

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

DOLPHIN DIGITAL MEDIA INC

Form: 10-Q

Date Filed: 2011-08-22

Corporate Issuer CIK: 1282224

Symbol: DPDM

SIC Code: 7200

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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, 2011

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 000-50621

DOLPHIN DIGITAL MEDIA INC.

(Exact name of registrant as specified in its charter)

Nevada

(State of incorporation)

86-0787790

(I.R.S. employer identification no.)

804 Douglas Road, Executive Tower Building, Suite 365, Miami, Florida 33134

(Address of principal executive offices, including zip code)

(305) 774-0407

(Registrant's telephone number)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

| | | | | | | | |
|----------------------------|--------------------------|-------------------|--------------------------|--------------------------|--------------------------|------------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> | Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
|----------------------------|--------------------------|-------------------|--------------------------|--------------------------|--------------------------|------------------------------|-------------------------------------|

Indicate by a 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 64,190,987 as of August 22, 2011.

DOLPHIN DIGITAL MEDIA INC. AND SUBSIDIARIES
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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DOLPHIN DIGITAL MEDIA, INC. AND SUBSIDIARIES Condensed Consolidated Balance Sheets

| | June 30, 2011 (Unaudited) | December 31, 2010 |
|---|---------------------------------|-------------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 662,304 | \$ 1,467 |
| Accounts receivable | 20,000 | - |
| Inventory | 8,256 | 8,256 |
| Other current assets | 14,907 | 725 |
| Total Current Assets | <u>705,467</u> | <u>10,448</u> |
| Total Assets | <u><u>\$ 705,467</u></u> | <u><u>\$ 10,448</u></u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$ 1,476,138 | \$ 1,388,394 |
| Other current liabilities | 324,708 | 480,599 |
| Deferred revenue | - | 352,823 |
| Debt | 995,000 | - |
| Note payable – related party | 1,391,361 | 930,145 |
| Advances - convertible | 95,000 | 100,000 |
| Total Current Liabilities | <u>4,282,207</u> | <u>3,251,961</u> |
| Commitments and Contingencies | | |
| STOCKHOLDERS' DEFICIT | | |
| Common stock, \$0.015 par value, 100,000,000 shares authorized, 64,190,987 issued and outstanding | 962,750 | 962,750 |
| Preferred stock \$0.001 par value, 10,000,000 shares authorized 1,042,753 shares issued and outstanding, liquidation preference of \$1,042,753 | 1,043 | 1,043 |
| Additional paid in capital | 29,128,156 | 29,028,156 |
| Accumulated deficit | (33,603,454) | (33,168,227) |
| Accumulated other comprehensive loss | (65,235) | (65,235) |
| Total Stockholders' Deficit | <u>(3,576,740)</u> | <u>(3,241,513)</u> |
| Total Liabilities and Stockholders' Deficit | <u><u>\$ 705,467</u></u> | <u><u>\$ 10,448</u></u> |

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

DOLPHIN DIGITAL MEDIA, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)

| | For the Three Months Ended June 30, | | For The Six Months Ended June 30, | |
|--|--|---------------------|--------------------------------------|-----------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues | \$ 197,824 | \$ 222 | \$ 472,824 | \$ 478 |
| Cost of revenues | 3,272 | 80 | 3,272 | 320 |
| Gross Profit | 194,552 | 142 | 469,552 | 158 |
| Operating Expenses: | | | | |
| General and administrative | 466,827 | 545,591 | 847,115 | 1,131,817 |
| Total Operating Expenses | 466,827 | 545,591 | 847,115 | 1,131,817 |
| Loss from Operations | (272,275) | (545,449) | (377,563) | (1,131,659) |
| Other Expenses | | | | |
| Finance charges | - | 21,000 | - | 987,649 |
| Interest expense | 31,823 | 37,633 | 57,662 | 75,741 |
| Total Other Expenses | 31,823 | 58,633 | 57,662 | 1,063,390 |
| Net loss | \$ (304,098) | \$ (604,082) | \$ (435,225) | \$ (2,195,049) |
| Foreign exchange loss (gain) | - | 21,601 | - | (266) |
| Comprehensive Loss | \$ (304,098) | \$ (625,683) | \$ (535,225) | \$ (2,194,783) |
| Basic and Diluted Loss per Share | \$ (0.00) | \$ (0.01) | \$ (0.01) | \$ (0.04) |
| Weighted average number common shares used in per share calculation | 64,190,987 | 61,076,413 | 64,190,987 | 60,540,104 |

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

DOLPHIN DIGITAL MEDIA, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

For The Six Months Ended June

30,

2011

2010

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|----------|--------------|----------------|
| Net loss | \$ (435,225) | \$ (2,195,049) |
|----------|--------------|----------------|

Adjustments to reconcile net loss to net cash used in operating activities:

| | | |
|-------------------------------|---|--------|
| Amortization of debt discount | - | 48,351 |
|-------------------------------|---|--------|

| | | |
|-------------------------------|---|---------|
| Warrants issued for financing | - | 945,614 |
|-------------------------------|---|---------|

| | | |
|----------------------------------|---|---------|
| Common stock issued for services | - | 128,500 |
|----------------------------------|---|---------|

Changes in operating assets and liabilities:

| | | |
|---------------------------------|----------|---|
| Increase in accounts receivable | (20,000) | - |
|---------------------------------|----------|---|

| | | |
|-----------------------|---|-------|
| Decrease in inventory | - | 3,584 |
|-----------------------|---|-------|

| | | |
|----------------------------------|----------|------|
| Increase in other current assets | (14,183) | (59) |
|----------------------------------|----------|------|

| | | |
|------------------------------|---|---------|
| Decrease in prepaid expenses | - | 201,832 |
|------------------------------|---|---------|

| | | |
|------------------------------|--------|---------|
| Increase in accounts payable | 87,743 | 213,076 |
|------------------------------|--------|---------|

| | | |
|---------------------------------------|--------|--------|
| Increase in other current liabilities | 51,325 | 53,122 |
|---------------------------------------|--------|--------|

| | | |
|------------------------------|-----------|---|
| Decrease in deferred revenue | (352,823) | - |
|------------------------------|-----------|---|

| | | |
|--|------------------|------------------|
| Net Cash Used in Operating Activities | (683,163) | (601,029) |
|--|------------------|------------------|

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|----------|---|----------|
| Advances | - | (57,000) |
|----------|---|----------|

| | | |
|-------------------------------|---|-----------|
| Payment for intangible assets | - | (548,893) |
|-------------------------------|---|-----------|

| | | |
|--|----------|------------------|
| Net Cash Used in Investing Activities | - | (605,893) |
|--|----------|------------------|

