(237,557)	33,226	(76,106)
Legal and professional	496,570	613,971	1,259,847	1,552,186
Total expenses	\$ 18,475,674	\$ 10,234,989	\$ 30,933,095	\$ 21,301,175

Direct costs decreased by approximately \$0.7 million for the three months ended June 30, 2023 and \$1.6 million for the six months ended June 30, 2023, as compared to the three and six months ended June 30, 2022. The decrease in direct costs is partially driven by \$0.2 million and \$0.7 million of NFT production and marketing costs for the three and six months ended June 30, 2022, respectively, that were not present in the same periods in 2023. The decrease in direct costs is also partially attributable to the decrease in certain subsidiaries revenues as compared with the same periods in the prior year.

Payroll and benefits expenses increased by approximately \$1.7 million and \$3.8 million, respectively, for the three and six months ended June 30, 2023 as compared to the three and six months ended June 30, 2022, primarily due to the following:

- Inclusion of \$1.1 million and \$2.3 million for the three and six months ended June 30, 2023, respectively, of Socialyte expenses;
- \$0.4 million and \$0.7 million of salaries of the employees of one of our subsidiaries included in direct costs for the three and six months ended June 30, 2022, respectively, as these salaries were directly related to projects of that subsidiary. During the three and six months ended June 30, 2023, the revenues of that subsidiary have decreased substantially and the salaries are included in payroll expense;
- The remaining increase of \$0.2 million and \$0.8 million for the three and six months ended June 30, 2023, respectively, is related to salary increases and an increase in headcount to support revenue growth.

Depreciation and amortization increased by \$0.1 million and \$0.2 million for the three and six months ended June 30, 2023, as compared to the three and six months ended June 30, 2022, related to the amortization of Socialyte intangible assets in 2023.

Selling, general and administrative expenses increased by approximately \$0.5 million and \$0.8 million for the three and six months ended June 30, 2023, respectively, as compared to the three and six months ended June 30, 2022, mainly due to costs our Los Angeles office that was opened in July of 2022 of \$0.2 million and \$0.8 million for the three and six months ended June 30, 2023, respectively and inclusion of Socialyte selling, general and administrative expenses for the three months ended June 30, 2023, respectively, of \$0.2 million and \$0.3 million.

Impairment of goodwill was \$6.5 million for the three and six months ended June 30, 2023. As discussed in Note 3 – Goodwill and Intangibles Assets in the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, we performed a quantitative assessment driven by triggering events related to declines in our market capitalization combined with the lack of positive response from the market to positive information related to future projects. The quantitative assessment resulted in the impairment of goodwill in the amount of \$6.5 million of one of our reporting units. No such charges were recorded in the three and six months ended June 30, 2022.

Change in fair value of the contingent consideration was \$17.7 thousand and \$33.2 thousand for the three and six months ended June 30, 2023, compared to the change in fair value of the contingent consideration of \$(0.2) million and \$(76.1) thousand for the three and six months ended June 30, 2022. The main components of the change in fair value of contingent consideration were the following:

- The Door: This contingent consideration was settled in June 2022, therefore no changes were recorded in the three and six months ended June 30, 2023. The Company recorded \$0.4 million gain and \$1.4 million gain, respectively, for the three and six months ended June 30, 2022.

- B/HI: this contingent consideration was settled in June 2022, therefore no changes were recorded in the three and six months ended June 30, 2023. The Company recorded loss of \$0.2 million and \$76.1 thousand for the three and six months ended June 30, 2022, up through the date of settlement.
- Be Social: losses of \$17.7 thousand and \$33.2 thousand for the three and six months ended June 30, 2023, respectively, compared to \$20.0 thousand for the three and six months ended June 30, 2022. The Company settled this contingent consideration on April 25, 2023 through a combination of \$500 thousand in cash and 148,687 shares of the Company's stock, with a value of \$272 thousand.

Legal and professional fees decreased by approximately \$0.1 million and \$0.3 million for the three and six months ended June 30, 2023, respectively, as compared to the three and six months ended June 30, 2022 due to legal, consulting and audit fees incurred during the first quarter of 2022 related to our restatement of the financial statements as of, and for the three nine months ended September 30, 2021 included in Form 10-Q for that period, and revisions of the financial statements as of and for the three months ended March 31, 2021 and as of and for the three and six months ended June 30, 2021, respectively, which were included in our Forms 10-Q for March 31, 2021 and June 30, 2021 included our Form 10-K filed on May 26, 2022.

