SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Grom Social Enterprises, Inc.

Form: 10-Q/A

Date Filed: 2018-02-20

Corporate Issuer CIK: 1662574

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q/A

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

o 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: 000-55585

GROM SOCIAL ENTERPRISES, INC.
(Exact name of registrant as specified in its charter)

Florida	**46-5542401**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

2060 NW Boca Raton Blvd., #6
Boca Raton, FL, 33431
(Address of principal executive offices)

Registrant's telephone number, including area code: **561-287-5776**

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 x No o

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 (§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 x No o

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. (Check one)

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

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

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

As of November 17, 2017, there were 120,951,630 shares of common stock, par value $0.001 issued and outstanding.

EXPLANATORY NOTE

Grom Social Enterprises, Inc. (the "Company") is filing Amendment No. 1 to its Quarterly Report on Form 10-Q for the three and nine-months ended September 30, 2017 ("Amendment No. 1") to amend its Quarterly Report which was originally filed with the Securities and Exchange Commission (the "SEC") on November 20, 2017 (the "Original Quarter Report") to amend and restate its financial statements for the three and nine-months ended September 30, 2017. In the Original Quarter Filing, the Company's financial statements were prepared in accordance with the guidance in ASC 805-50-05-5 for the transfer of net assets between entities under common control, to apply a method similar to the pooling-of-interests method to account for the transactions consummated pursuant to the Share Exchange Agreement entered into on May 15, 2017.

After further review, the Company deemed the transfer of net assets to be a reverse acquisition in accordance with FASB ASC 805-40, *"Reverse Acquisitions"*. The legal acquirer is Illumination America, Inc. and the legal acquiree is Grom Holdings, Inc. However, the transaction was accounted for as a recapitalization effected by a share exchange, wherein Grom Holdings is considered the acquirer for accounting and financial reporting purposes. The assets and liabilities of the acquired entity have been brought forward at their book value and no goodwill has been recognized.

The purpose of this Amendment No. 1 is to restate the financial statements and to modify and update all other associated disclosures in the Original Quarterly Report. Amendment No. 1 continues to speak as of the date of the Original Quarterly Report, and except as noted above, the Company has not otherwise updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Quarterly Report. Accordingly, Amendment No. 1 should be read in conjunction with the Original Quarterly Report.

In accordance with applicable SEC rules, this Amendment No. 1 includes new certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as amended, from our Chief Executive Officer and Chief Financial Officer dated as of the filing date of this Amendment No. 1.

GROM SOCIAL ENTERPRISES, INC.
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017
TABLE OF CONTENTS

CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q/A contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon our current assumptions, expectations and beliefs concerning future developments and their potential effect on our business. In some cases, you can identify forward-looking statements by the following words: "may," "will," "could," "would," "should," "expect," "intend," "plan," "anticipate," "believe," "approximately," "estimate," "predict," "project," "potential," "continue," "ongoing," or the negative of these terms or other comparable terminology, although the absence of these words does not necessarily mean that a statement is not forward-looking. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by any forward-looking statements.

Factors that may cause or contribute actual results to differ from these forward-looking statements include, but are not limited to, for example:

- adverse economic conditions;
- the Company's ability to raise capital to fund a portion of its operations
- the Company's ability to monetize its gromsocial.com database of users
- industry competition
- the Company's ability to integrate its acquisitions
- the inability to attract and retain qualified senior management and technical personnel; and
- other risks and uncertainties related to the social media, animation services, nutritional products and web filtering services marketplace and our business strategy.

All forward-looking statements speak only as of the date of this Report. We undertake no obligation to update any forward-looking statements or other information contained herein. Stockholders and potential investors should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements in this report are reasonable, we cannot assure stockholders and potential investors that these plans, intentions or expectations will be achieved.

These forward-looking statements represent our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of those factors are outside of our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Considering these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of the Quarterly Report on Form 10-Q/A. All subsequent written and oral forward-looking statements concerning other matters addressed in this Quarterly Report on Form 10-Q/A and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Quarterly Report on Form 10-Q/A.

Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise.

PART I – FINANCIAL INFORMATION

Item 1. *Financial Statements.*

Our unaudited consolidated financial statements included in this Form 10-Q are as follows:

GROM SOCIAL ENTERPRISES, INC.

Consolidated Balance Sheets

	September 30, 2017 (Unaudited) (Restated)	December 31, 2016 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 712,319	$ 443,494
Accounts receivable, net	796,013	550,145
Inventory	407,389	390,931
Prepaid expenses and other current assets	310,267	142,208
Total current assets	2,225,988	1,526,778
Property and equipment, net	514,392	559,538
Goodwill	10,020,790	8,104,056
Intangible assets, net	5,939,933	6,583,661
Deferred tax assets, net -- noncurrent	174,141	165,901
Other assets	64,585	45,704
Total assets	$ 18,939,829	$ 16,985,638
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 624,418	$ 771,870
Accrued liabilities	1,474,154	1,149,672
Advanced payments and deferred revenues	1,275,617	347,162
Senior secured promissory notes, net -- current	3,911,764	–
Related party payables	2,633,486	2,119,263
Income taxes payable	–	30,137
Total current liabilities	9,919,439	4,418,104
Convertible debentures, net of loan discounts	1,087,792	188,317
Senior secured promissory notes, net of loan discounts	–	3,762,961
Contingent purchase consideration	2,294,207	1,931,707
Other noncurrent liabilities	233,167	239,719
Total liabilities	13,534,605	10,540,808
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $0.001 par value. 10,000,000 shares authorized; zero shares issued and outstanding	–	–
Common stock, $0.001 par value. 200,000,000 shares authorized; 120,621,893 and 101,452,789 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	120,622	101,454
Additional paid-in capital	45,907,035	41,195,941
Accumulated deficit	(40,543,068)	(34,797,909)
Accumulated other comprehensive income	(79,365)	(54,656)
Total stockholders' equity	5,405,224	6,444,830
Total liabilities and equity	$ 18,939,829	$ 16,985,638

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

GROM SOCIAL ENTERPRISES, INC.