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|----------------------------|---|-------|
| Increase in cash overdraft | - | 8,510 |
|----------------------------|---|-------|

| | | |
|------------------------------------|---|---------|
| Proceeds from sale of common stock | - | 698,000 |
|------------------------------------|---|---------|

| | | |
|-------------------------------------|---------|---|
| Repayment of advances - convertible | (5,000) | - |
|-------------------------------------|---------|---|

| | | |
|-----------------------------|---------|--------|
| Advances from related party | 279,500 | 45,000 |
|-----------------------------|---------|--------|

| | | |
|----------------------------|----------|-----------|
| Repayment to related party | (25,500) | (220,000) |
|----------------------------|----------|-----------|

| | | |
|--|---------|---|
| Proceeds from revenue sharing agreements accounted for as debt | 995,000 | - |
|--|---------|---|

| | | |
|--------------------------------------|---------|---------|
| Proceeds from re-pricing of warrants | 100,000 | 800,000 |
|--------------------------------------|---------|---------|

| | | |
|--|------------------|------------------|
| Net Cash Provided by Financing Activities | 1,344,000 | 1,331,510 |
|--|------------------|------------------|

| | | |
|--|---|-----------|
| Effect of foreign currency exchange rate changes on cash | - | (127,010) |
|--|---|-----------|

| | | |
|---------------------------------|---------|---------|
| NET INCREASE (DECREASE) IN CASH | 660,837 | (2,422) |
|---------------------------------|---------|---------|

| | | |
|---------------------------|-------|-------|
| CASH, BEGINNING OF PERIOD | 1,467 | 3,218 |
|---------------------------|-------|-------|

| | | |
|----------------------------|-------------------|---------------|
| CASH, END OF PERIOD | \$ 662,304 | \$ 796 |
|----------------------------|-------------------|---------------|

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | | |
|---------------|-----------|------|
| Interest paid | \$ 17,534 | \$ - |
|---------------|-----------|------|

SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES:

| | | |
|--|------------|------|
| Conversion of accrued interest to note payable | \$ 207,216 | \$ - |
|--|------------|------|

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

DOLPHIN DIGITAL MEDIA, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(Unaudited)

NOTE 1 — BASIS OF PRESENTATION AND ORGANIZATION:

The accompanying unaudited condensed consolidated financial statements are presented in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 8 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal occurring adjustments) considered necessary for a fair presentation of the financial position and results of operations for the interim periods presented. The unaudited condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and the notes thereto that are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, that were filed with the SEC on May 13, 2011. Operating results for the six months ended June 30, 2011 are not necessarily indicative of results that may be expected for the year ending December 31, 2011. The unaudited condensed consolidated financial statements are presented on the accrual basis.

The accompanying unaudited condensed consolidated financial statements represent the consolidated financial position and results of operations of the Company and include the accounts and results of operations of the Company and its wholly owned subsidiaries. The accompanying unaudited condensed consolidated financial statements include the accounts of Dolphin Digital Media, Inc. and its subsidiaries, Dolphin Digital Media (Canada) Inc, Anne's World Limited and Curtain Rising Inc. for three and six months ended June 30, 2011 and 2010. Intercompany accounts and transactions have been eliminated in consolidation.

Dolphin Digital Media, Inc. (the "Company"), initially known as Rising Fortune Incorporated, was incorporated in the State of Nevada on March 7, 1995. The Company was inactive between the years 1995 and 2003. On November 19, 2003, the Company amended its Articles of Incorporation to change its name to Maximum Awards Inc. On July 3, 2007, the Company amended its Articles of Incorporation again to change its name to Logica Holdings Inc. On July 29, 2008, the Company amended its Articles of Incorporation again to change its name to Dolphin Digital Media, Inc.

Dolphin Digital Media, Inc. is dedicated to the twin causes of online safety for children and high quality digital entertainment. By creating and managing child-friendly social networking websites utilizing state-of the-art fingerprint identification technology, Dolphin Digital Media, Inc. has taken an industry-leading position with respect to internet safety, as well as digital entertainment.

Dolphin Digital Media (Canada) Inc. (F/K/A Plays On The Net Inc.) was incorporated in Ontario (Canada) on July 27, 2006. The Company changed its name on October 28, 2008.

Curtain Rising Inc. was incorporated in Ontario (Canada) on October 19, 2006. The company has no current operations, revenues or expenses.

On June 23, 2008, Logica Holdings purchased 100% of Dolphin Digital Media, Inc. The Company issued a total of 24,063,735 of common shares, equivalent to 51% of its outstanding common stock, for the acquisition of Dolphin Digital Media, Inc resulting in a change of control. The total amount of issued and outstanding share for the period ended June 30, 2008 was 47,183,793. The acquisition was accounted for as a purchase transaction with Logica Holdings.

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

NOTE 2 — GOING CONCERN

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate the continuation of the Company as a going concern. The Company has incurred a net loss for the six months ended June 30, 2011 of \$435,225. As of June 30, 2011 the Company recorded an accumulated deficit of \$33,603,454. Further, the Company has inadequate working capital to maintain or develop its operations, and it is dependent upon funds from private investors and the support of certain stockholders.

These factors raise substantial doubt about the ability of the Company to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. In this regard, management is planning to raise any necessary additional funds through loans and additional issuance of its common stock. There is no assurance that the Company will be successful in raising additional capital.

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Company for interim reporting are consistent with those included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, with the exception of the following:

Revenue Recognition

Revenue is recognized in accordance with the provision of FASB ASC Topic 605, "Revenue Recognition". In general, the Company records revenue when persuasive evidence of an arrangement exists, products have been delivered or services have been rendered, the selling price is fixed and determinable, and collectability is reasonably assured. The Company recognizes monthly and annual subscription revenues over the service period. Advertising revenue is recognized over the period the advertisement is displayed.

We account for contracts for development, production and services activities consistent with FASB ASC 605-35, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, and other relevant revenue recognition accounting literature. We consider the nature of these contracts and the types of products and services provided when determining the proper accounting for a particular contract. Generally for fixed-price contracts, other than service-type contracts, revenue is recognized primarily under the percentage of completion method or, for certain short-term contracts, by the completed contract method. Revenue from service-type fixed-price contracts is recognized ratably over the contract period or by other appropriate input or output methods to measure service provided, and contract costs are expensed as incurred. We establish billing terms at the time project deliverables and milestones are agreed. Revenues recognized in excess of the amounts invoiced to clients are classified as unbilled receivables. The risk to us on a fixed-price contract is that if estimates to complete the contract change from one period to the next, profit levels will vary from period to period. For all types of contracts, we recognize anticipated contract losses as soon as they become known and estimable. Out-of-pocket expenses that are reimbursable by the customer are included in revenue and cost of revenue.