Other Income and Expenses

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
Other Income and expenses:				
Change in fair value of convertible notes	\$ 4,000	\$ 244,022	\$ (6,444)	\$ 531,880
Change in fair value of warrants	5,000	35,000	5,000	95,000
Interest income	103,104	68,454	205,121	113,221
Interest expense	(452,637)	(193,802)	(808,507)	(387,958)
Total other (expenses) income, net	\$ (340,533)	\$ 153,674	\$ (604,830)	\$ 352,143

We elected the fair value option for one convertible note issued in 2020. The fair value of this convertible note is remeasured at every balance sheet date and any changes are recorded on our condensed consolidated statements of operations. For the three months ended June 30, 2023 and 2022, we recorded a change in the fair value of the convertible notes issued in 2020 in the amount of a \$4.0 thousand and \$0.2 million loss, respectively. For the six months ended June 30, 2023 and 2022, we recorded a change in the fair value of the convertible notes issued in 2020 in the amount of a gain of \$6.4 thousand and a loss of \$0.5 million, respectively. None of the decrease in the value of the convertible notes was attributable to instrument specific credit risk and as such all of the gain in the change in fair value was recorded within net (loss) income.

Warrants issued with convertible notes payable issued in 2020, were initially measured at fair value at the time of issuance and subsequently remeasured at estimated fair value on a recurring basis at each reporting period date, with changes in estimated fair value of each respective warrant liability recognized as other income or expense. The fair value of the 2020 warrants that were not exercised decreased by approximately \$5.0 thousand during both the three and six months ended June 30, 2023; therefore we recorded a change in the fair value of the warrants for the three and six months ended June 30, 2023 for that amount on our condensed consolidated statement of operations. For the three and six months ended June 30, 2022, the fair value of the 2020 warrants that were not exercised decreased by approximately \$35.0 thousand and \$95.0 thousand; therefore we recorded a change in the fair value of the warrants for the three and six months ended June 30, 2022 for those amounts, respectively, on our condensed consolidated statement of operations.

Interest income increased by \$34.7 thousand and \$91.9 thousand for the three and six months ended June 30, 2023 as compared to the same periods in the prior year, primarily due to increased notes receivable outstanding during 2023 as compared to the same periods in the prior year.

Interest expense increased by \$0.3 million and \$0.4 million for the three and six months ended June 30, 2023, respectively, as compared to the same periods in the prior year, primarily due to increased convertible and nonconvertible notes and the term loan outstanding during 2023 as compared to the same period in the prior year.

Equity in losses of unconsolidated affiliates

Equity in earnings or losses of unconsolidated affiliates includes our share of income or losses from equity investees.

For the three and six months ended June 30, 2023, we recorded losses of \$57.8 thousand and \$88.0 thousand, respectively, from our equity investment in Crafthouse Cocktails, compared to losses of \$23.4 thousand and \$43.4 thousand for the three and six months ended June 30, 2022, respectively.

For the three and six months ended June 30, 2023, we recorded losses of \$77.1 thousand and \$158.8 thousand, respectively, from our equity investment in Midnight Theatre. Midnight Theatre commenced operations at the end of the second quarter of 2022; therefore no equity gains or losses had been recorded during the three or six months ended June 30, 2022.

Income Taxes

We recorded an income tax expense of approximately \$33.1 thousand and \$60.2 thousand for the three and six months ended June 30, 2023, respectively, and approximately \$7.2 thousand and \$14.4 thousand for the three and six months ended June 30, 2022, respectively, which reflects the accrual of a valuation allowance in connection with the limitations of our indefinite lived tax assets to offset our indefinite lived tax liabilities. To the extent the tax assets are unable to offset the tax liabilities, we have recorded a deferred expense for the tax liability (a "naked credit").

Net (Loss) Income

Net loss was approximately \$8.0 million or \$(0.60) per share based on 13,212,311 weighted average shares outstanding for both basic loss per share and fully diluted loss per share for the three months ended June 30, 2023. Net income was approximately \$0.2 million or \$0.02 per share based on 9,498,266 weighted average shares outstanding for basic loss per share and a loss of \$(0.1) million, or \$(0.01) per share based on 9,626,143 weighted average shares on a fully diluted basis for the three months ended June 30, 2022. The change in net income for the three months ended June 30, 2023 as compared to the three months ended June 30, 2022, is related to the factors discussed above.