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

Recent Accounting Pronouncements

In May 2011, the FASB issued amendments to its accounting guidance related to fair value measurements in order to more closely align its disclosure requirements with those in the International Financial Reporting Standards. This guidance clarifies the application of existing fair value measurement and disclosure requirements and also changes certain principles or requirements for measuring fair value or for disclosing information about fair value measurements. The guidance is effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material effect on our financial position or results of operations.

In June 2011, the FASB issued new guidance for comprehensive income which requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. Also, the entity is also required to present reclassification adjustments for items that are reclassified from other comprehensive income to net income on the face of the financial statements. The new guidance should be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. Adoption of the guidance is not expected to have a material impact on the Company's financial statements.

NOTE 4 — DEFERRED REVENUE

On September 29, 2010 the Company entered into Software License Agreement for the sale of software and the licensing right of the technology in specific European countries. The Company delivered the software and source code during the first quarter of 2011 in accordance with the contractual terms. During 2010, the Company received \$275,000 related to the contract, which was recorded as deferred revenue at December 31, 2010. During the three and six months ended June 30, 2011 the Company recognized revenue of \$0 and \$275,000, respectively as related to the sale of the software.

On November 8, 2010 the Company entered into a six month production agreement in the amount of \$100,000, of which \$77,823 was received as of December 31, 2010 and was recorded as deferred revenue. During the three and six months ended June 30, 2011 the Company recognized the full amount of \$100,000 as revenue.

On November 18, 2010, the Company entered into an agreement with Dolphin Entertainment, Inc., a related party, for production services related to two digital episodic series. On January 25, 2011, the Company received \$100,000 of a total contract price of \$200,000 for production income related to a web series. The Company recognized \$100,000 of revenue related to a web series during the three months ended June 30, 2011.

NOTE 5 — DEBT

During February 2011, the Company entered into Revenue Participation Agreements with two parties for the development of a Dolphin Group Kids Club ("Kids Club"). Each party paid the Company \$50,000 in return for the participation of future revenue related to that Kids Club. The amount will be repaid based on a pro-rata basis of the revenue generated by the Kids Club until the total investment is recouped. Thereafter, they will share in a percentage of the profit of that Kids Club. As of June 30, 2011 there were no revenues generated or costs incurred related to the Kids Club.

During the six months ended June 30, 2011 the Company entered into Equity Finance Agreements for the future production of web series and the option to participate in the production of future web series. The Investors contributed a total equity investment of \$895,000 and will share in the future revenues of the web series, on a pro-rata basis, until the total equity investment is recouped and then will share at a lower percentage of the additional revenues. Prior to December 31, 2012, the Company may utilize all, or any portion, of the total equity investment to fund the production. On January 1, 2013, the production "cycle" will cease and all of the Company's gross receipts will be distributed in accordance with the Equity Finance Agreements. The Company will be entitled to a production fee that will not exceed \$250,000 per production. As of June 30, 2011 the Company has not generated any revenue from or incurred any costs related to its web series.

The Company accounts for the above agreements in accordance with ASC 470-10-15-2 which requires that cash received from an investor in exchange for the future payment of a specified percentage or amount of future revenue shall be classified as debt. The Company does not purport the arrangements to be a sale and the Company has significant continuing involvement in the generation of cash flows due to the investors.

NOTE 6 — ADVANCES — CONVERTIBLE

| | |
|---------------------------|------------------|
| Balance December 31, 2010 | \$ 100,000 |
| Repayments | (5,000) |
| Balance June 30, 2011 | <u>\$ 95,000</u> |

In March 2009 the Company received proceeds of \$100,000 from an advance with terms agreed verbally. The advance bears interest at a rate of 10% and is convertible at \$.50 per share. The advance is due two years from the date of the advance. During the three and six months ended June 30, 2011, the Company paid interest of \$0 and \$17,534 and repaid \$0 and \$5,000, respectively of the advance. Accrued interest at June 30, 2011 and December 31, 2010 amounted to \$4,823 and \$17,534, respectively..

NOTE 7 — NOTE PAYABLE - RELATED PARTY

As of June 30, 2011 and December 31, 2010 the Company's CEO had loaned the Company a total of \$1,391,361 and \$930,145, respectively. On January 1, 2011, the Company and the Company's CEO, signed a Promissory Note in the amount of \$1,137,361 for the outstanding principal and interest as of December 31, 2010. The CEO has the right at any time to demand that all outstanding principal and accrued interest be repaid within 10 days notice to the Company. The note accrues interest at a rate of 10% per annum. During the six months ended June 30, 2011 the Company's CEO loaned an additional \$279,500 and received repayments of \$25,500.. Accrued interest amounted to \$52,406 and \$207,216 at June 30, 2011 and December 31, 2010, respectively and is recorded in accrued expenses in the accompanying condensed consolidated balance sheet. During the three and six month periods ended June 30, 2011, \$29,022 and \$52,406 was expensed related to the note payable.

NOTE 8 — LICENSING AGREEMENTS - RELATED PARTY

The Company has entered into a ten year licensing agreement between Dolphin Entertainment Inc. and Dolphin Digital Media Inc. Under the license, the Company is authorized to use Dolphin Entertainment's brand properties in connection with the creation, promotion and operation of subscription based Internet social networking websites for children and young adults. The license requires that the Company pays to Dolphin Entertainment, Inc. royalties at the rate of fifteen percent of net sales from performance of the licensed activities. There was no royalty expense recorded related to this agreement for the three and six months ended June 30, 2011 and 2010.

NOTE 9 — STOCKHOLDERS' EQUITY

A) Preferred Stock

The Company's Articles of Incorporation authorize the issuance of 10,000,000 shares of \$0.001 par value preferred stock. The Board of Directors has the power to designate the rights and preferences of the preferred stock and issue the preferred stock in one or more series.

As of June 30, 2011 and December 31, 2010, the Company had 1,042,753 of preferred shares issued and outstanding which had no determinable market value.

B) Common Stock

The company's Articles of Incorporation authorize the issuance of 100,000,000 shares at \$0.015 par value.

As of June 30, 2011 and December 31, 2010, the Company had 64,190,987 shares issued and outstanding.