Net loss was approximately \$10.9 million or \$(0.85) per share based on 12,926,273 weighted average shares outstanding for both basic loss per

share and fully diluted loss per share for the six months ended June 30, 2023. Net loss was approximately \$1.5 million or \$(0.17) per share based on 9,113,252 weighted average shares outstanding for basic loss per share and \$(0.23) per share based on 9,890,621 weighted average shares on a fully diluted basis for the six months ended June 30, 2022. The change in net income for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022, is related to the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

	Six Months Ended June 30,	
	2023	2022
Statement of Cash Flows Data:		
Net cash used in operating activities	\$ (3,106,462)	\$ (1,719,551)
Net cash used in investing activities	(9,451)	(2,298,702)
Net cash provided by financing activities	4,047,427	3,515,138
Net increase (decrease) in cash and cash equivalents and restricted cash	931,514	(503,115)
Cash and cash equivalents and restricted cash, beginning of period	7,197,849	8,230,626
Cash and cash equivalents and restricted cash, end of period	\$ 8,129,363	\$ 7,727,511

Operating Activities

Cash used in operating activities was \$3.1 million for six months ended June 30, 2023, a change of \$1.4 million from cash used in operating activities of \$1.7 million for six months ended June 30, 2022. The decrease in cash flows from operations was primarily as a result a \$0.6 million net change in working capital and \$9.4 million of increased net loss for the period, offset by \$7.7 million non-cash items such as depreciation and amortization, bad debt expense, share-based compensation, impairment of capitalized production costs, impairment of goodwill and other non-cash losses.

Investing Activities

There were no significant cash flows used in investing activities for the six months ended June 30, 2023. Net cash flows used in investing activities for the six months ended June 30, 2022 were \$2.3 million related primarily to the issuance of notes receivable.

Financing Activities

Cash flows provided by financing activities for the six months ended June 30, 2023 were \$4.0 million, which mainly related to:

Inflows:

- \$2.2 million of proceeds from notes payable.
- \$1.0 million of proceeds from convertible notes payable.
- \$1.6 million of proceeds from the Lincoln Park equity line of credit described below.

Outflows:

- \$0.3 million of repayment of notes payable and the term loan.
- \$0.5 million of settlement of cash portion of contingent consideration for Be Social.

Cash flows provided by financing activities for the six months ended June 30, 2022 were \$3.5 million, which mainly related to:

Inflows:

- \$4.4 million of proceeds from the Lincoln Park equity line of credit described below.

Outflows:

- \$0.6 million of settlement of cash portion of contingent consideration for B/HI.
- \$0.3 million of repayment of notes payable.

Debt and Financing Arrangements

Total debt amounted to \$15.8 million as of June 30, 2023 compared to \$13.7 million as of December 31, 2022, an increase of \$2.1 million.

Our debt obligations in the next twelve months from June 30, 2023 increased by \$0.7 million from December 31, 2022. The current portion of the long-term debt decreased from \$4.3 million to \$3.8 million. We expect our current cash position, cash expected to be generated from our operations and other availability of funds, as detailed below, to be sufficient to meet our debt requirements.

2022 Lincoln Park Transaction

On August 10, 2022, the Company entered into a new purchase agreement (the "LP 2022 Purchase Agreement") and a registration rights agreement (the "LP 2022 Registration Rights Agreement") with Lincoln Park Capital Fund, LLC ("Lincoln Park"), pursuant to which the Company could sell and issue to Lincoln Park, and Lincoln Park was obligated to purchase, up to \$25,000,000 in value of its shares of common stock from time to time over a 36-month period.

The Company may direct Lincoln Park, at its sole discretion, and subject to certain conditions, to purchase up to 50,000 shares of common stock on any business day (a "Regular Purchase"). The amount of a Regular Purchase may be increased under certain circumstances up to 75,000 shares if the closing price is not below \$7.50 and up to 100,000 shares if the closing price is not below \$10.00, provided that Lincoln Park's committed obligation for Regular Purchases on any business day shall not exceed \$2,000,000. In the event we purchase the full amount allowed for a Regular Purchase on any given business day, we may also direct Lincoln Park to purchase additional amounts as accelerated and additional accelerated purchases. The purchase price of shares of common stock related to the future funding will be based on the then prevailing market prices of such shares at the time of sales as described in the LP 2022 Purchase Agreement.