C) Anti-Dilution Rights

On June 23, 2008, we obtained an exclusive license to Dolphin Entertainment's family entertainment brand properties through the acquisition of 100% of the capital stock of Dolphin Digital Media ("DDM"), a newly formed Delaware corporation wholly owned by Mr. O'Dowd. At the time of the acquisition, DDM was the grantee of an exclusive ten-year worldwide license from Dolphin Entertainment, dated as of the date of the closing of the acquisition, to use Dolphin Entertainment's family entertainment brand properties. This license was the sole asset of DDM at the time of the acquisition, and DDM had not yet commenced planned principal operations. Under the license, we are authorized to use Dolphin Entertainment's brand properties in connection with the creation, promotion and operation of subscription based Internet social networking websites for children and young adults. The license requires that we pay to Dolphin Entertainment royalties at the rate of fifteen percent of our net sales from performance of the licensed activities. In consideration of the acquisition, we issued that number of shares of our common stock constituting fifty-one percent of our issued and outstanding common stock to Mr. O'Dowd. In addition, we granted to Mr. O'Dowd certain anti-dilution protection for five (5) years from the date of the acquisition under which we agreed to issue such number of shares of our common stock as necessary for Mr. O'Dowd to maintain his fifty-one percent ownership any time that we issue additional shares to a party other than Mr. O'Dowd, or upon the exercise by any such party of options, warrants, notes or other securities exercisable or exchangeable for, or convertible into, any share of our common stock. As consideration for the agreement the shareholder agreed to become our Chief Executive Officer and Chairman of the Board of Directors

NOTE 10 — WARRANTS

A summary of warrants issued, exercised and expired during the six months ended June 30, 2011, is as follows:

| | Shares | Weighted Avg. Exercise Price |
|------------------------------|------------|---------------------------------------|
| <u>Warrants:</u> | | |
| Balance at December 31, 2010 | 10,614,007 | \$.31 |
| Issued | — | — |
| Exercised | — | — |
| Expired | — | — |
| Balance at June 30, 2011 | 10,614,007 | \$.31 |

On October 4th, 2007, the company entered into a financing agreement whereby warrants were issued to an investor to purchase the following amounts of common stock:

- 650,000 shares of common stock exercisable at \$0.72 per share.
- 1,500,000 shares of common stock exercisable at \$1.00 per share.
- 1,500,000 shares of common stock exercisable at \$2.00 per share.

On March 10, 2010 the Company and T Squared Investments LLC agrees to cancel the following warrants:

- Warrant "A" for 650,000 shares;
- Warrant "B" for 1,500,000 shares;
- Warrant "C" for 1,500,000 shares; and,
- Warrant "4" for 384,615 shares.

Post such cancellation, the only warrants held by T Squared Investments LLC was their existing Warrant "D" for 231,000 shares with an exercise price of \$0.0001 per share and the following warrant below. Pursuant to this agreement the expiration date of Warrant "D" was reduced from July 29, 2014 to December 31, 2012.

In consideration for the cancellation of such warrants above and for the payment to Dolphin Digital Media, Inc. (DPDM) , T Squared Investments LLC was issued a new Warrant "E" for 7,000,000 shares of DPDM with an expiration date of December 31, 2012 and an exercise price of \$0.25 per share.

T Squared Investments LLC wired Two Hundred Thousand Dollars (\$200,000) to the Company, which resulted in the effective reduction of the exercise price of Warrant "E" from \$0.25 per share to \$0.2214 per share. T Squared Investments LLC can continually pay the Company an amount of money to reduce the exercise price of Warrant "E" until such time as the exercise price of Warrant "E" is effectively \$0.0001 per share. Each time a payment by T Squared Investments LLC is made to DPDM, a side letter will be executed by both parties that states the new effective exercise price of Warrant "E" at that time. At such time when T Squared Investments LLC has paid down Warrant "E" to an exercise price of \$0.0001 per share or less, T Squared Investments LLC shall have the right to exercise Warrant "E" via a cashless provision and hold for six months to remove the legend under Rule 144.

T Squared Investments LLC may not exercise such warrant if post the exercise, T Squared Investments LLC would be above the 9.99% ownership level of the Company.

On February 16, 2011 T-Squared Investments, LLC paid down an additional \$100,000 reducing the exercise price on the warrants to \$.0214.

NOTE 11 — RELATED PARTY

For the three and six months ended June 30, 2011 the Company's CEO was not compensated for services performed. The Company does not currently have an employment agreement with the CEO and as a result, no amounts have been accrued.

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

Special Note Regarding Forward Looking Statements

Certain statements in this Form 10-Q under “Management’s Discussion and Analysis” constitute “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such statements are indicated by words or phrases such as “anticipates,” “projects,” “believes,” “intends,” “expects,” and similar words or phrases. Such factors include, among others, the following: competition; seasonality; success of operating initiatives; new product development and introduction schedules; acceptance of new product offerings; advertising and promotional efforts; adverse publicity; availability, changes in business strategy or development plans; availability and terms of capital; labor and employee benefit costs; changes in government regulations; and other factors particular to the Company.

Should one or more of these risks, uncertainties or other factors materialize, or should underlying assumptions prove incorrect, actual results, performance, or achievements of the Company may vary materially from any future results, performance or achievements expressed or implied by such forward-looking statements. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. The Company disclaims any obligation to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Business Summary

Dolphin Digital Media, Inc. is dedicated to the twin causes of online safety for children and the production of high-quality digital content. By creating and managing child-friendly social networking websites utilizing state-of the-art fingerprint identification technology, Dolphin Digital Media has taken an industry-leading position with respect to Internet safety. Also, with the launch of Dolphin Digital Studios, the Company is at the forefront of the growing digital entertainment sector.

Dolphin Secure

Our core product, Dolphin Secure, is easy-to-use software that downloads onto any computer in a child’s life, and gives parents the ability to guide where their children can go, and who they can talk to, while online.

Safer Surfing with Dolphin Secure

During a registration process that takes less than 10 minutes, parents receive a “master white list” of pre-determined age-appropriate web sites for their child to visit. The Dolphin Secure “master white list” of pre-approved sites is updated daily, and ensures that children are free to explore and learn online more safely without the risk of stumbling onto pornography, inappropriate content or other illicit material. Parents can also customize the specific “white list” for each individual child, including the opportunity to add to, or delete from, the Dolphin Secure “master white list.” So, a parent could add or allow specific sites for her teenager that would remain blocked for her younger children. With Dolphin Secure, children can only visit sites on their specific “white list,” as customized (or not) by their parent.

Safer Chat with Dolphin Secure

For the first time, parents have the option to set the boundaries of who their child can speak to, or who they can be approached by to speak with, online. Upon registration, parents have a wide variety of options to customize these parameters, from general groups to specific individuals, including:

- Everyone within the Dolphin Surf social network.
- Only children of a specific gender.
- Only other children within a specific age range chosen by the parent.
- Only a select group of hand-picked friends.
- No one at all.

All other chat applications otherwise installed on the applicable computer are blocked from a child's use, thereby ensuring that everyone that could approach the child with an IM request needs to be registered with Dolphin Secure.

How “Dolphin Secure” Works: Fingerprint Log-In

In a truly revolutionary offering, and one of the major aspects that makes Dolphin Secure a unique service, a child may fully utilize the “Dolphin Surf” social network and communicate with their friends only following Dolphin Secure fingerprint identification. Upon registration, a new user scans their finger using the Dolphin Secure UPEK fingerprint reader. The scanned fingerprint is then converted into a number and stored in a protected, remote database.

The child's account details (e.g. parental settings and personal preferences) are associated with this number, which is created by an irreversible algorithm. A copy (or a “print”) of any user's actual fingerprint is never taken, let alone stored anywhere within the Dolphin Secure system. Only the unique number created by any user's unique fingerprint is kept.

After registration, each time an internet browser or an IM application is attempted to be used on the computer that is Dolphin Secure, a log-in page is triggered. Children simply enter their user name and scan their fingerprint. Dolphin Secure then verifies the child's identity by matching the unique number created by this fingerprint scan with the number associated with the child's user name in the Dolphin Secure database.

Once a match has been created, the Dolphin Secure system promptly loads each child's personal, customizable home page within Dolphin Surf. That child is now free to surf to websites, and free to seek other children to be friends with, that are within the controls established by the parent. When parents or other adults in the household want to use the same computer, a master username and password can be entered, which unlocks the computer and allows them to freely access the Internet. Once the parent logs out, Dolphin Secure is automatically back in place for the next session.

“Dolphin Surf”

“Dolphin Surf” is a social network featuring the advanced functionality associated with the leading online communities and virtual worlds. Kids have the opportunity to create a profile, IM with approved friends, search for new friends, upload photos, send e-mails and customize a homepage that includes a widget library of content, friend updates and much more, all under the protection of the Dolphin Secure system. Children can set their own site themes, backgrounds and add or delete widgets on their homepage, making their Dolphin Surf experience totally unique to them.

“Dolphin Surf” will be the online destination for children to create, explore, interact and play, with the assurance that access to their account is available only to them — unlike other social networking sites where users, and their personal content, are vulnerable to anyone who knows, or can guess, their password.

It is the sharing of passwords among the overwhelming majority of children that exposes them to so many dangers of cyber-bullying, including online impersonation (e.g. when a classmate or “friend” who knows their password goes into their social network account and sends out an embarrassing e-mail, photo or IM to their entire address book, pretending to be them while also switching their password so that they can't even access their account after the fact to try and limit the damage).

“Dolphin Groups”

Dolphin Groups allows all children’s organizations (e.g. schools, little leagues, after-school programs, charitable organizations, etc.) to create their own mini-sites within Dolphin Surf.

Any group will have the ability to upload content such as videos and photos to the group page, send out messages to the whole group, write on an individual member’s “wall,” create a calendar, schedule events, and much more. Of course, the group sites have the full instant messaging capability that is a revolutionary aspect of Dolphin Secure, thereby allowing the children to chat live with each other while viewing the group’s site. For the first time, a children’s organization can safely create their own environment with full online interactivity occurring by their children.

Dolphin Surf offers different levels of privacy for any group, including: (1) Open: where any child within Dolphin Surf can join (e.g. a “fan club” started by a child in support of a favorite television show), or (2) Semi-Private: where a group administrator can set parameters for who can join their group, such as age range or gender (e.g. a particular Little League Division only open to boys and girls twelve and under), or (3) Private: where a group administrator will have to review and approve each individual who requests to join the group (e.g.: a specific Little League team).

Dolphin Digital Media has focused much of its recent development efforts on the expansion of the functionality and use of Dolphin Groups. Now, each group is in control of their own pricing, either on a monthly or annual basis, which gives them complete freedom to respond to their own fundraising needs, and to monetize their content on their own digital platform. For the first time, a children’s organization can safely create their own environment with full online interactivity occurring by their children.

In addition, groups now have the ability to “link” with one another. Any group administrator may request affiliation with any other group within Dolphin Surf. If accepted, the group members will receive an invitation to join the new group. For example, a child joining his Little League team group site may be invited to join a fantasy baseball league site selected by his group administrator. Or, a parent purchasing admission for her child into a fan club site for a popular actor may be invited to join the fan club of the actor’s television series.

Furthermore, links between groups can be automatically set-up for each new member, either in single-direction or dual-direction. Single-direction groups simply means that only the members from one group are invited to join the other group, but not the other way around (i.e. members of a particular local Girl Scout Troop are invited to join the group site for the Girl Scouts in that particular state, but not every girl scout in the state is invited to join the group site for that particular local Girl Scout Troop). Dual-direction groups simply means that the members from each group are automatically invited to join the other group (e.g. upon entering into the fan club for the leading actress of a popular television show, a member is automatically invited to the fan club for the leading actor of the same television show, and vice versa).

It is management’s belief that such “links,” or affiliations with other groups, will allow group administrators to drive membership for their own groups, while enriching the online experience for their members, and that these dual features of affiliation and monetization create a unique and compelling opportunity for any children’s organization or content owner.

The Need for “Dolphin Secure”

Many parents want to protect their children online without feeling like they are spying on them. Spyware is difficult to use in the best of circumstances, but it has two even more fundamental problems. First, it is oftentimes reactive. It only tells a parent which sites their child has visited, and who their child has chatted with, after the damage has already been done. Secondly, by its very definition, spyware assumes the parent has the time to constantly review and monitor their children’s online activities.

Dolphin Secure was born out of a decision to provide aproactive solution for parents concerned with the online safety of their children. Busy parents need an easy-to-use system which gives them peace of mind that their rules for internet safety are being followed even when they are not around. Now, a mother busy doing the five hundred tasks in her typical day, usually all at once, doesn't have to stop to worry that her 8 year-old daughter is receiving an instant message from someone that she doesn't know, or that her 11 year-old son has incorrectly spelled the name of a new game and has wound up on a pornography site.

Pricing & Availability

An annual child membership to Dolphin Secure costs \$59.95 per year (approx. \$5 per month) plus an additional one-time fee of \$15.00 for a fingerprint reader. Each additional child membership is \$29.95 per year; a parent account is free. A monthly subscription can be purchased for \$5.95 per month for the first child, and \$2.95 per month for each additional child in the household. Parents pay per child on their family account, not per software download. This way, a family can download Dolphin Secure onto every computer in the home for no additional charge. Extra fingerprint readers can be purchased for \$24.95 each.

Dolphin Secure currently works for PCs using Windows 7, XP or Vista operating systems, as well as Mac computers.

Target Market

Our primary initial target market is North America. This market represents 43.85 million girls and boys aged 5-15. This number breaks down as follows:

- In Canada, there are 3.71 million girls and boys aged 5-15. This represents 11.19% of the Canadian population.
- In the United States, there are 40.13 million girls aged 5-15. This represents 13.21% of the US population.

International Expansion — Germany

On February 8, 2011, the Company announced its entry into the European market by licensing its core product, Dolphin Secure, in Germany. Philip von Alvensleben, a twenty-year veteran of the media space within Germany and the U.S., has formed Dolphin Media Germany and has recruited a team of top-level marketing and technology experts to localize, promote, distribute and support Dolphin Secure within Europe, beginning with the German market.