Pursuant to the terms of the LP 2022 Purchase Agreement, at the time the Company signed the LP 2022 Purchase Agreement and the LP 2022 Registration Rights Agreement, the Company issued 57,313 shares of common stock to Lincoln Park as consideration for its commitment ("LP 2022 commitment shares") to purchase shares of our common stock under the LP 2022 Purchase Agreement. The LP 2022 commitment shares were recorded as a period expense and included within selling, general and administrative expenses in the consolidated statements of operations.

During the three and six months ended June 30, 2023, the Company sold 600,000 and 850,000 shares of common stock, respectively, at prices ranging between \$1.65 and \$2.27 pursuant to the LP 2022 Purchase Agreement and received proceeds of \$1,081,850 and \$1,611,300, respectively. Subsequent to June 30, 2023, the Company sold 300,000 shares of common stock at prices ranging between \$1.70 and \$1.98 pursuant to the LP 2022 Purchase Agreement and received proceeds of \$550,850.

The Company evaluated the contract that includes the right to require Lincoln Park to purchase shares of common stock in the future ("put right") considering the guidance in ASC 815-40, "Derivatives and Hedging — Contracts on an Entity's Own Equity" ("ASC 815-40") and concluded that it is an equity-linked contract that does not qualify for equity classification, and therefore requires fair value accounting. The Company has analyzed the terms of the freestanding put right and has concluded that it has insignificant value as of June 30, 2023.

Convertible Notes Payable

During the six months ended June 30, 2023, the Company issued four convertible notes payable in the aggregate amount of \$1,000,000. As of June 30, 2023, the Company has eleven outstanding convertible promissory notes in the aggregate principal amount of \$5,150,000. The convertible promissory notes bear interest at a rate of 10% per annum, with initial maturity dates on the second anniversary of their respective issuances. The balance of each convertible promissory note and any accrued interest may be converted at the noteholder's option at any time at a purchase price based on a 90-day average closing market price per share of our common stock. Five of the convertible notes may not be converted at a price less than \$2.50 per share and six of the convertible notes may not be converted at a price less than \$2.00 per share.

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The Company made cash interest payments amounting to \$285,847 and \$135,000 during the six months ended June 30, 2023 and 2022, respectively, related to the convertible promissory notes.

On June 8, 2023, the holder of two convertible notes converted the aggregate principal balance of \$900,000 into 450,000 shares of common stock at a conversion price of \$2.00 per share. At the moment of conversion, accrued interest related to this note amounted to \$9,500 and was paid in cash.

As of June 30, 2023, the principal balance of the convertible promissory notes of \$5,150,000 was recorded in noncurrent liabilities under the caption "Convertible Notes Payable" on the Company's condensed consolidated balance sheets.

Convertible Note Payable at Fair Value

The Company had one convertible promissory note outstanding with aggregate principal amount of \$500,000 as of June 30, 2023 for which it elected the fair value option. As such, the estimated fair value of the note was recorded on its issue date. At each balance sheet date, the Company records the fair value of the convertible promissory notes with any changes in the fair value recorded in the condensed consolidated statements of operations.

The Company had a balance of \$350,000 and \$343,556 in noncurrent liabilities as of June 30, 2023 and December 31, 2022, respectively, on its condensed consolidated balance sheets related to the convertible promissory note measured at fair value.

The Company recorded a gain from the change in fair value of \$4,000 for the three months ended June 30, 2023 and a loss from the change in fair value of \$6,444 for the six months ended June 30, 2023 and losses in fair value of \$0.2 million and \$0.5 million for the three and six months ended June 30, 2022, respectively, on its condensed consolidated statements of operations related to this convertible promissory note at fair value.

Nonconvertible Promissory Notes

On February 22, 2023, the Company issued an unsecured promissory note in the amount of \$2,215,000 and received proceeds of \$2,215,000. As of June 30, 2023, the Company has outstanding unsecured nonconvertible promissory notes in the aggregate amount of \$3,525,962, which bear interest at a rate of 10% per annum and mature between November 2023 and March 2028.

As of June 30, 2023 and December 31, 2022, the Company had a balance of 410,960 and \$868,960, respectively, net of debt discounts recorded as current liabilities and \$3,115,000 and \$500,000 respectively, in noncurrent liabilities on its condensed consolidated balance sheets related to these unsecured nonconvertible promissory notes. During the three and six months ended June 30, 2023, one unsecured nonconvertible promissory note amounting to \$400,000 matured and was extended for an additional period of two years, now maturing on June 14, 2025.