Under the deal terms, Dolphin Digital Media will receive a royalty from all customer licenses and sales, one royalty payments due to the Company exceed the initial license fee of \$275,000. In turn, Dolphin Media Germany has retained the German-language rights to Dolphin Secure, as well as a right of first negotiation to launch the product in other European territories.

Mr. von Alvensleben is involved in a number of digital and media ventures such as Adconion Media Group, one of the largest online audience networks in the world, as well as Smaato and Burstly, pioneering mobile advertising companies, and Filmaka Inc. and Alive Entertainment. Mr. von Alvensleben's 20 year career also includes the position of Managing Director at the TeleMunchen Group, one of Germany's largest media conglomerates, with interests in broadcasting, feature film and television production and distribution, and music.

Dolphin Digital Studios

During the six months ended June 30, 2011 the Company focus has primarily been devoted to its new division of the company, Dolphin Digital Studios. Dolphin Digital Studios will create original content that premieres online, with an initial focus on content geared toward tweens and teens. Substantially all of the Company's operating expenses during the six months ended June 30, 2011 were related to the initial set-up of its new division.

Dolphin Digital Studios is a natural fit and progression in the core business of Dolphin Digital Media—entertaining its customers through high-quality digital programming. Furthermore, the web series from Dolphin Digital Studios can be repackaged for distribution into "traditional media," such as television and home video.

For distribution into such outlets, Dolphin Digital Studios will capitalize on its existing relationship with Dolphin Entertainment, one of the top independent producers and distributors of children's programming in the world. Founded in 1996, Dolphin Entertainment is an Emmy-nominated production and distribution company that has recently produced programming for Nickelodeon, Cartoon Network, and Canada's Family Channel. Dolphin Entertainment currently distributes its children's programming into 300 million homes in over 100 countries.

The Company expects the launch of Dolphin Digital Studios to create near-term revenue, since the new division already has several projects due to commence development within the next 12 months. Web series, in general, have a fairly short development and production cycle, thus allowing for quick distribution (as opposed to traditional television and film models). Thus, the Company anticipates that its financials will be positively impacted shortly after the distribution of any particular web series produced by Dolphin Digital Studios.

Dolphin Digital Studios will ramp up to produce between 6 and 8 web series a year. Some projects may be self-financed, while some projects will feature strategic and financial partnerships. This will allow Dolphin Digital Studios to have attractive project financing alternatives while developing its slate of programming.

According to a recent study by the Kaiser Family Foundation, 8-18 year-olds devote an average of 7 hours and 38 minutes across a typical day, or more than 53 hours per week, to using entertainment media. This creates a huge opportunity for quality content for this audience, which is no longer merely entertained by traditional television programming. In addition, advertisers have taken notice, with digital-marketing research firm eMarketer estimating that online video ad spending will have grown 48 percent to \$1.5 billion in 2010 and will hit \$5 billion by 2014.

Warner Bros. Digital Distribution Partnership

Dolphin Digital Media, Inc. announced in 2010 the first two productions for Dolphin Digital Studios. These first two live-action multi-platform digital series with top Hollywood talent are being co-financed through an agreement with entertainment industry veteran Dolphin Entertainment (Executive Producer of hit Nickelodeon series *Zoey 101*) and Warner Bros. Digital Distribution.

The first titles produced under this agreement will be the futuristic survival tale *H+*: *The Series* from blockbuster Director / Producer Bryan Singer (Director of *X-Men*, *Superman Returns* and *The Usual Suspects*, and Executive Producer of hit television series *House*) and the action-packed high school spy thriller *Aim High* from multi-talented Executive Producer and Director McG (Director of *Charlie's Angels*, *Terminator: Salvation* and Executive Producer of television series *Chuck* and *Supernatural*).

"H+: The Series"

H+ takes viewers on an episodic two-and-a-half hour, apocalyptic journey into the future where technology has gone horribly wrong. In 2019, 33% of the world's population uses a radical new piece of technology — an implanted computer system called H+. This allows a person's mind and nervous system to be connected to the Internet 24 hours a day.

But that same year, a mysterious and vicious computer virus is released, and within seconds millions of people die — leading to radical changes to the political and social landscape of the planet.

H+ is produced by Director / Producer Bryan Singer in association with Bad Hat Harry Productions (*House*). The series comes from the imaginative minds of writers John Cabrera (*Gilmore Girls*) and Cosimo de Tommaso who also serve as Executive Producers, directed by Stewart Hendler (*Sorority Row*) and produced by Lance Sloane (*Yucatan*). *H+* is currently in post-production and was filmed in Santiago Chile.

"Aim High"

Aim High is the story of a young man leading a double life — juggling his studies by day and serving as a government agent by night. This series chronicles the life of Nick Green, a high school sophomore who's just starting a new school year as one of the country's 64 highly trained teenage operatives.

When he's not risking his life on top-secret missions, Nick is dreaming of Amanda Meyers, the most popular girl in school, who's cool, intelligent, and very alluring. Amanda mercilessly flirts with Nick, but before he can enjoy her advances he has to avoid Derek — her overly protective boyfriend who threatens him for even looking at her.

Aim High comes from Director/ Producer McG, production company Wonderland Sound and Vision, and production services were provided by Bandito Brothers. Peter Murrieta, who served as Executive Producer for the Disney Channel mega-hit *Wizards of Waverly Place*, is the Executive Producer. The series is written by Heath Corson (*Living with Abandon / Scary Godmother*) and Richie Keen (*Living with Abandon*), who also serve as Executive Producers, directed by Thor Freudenthal (*Hotel for Dogs/ Diary of a Wimpy Kid*) and produced by Lance Sloane (*Yucatan*).

Jackson Rathbone, best known for his role as the scarred vampire "Jasper Hale" in the *Twilight* movie series, stars as teenage government operative "Nick Green." He is joined by Aimee Teegarden, known to loyal *Friday Night Lights* fans as "Julie Taylor," who stars as Nick's charming love interest "Amanda Miles."

Aim High also stars Rebecca Mader (*Lost*) as Nick's sultry science teacher "Ms. Walker," Johnny Pemberton (*Megadrive*) as the well connected best friend "Marcus," Clancy Brown (*Highlander*) as Russian mercenary "Boris the Bear," Jonathan McDaniel (*That's So Raven*) as Amanda's jealous boyfriend and swim team captain "Derek Long," and Greg Germann (*Ally McBeal*) as the protective "Vice Principal Ockenhocker."

Management Expertise

The launch of Dolphin Digital Studios leverages our management expertise in creating high-quality entertainment for children and young adults.

Dolphin Entertainment ("DE"), founded in 1996 by our Chairman, C.E.O. and President, Bill O'Dowd, is one of the world's leading entertainment companies specializing in children's and young adult live-action programming, with divisions dedicated to Television Production, Feature Film Production, International Distribution, and Merchandising and Licensing. DE served as Executive Producer to Nickelodeon's Emmy™-nominated hit series *Zoey 101* and *Ned's Declassified School Survival Guide*, as well as eight different television movies that have premiered on Nickelodeon in the past three years. DE enjoys worldwide distribution of its programs, with sales in over 100 countries (reaching almost 300 million homes) for its current children's properties, including Mexico, Italy, France, Spain, the United Kingdom, Germany, Canada, Australia, New Zealand, Brazil, and South Africa, among many others. DE has successfully launched international merchandising lines for its children's properties in nearly every consumer category, including publishing, apparel, sleepwear, accessories, and cosmetics.

We hold a multiyear exclusive licensing agreement with DE. Under the terms of our 10 year agreement, DE will work with us to create and manage social networking websites which will be themed around DE's own branded properties. Under the license, the Company is authorized to use Dolphin Entertainment's brand properties in connection with the social networking sites. The license requires that the Company pays Dolphin Entertainment royalties at the rate of fifteen percent of the net sales from performance of the licensed activities.

Results for the three and six months ended June 30, 2011 compared to the three and six months ended June 30, 2010

The Company had revenues of \$197,824 and \$472,824 from licensing and production fees for the three and six months ended June 30, 2011 compared to \$222 and \$478 for three and six months ended June 30, 2010. The Company expects to begin generating additional revenues from Dolphin Secure, Dolphin Surf websites and Dolphin Digital Media during fiscal 2011.

During the three and six months ended June 30, 2011 the Company focus has primarily been devoted to its new division of the company, Dolphin Digital Studios. Dolphin Digital Studios will create original content that premieres online, with an initial focus on content geared toward tweens and teens. Substantially all of the Company's operating expenses during the three and six months ended June 30, 2011 were derived from its new division.

General and administration costs decreased by \$78,764 from \$545,591 for the three months ended June 30, 2010 to \$466,827 for the three months ended June 30, 2011 as a result of decreased marketing, administrative, and advertising costs. General and administration costs decreased by \$301,524 from \$1,131,817 for the six months ended June 30, 2010 to \$847,115 for the six months ended June 30, 2011 as a result of decreased marketing, administrative, and advertising costs relating to the change in the Company's focus to its new division of the company, Dolphin Digital Studios.

Finance charges decreased by \$21,000 from \$21,000 for the three months ended June 30, 2010 to \$0 for the three months ended June 30, 2011. Finance charges decreased by \$987,649 from \$987,649 for the six months ended June 30, 2010 to \$0 for the six months ended June 30, 2011. Financing charges for the three and six months ended June 31, 2010 was primarily as a result of expenses associated with re-pricing of stock warrants.

Interest expense decreased by \$5,810 from \$37,633 for the three months ended June 30, 2010 to \$31,823 for the three months ended June 30, 2011. Interest expense decreased by \$20,029 from \$74,741 for the six months ended June 30, 2010 to \$57,662 for the six months ended June 30, 2011.

The net loss was \$304,098 and \$435,255 or \$(.00) and \$(.01) per share based on 64,190,987 weighted average shares outstanding for three and six months ended June 30, 2011, respectively compared to a loss of \$604,082 and \$2,195,049 or \$(.01) and \$(.04) per share based on 61,076,413 and 60,540,104 weighted average shares outstanding for the three and six months ended June 30, 2010, respectively.

Liquidity and Capital Resources

Cash flows used in operating activities increased by \$82,134 from \$601,029 for the six months ended June 30, 2010 to \$683,163 for the six months ended June 30, 2011. During the six months ended June 30, 2010 the Company incurred a loss from operation of \$2,195,049 which was primarily offset by amortization of debt discount of \$48,351, common stock issued for compensation of \$128,500 and warrant repricing of \$945,615.

Cash flows used in investing activities decreased by \$605,893 from \$605,893 for the six months ended June 30, 2010 to \$0 for the six months ended June 30, 2011. During the six months ended June 30, 2010 the Company capitalized costs of \$548,893 for web-site development and advance funds of \$57,000 to 24eight, LLC.

Cash flows from financing activities increased by \$12,490 from \$1,331,510 for the six months ended June 30, 2010 to \$1,344,000 for the six months ended June 30, 2011. During the six months ended June 30, 2010 the Company received advances of \$45,000 from our President and CEO and repaid advances of \$220,000. We received \$800,000 from the pay down of warrants and we sold a total of 2,248,957 shares of common stock for proceeds of \$698,000. During the six months ended June 30, 2011 we have relied on advances of \$275,500 from our President and CEO and we repaid \$25,500. The Company has largely relied on loans from the CEO to meet working capital requirements. To date, it has received a net total of \$1,391,361 in loans from him. There is no guarantee that Mr. O'Dowd will continue to loan the Company money. During the six months ended June 30, 2011, we received \$100,000 from the pay down of warrants.

In addition, during the six months ended June 30, 2011, the Company received \$995,000 in advances for future productions. Prior to December 31, 2012, the Company may utilize all, or any portion, of the total equity investment to fund the production. On January 1, 2013, the production "cycle" will cease and all of the Company's gross receipts will be distributed in accordance with the Equity Finance Agreements. The Company will be entitled to a production fee that will not exceed \$250,000 per production.

As of June 30, 2011, the Company had cash of \$662,304 and a working capital deficit of \$3,576,740.

Our independent auditors issued an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern based upon our net loss for the year ended December 31, 2010, our accumulated deficit as of December 31, 2010, and our level of working capital. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. Management is planning to raise any necessary additional funds through loans and additional sales of its common stock, however, there can be no assurance that the Company will be successful in raising any necessary additional capital. Management is currently focusing its efforts on Dolphin Digital Studios producing additional web productions which we expect will generate additional revenues in the upcoming months.

Critical Accounting Policies

The significant accounting policies followed by the Company for interim reporting are consistent with those included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, with the exception of the following:

Revenue Recognition

Revenue is recognized in accordance with the provision of FASB ASC Topic 605, "Revenue Recognition". In general, the Company records revenue when persuasive evidence of an arrangement exists, products have been delivered or services have been rendered, the selling price is fixed and determinable, and collectability is reasonably assured. The Company recognizes monthly and annual subscription revenues over the service period. Advertising revenue is recognized over the period the advertisement is displayed.