The Company made interest payments of \$127,211 and \$50,249 during the six months ended June 30, 2023 and 2022, respectively, related to the nonconvertible promissory notes.

Nonconvertible Promissory Notes – Socialyte

As discussed in Note 4 and Note 8 to our condensed consolidated financial statements, as part of the acquisition of Socialyte, we entered into an unsecured promissory note amounting to \$3.0 million ("Socialyte Promissory Note"). The Socialyte Promissory Note matures on September 30, 2023 and is payable in two payments: \$1.5 million on June 30, 2023 and \$1.5 million on September 30, 2023, its maturity date. The Socialyte Promissory Note bears interest at a rate of 4% per annum, which accrues monthly and all accrued interest shall be due and payable on September 30, 2023, its maturity date.

On June 30, 2023, we deferred the payment of the first installment in the amount of \$1,500,000 until the final post-closing working capital adjustment is agreed upon with the Socialyte Seller.

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Credit and Security Agreement

In connection with the Socialyte Acquisition discussed in Note 4, Socialyte, with MidCo entered into a Credit and Security Agreement with BankProv ("Credit Agreement"), which includes a \$3,000,000 secured term note ("Term Loan") and \$0.5 million of a secured revolving line of credit ("Revolver"). The Credit Agreement carries an annual facility fee of \$5,000 payable on the first anniversary of the Closing Date and of \$875 on each one year anniversary thereafter.

The Credit Agreement contains financial covenants that require the Socialyte to maintain: (1) a quarterly minimum debt service ratio of 1.25:1.00; (2) a quarterly senior funded debt to EBITDA (as defined in the Credit Agreement) not to exceed 3.00:1.00 and (3) quarterly total funded debt to EBITDA (as defined in the Credit Agreement) not to exceed 5.00:1.00, as well as the Company to maintain a minimum liquidity of \$1,500,000. The Credit Agreement also contains covenants that limit Socialyte's and MidCo's ability to, among other things, grant liens, incur additional indebtedness, make acquisitions or investments, dispose of certain assets, change the nature of their businesses, enter into certain transactions with affiliates or amend the terms of material indebtedness.

Term Loan

The Term Loan has a term of five years, with a maturity date of November 14, 2027. The Company shall repay the Term Loan through 60 consecutive monthly payments of principal (based upon a straight-line amortization period of 84 months, based on the principal amount outstanding, plus interest at an annual rate of 7.37%, commencing on December 14, 2022, and continuing on the corresponding day of each month thereafter until it is paid in full. Any remaining unpaid principal balance, including accrued and unpaid interest and fees, if any) shall be due and payable in full on November 14, 2027, its maturity date. Interest is calculated on the basis of actual days elapsed and a three hundred sixty (360) day year.

Interest on the Term Loan shall be payable on a monthly basis. Interest shall be computed on the basis of a three hundred sixty (360) day year, for the actual number of days elapsed. Default interest shall be charged in accordance with the terms of the Term Loan. During the six months ended June 30, 2023, the Company made a payment of \$321,487, inclusive of \$107,201 of interest. As of June 30, 2023, there was \$2,658,140, net or debt origination fees, outstanding under the Term Loan.

Revolver

There is no amount drawn on the Revolver as of June 30, 2023 and no amounts were drawn during the three and six months ended June 30, 2023. When drawn, the outstanding principal balance of the revolver shall accrue interest from the date of the draw of the greater of (i) 5.50% per annum, or (ii) the Prime Rate (as defined in the Revolver) plus 0.75% per annum.

IMAX Agreement

As discussed in Note 17, on June 24, 2022, we entered into the Blue Angels Agreement with IMAX. Under the terms of this agreement, as of December 31, 2022, we had paid \$1,500,000 pursuant to the Blue Angels Agreement, which was recorded as capitalized production costs. On April 26, 2023, we paid the remaining \$500,000 pursuant to the Blue Angels Agreement.

On April 25, 2023, IMAX entered into an acquisition agreement with Amazon Content Services, LLC for the distribution rights of Blue Angels. We estimate that we will derive approximately \$3.5 million from the acquisition agreement and we expect that the documentary motion picture will be released in early 2024.

Convertible Notes Receivable

As of June 30, 2023, we hold convertible notes receivable from JDDC Elemental LLC which operates Midnight Theatre. These convertible notes receivable are recorded at their principal face amount plus accrued interest. Due to their short-term maturity and conversion terms (described below), these have been recorded at the face value of the note and an allowance for credit losses has not been established.