We account for contracts for development, production and services activities consistent with FASB ASC 605-35, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, and other relevant revenue recognition accounting literature. We consider the nature of these contracts and the types of products and services provided when determining the proper accounting for a particular contract. Generally for fixed-price contracts, other than service-type contracts, revenue is recognized primarily under the percentage of completion method or, for certain short-term contracts, by the completed contract method. Revenue from service-type fixed-price contracts is recognized ratably over the contract period or by other appropriate input or output methods to measure service provided, and contract costs are expensed as incurred. We establish billing terms at the time project deliverables and milestones are agreed. Revenues recognized in excess of the amounts invoiced to clients are classified as unbilled receivables. The risk to us on a fixed-price contract is that if estimates to complete the contract change from one period to the next, profit levels will vary from period to period. For all types of contracts, we recognize anticipated contract losses as soon as they become known and estimable. Out-of-pocket expenses that are reimbursable by the customer are included in revenue and cost of revenue.

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

Effect of Inflation

We do not believe that inflation has had a material effect on our business, results of operations or financial condition during the past two years.

Off-Balance Sheet Arrangements

As of June 30, 2011, we did not have any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

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 Securities and Exchange Commission'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 and Principal Financial 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, 2011. Based upon that evaluation, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were not effective due to material weaknesses identified in the Company's internal control over financial reporting described below.

Material Weakness

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the restatement of our financial statements for the interim period ending March 31, 2011, our Chief Executive Officer and Principal Financial Officer re-assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2011. Based on that assessment, management identified the following material weakness:

- During the three month period ended March 31, 2011, the Company did not correctly account for revenue recognition related to a software license agreement. The Company had initially deferred revenue associated with agreement and was recognizing revenue over a five year period. Upon further evaluation, revenue recognition was required upon delivery of the software. This error resulted in the restatement of the Company's previously filed Form 10-Q for the period ended March 31, 2011 to recognize additional revenue of \$261,250. After a review of our current review and approval of certain aspects of the accounting process, management concluded that the inadequate review and approval process of material agreements for the proper accounting treatment represented a material weakness.
- During the three month period ended June 30, 2011, the Company did not correctly account for revenue recognition related to a Production Services Agreement with a related party. The Company had initially deferred the revenue associated with the services agreement and was accounting for the agreement under the completed contract method. Upon further evaluation, revenue recognition was required as the services were provided to the related party. After a review of our current review and approval of certain aspects of the accounting process, management concluded that the inadequate review and approval process of material agreements for the proper accounting treatment represented a material weakness.

Remediation of Material Weaknesses in Internal Control over Financial Reporting

In order to remediate the material weaknesses in internal control over financial reporting, the Company is in the process of finalizing a remediation plan, under the direction of the Company's Board of Directors, and intends to implement improvements during fiscal year 2011 as follows:

- Document all significant accounting policies and ensure that the accounting policies are in accordance with accounting principles generally accepted in the United States and that internal controls are designed effectively to ensure that the financial information is properly reported. Management will engage independent accounting specialists to ensure that there is an independent verification of the accounting positions taken.

- In connection with the reported inadequately documented review and approval of certain aspects of the accounting process, management has plans to review the current review and approval processes and implement changes to ensure that all material agreements, accounting reconciliations and journal entries are reviewed and approved on a timely basis and that this review is documented by a member of management separate from the preparer.

Limitations on Effectiveness of Controls and Procedures

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

Changes in Internal Control over Financial Reporting

During the Company's last fiscal quarter there were no changes in the Company's internal controls over financial reporting that have materially affected or are reasonably likely to materially affect such internal controls over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On or about January 25, 2010, an action was filed by Tom David against Winterman Group Limited, Dolphin Digital Media (Canada) Ltd., Malcolm Stockdale and Sara Stockdale in the Superior Court of Justice in Ontario (Canada) alleging breach of a commercial lease and breach of a personal guaranty. On or about March 18, 2010, Winterman Group Limited, Malcolm Stockdale and Sara Stockdale filed a Statement of Defense and Crossclaim. In the Statement of Defense, Winterman Group Limited, Malcolm Stockdale and Sara Stockdale deny any liability under the lease and guaranty. In the Crossclaim filed against Dolphin Digital Media (Canada) Ltd., Winterman Group Limited, Malcolm Stockdale and Sara Stockdale seek contribution or indemnity against Dolphin Digital Media (Canada) Ltd. alleging that Dolphin Digital Media (Canada) agreed to relieve Winterman Group Limited, Malcolm Stockdale and Sara Stockdale from any and all liability with respect to the lease or the guaranty. On or about March 19, 2010, Winterman Group Limited, Malcolm Stockdale and Sara Stockdale filed a Third Party Claim against the Company seeking contribution or indemnity against the Company, formerly known as Logica Holdings, Inc., alleging that the Company agreed to relieve Winterman Group Limited, Malcolm Stockdale and Sara Stockdale from any and all liability with respect to the lease or the guaranty. The Third Party Claim was served on the Company on April 6, 2010. On or about April 1, 2010, Dolphin Digital Media (Canada) filed a Statement of Defense and Crossclaim. In the Statement of Defense, Dolphin Digital Media (Canada) denied any liability under the lease and in the Crossclaim against Winterman Group Limited, Malcolm Stockdale and Sara Stockdale, Dolphin Digital Media (Canada) seeks contribution or indemnity against Winterman Group Limited, Malcolm Stockdale and Sara Stockdale alleging that the leased premises were used by Winterman Group Limited, Malcolm Stockdale and Sara Stockdale for their own use. On or about April 1, 2010, Dolphin Digital Media (Canada) also filed a Statement of Defense to the Crossclaim denying any liability to indemnify Winterman Group Limited, Malcolm Stockdale and Sara Stockdale. The ultimate results of these proceedings against the Company cannot be predicted with certainty.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| <u>No.</u> | |
|------------|--|
| 31.1 | Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.1 | Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of the Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of the Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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 22, 2011.

Dolphin Digital Media Inc.

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

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

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

1. I have reviewed this 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)) 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 presented in this Report are 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;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation or internal control over financial reporting which are reasonably likely to adversely effect 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; and

Date: August 22, 2011

/s/ William O'Dowd IV

William O'Dowd IV
Chief Executive Officer
(Principal Executive Officer)

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

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

1. I have reviewed this 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)) 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 presented in this Report are 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;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation or internal control over financial reporting which are reasonably likely to adversely effect 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; and

Date: August 22, 2011

/s/ William O'Dowd IV

William O'Dowd IV
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the accompanying Report of Dolphin Digital Media, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William O'Dowd IV, Principal 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 fully presents, in all material respects, the financial condition and results of operations of the Company.

August 22, 2011

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

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

In connection with the accompanying Report of Dolphin Digital Media, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William O'Dowd IV, Principal 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 fully presents, in all material respects, the financial condition and results of operations of the Company.

August 22, 2011

By: /s/ William O'Dowd IV
William O'Dowd IV
Principal Financial Officer