As of June 30, 2023, the Midnight Theatre notes amount to \$4.6 million, inclusive accrued interest receivable of \$0.5 million, and are convertible at the option of the Company into Class A and B Units of Midnight Theatre.

Critical Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions about future events that affect amounts reported in our consolidated financial statements and related notes, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. Management evaluates its accounting policies, estimates and judgments on an on-going basis. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions. Our significant accounting policies are discussed in Note 2 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2022.

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 consider the fair value estimates, including those related to acquisitions, valuations of goodwill, intangible assets, acquisition-related contingent consideration and convertible debt to be the most critical in the preparation of our consolidated financial statements as they are important to the portrayal of our financial condition and require significant or complex judgment and estimates on the part of management.

Recent Accounting Pronouncements

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

these forward-looking statements in the future, except as required by applicable law.

Risks that could cause actual results to differ materially from those indicated by the forward-looking statements include those described as "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as updated by our subsequently filed Quarterly Reports on Forms 10-Q and Current Reports on Forms 8-K.

ITEM 4. CONTROLS AND PROCEDURES

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

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

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2023. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective due to material weaknesses disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 31, 2023, which have not been remediated as of the date of the filing of this report.

Remediation of Material Weaknesses in Internal Control over Financial Reporting

We have begun the process of designing and implementing effective internal controls measures to improve our internal control over financial reporting and remediate the material weaknesses. Our internal control remediation efforts include the following:

- Developing formal policies and procedures over the Company's fraud risk assessment and risk management function;
- Developing policies and procedures to enhance the precision of management review of financial statement information and control impact of changes in the external environment;
- We have entered into an agreement with a third-party consultant that assists us in analyzing complex transactions and the appropriate accounting treatment;
- We are enhancing our policies, procedures and documentation of period end closing procedures;
- Implementing policies and procedures to enhance independent review and documentation of journal entries, including segregation of duties; and
- Reevaluating our monitoring activities for relevant controls.

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Management is beginning the process of implementing and monitoring the effectiveness of these and other processes, procedures and controls and will make any further changes deemed appropriate. Management believes our planned remedial efforts will effectively remediate the identified material weaknesses. As we continue to evaluate and work to improve our internal control over financial reporting, management may determine it is necessary to take additional measures to address control deficiencies or determine it necessary to modify the remediation plan described above.

Changes in Internal Control over Financial Reporting

During the most recently completed fiscal quarter, there have been no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting for the fiscal quarter covered by this report.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company may be subject to legal proceedings, claims, and liabilities that arise in the ordinary course of business. In the opinion of management and based upon the advice of its outside counsels, the liability, if any, from any pending litigation is not expected to have a material effect in the Company's financial position, results of operations and cash flows. The Company is not aware of any pending litigation as of the date of this report.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the SEC on March 31, 2023.

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

Recent Sales of Unregistered Securities

On June 15, 2023, the Company entered into a subscription agreement (the "Subscription Agreement") with an individual for a convertible promissory note (each a "Note") in the principal amount of \$200,000 and received cash proceeds of \$200,000. The Note bears interest at a rate of 10% per annum and mature four years from its issuance date. The noteholder may convert the principal balance of the Note and any accrued interest thereon at any time before the maturity date of the Note into common stock of the Company using the 90-day trailing average trading price of the Company's common stock. The floor on such conversion price is \$2.00.

The issuance and sale of the Note, and any shares of common stock to be issued upon conversion thereof will be issued by the Company in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1*	Certification of Chief Executive Officer of the Company pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2*	Certification of Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1#	Certification of Chief Executive Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2#	Certification of Chief Financial Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

** Previously filed.

Furnished herewith.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized August 14, 2023.

Dolphin Entertainment, Inc.

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

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

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

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

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

Date: August 14, 2023

/s/ William O'Dowd IV

William O'Dowd IV
Chief Executive Officer

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

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

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

Date: August 14, 2023

/s/ Mirta A Negrini

Mirta A Negrini
Chief Financial Officer

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

In connection with the accompanying Quarterly Report of Dolphin Entertainment, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William O'Dowd IV, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: Date: August 14, 2023

By: s/ William O'Dowd IV

William O'Dowd IV
Chief Executive Officer

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

In connection with the accompanying Quarterly Report of Dolphin Entertainment, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mirta A Negrini, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2023

By:/s/ Mirta A Negrini

Mirta A Negrini
Chief Financial Officer