Consolidated Statements of Operations and Comprehensive Loss (Unaudited) (Restated)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Sales	$ 2,194,275	$ 1,878,465	$ 5,679,831	$ 1,878,465
Cost of goods sold	877,147	912,875	2,491,521	912,875
Gross margin	1,317,128	965,590	3,188,310	965,590
Operating expenses:				
Depreciation and amortization	282,748	273,152	844,294	312,402
Selling and marketing	88,388	70,658	201,359	211,726
General and administrative	1,723,103	1,047,430	3,880,628	2,219,615
Professional fees	277,918	305,479	1,305,579	846,868
Stock based compensation	413,475	3,989,777	2,376,835	6,992,551
Total operating expenses	2,785,632	5,686,496	8,608,695	10,583,162
Income (loss) from operations	(1,468,504)	(4,720,906)	(5,420,385)	(9,617,572)
Other income (expense)				
Interest income (expense), net	(322,551)	(315,108)	(530,132)	(580,938)
Other gains (losses)	179,969	17,058	205,358	17,201
Total other income (expense)	(142,582)	(298,050)	(324,774)	(563,737)
Income (loss) before income taxes	(1,611,086)	(5,018,956)	(5,745,159)	(10,181,309)
Provision for income taxes (benefit)	–	36,961	–	36,961
Net income (loss)	(1,611,086)	(5,055,917)	(5,745,159)	(10,218,270)
Basic and diluted earnings (loss) per common share	$ (0.01)	$ (0.05)	$ (0.05)	$ (0.11)
Weighted-average number of common shares outstanding:				
Basic and diluted	111,380,009	96,829,137	106,119,177	91,122,598
Comprehensive loss:				
Net income (loss)	$ (1,611,086)	$ (5,055,917)	$ (5,745,159)	$ (10,218,270)
Foreign currency translation adjustment	(24,709)	(270,542)	(24,709)	(270,542)
Comprehensive income (loss)	$ (1,635,795)	$ (5,326,459)	$ (5,769,868)	$ (10,488,812)

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

GROM SOCIAL ENTERPRISES, INC.

Consolidated Statements of Cash Flows (Unaudited)

		Nine Months Ended September 30, 2017 (Restated)		Nine Months Ended September 30, 2016 (Restated)
Cash flows from operating activities of continuing operations:				
Net income (loss)	$	(5,745,159)	$	(10,218,270)
Adjustments to reconcile net loss to cash used in operating activities:				
Depreciation and amortization		844,294		445,874
Amortization of debt discount		141,278		352,508
Common stock issued for financing costs		17,499		–
Common stock issued in exchange for fees and services		956,705		235,250
Deferred taxes		(8,240)		(13,481)
Stock based compensation		2,376,835		6,992,551
Changes in operating assets and liabilities:				
Accounts receivable		(245,867)		59,092
Inventory		(16,458)		2,019
Prepaid expenses and other current assets		(200,558)		(38,516)
Other assets		(18,882)		(3,999)
Accounts payable		(74,775)		140,037
Accrued liabilities		318,547		(287,497)
Advanced payments and deferred revenues		406,721		57,204
Income taxes payable and other noncurrent liabilities		(36,689)		2,698
Related party payables		315,520		1,660,551
Net cash provided by (used in) operating activities		(969,229)		(613,979)
Cash flows from investing activities:				
Cash consideration for acquisition of business		–		(3,500,000)
Cash acquired in acquisition of business		182		1,024,424
Purchase of fixed assets		(155,420)		(249,283)
Net cash provided by (used in) financing activities		(155,238)		(2,724,859)
Cash flows from financing activities:				
Proceeds from issuance of common stock, net of issuance costs		–		336,827
Proceeds from exercise of common stock purchase warrants, net of issuance costs		1,511,000		1,201,000
Proceeds from issuance of convertible debentures		–		2,655,600
Proceeds from issuance of senior, secured promissory notes		32,000		–
Repayments of convertible debentures		(125,000)		–
Repayments of loans payable		–		(250,000)
Net cash provided by (used in) financing activities		1,418,000		3,943,427
Effect of exchange rates on cash and cash equivalents		(24,708)		(270,274)
Net increase (decrease) in cash and cash equivalents		268,825		334,315
Cash and cash equivalents at beginning of period		443,494		3,090
Cash and cash equivalents at end of period	$	712,319	$	337,405
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	–	$	–
Cash paid for income taxes	$	–	$	–
Supplemental disclosure of non-cash investing and financing activities:				
Common stock issued related to acquisition of business	$	–	$	4,240,000
Common stock issued related to acquisition of intangible assets	$	60,000	$	162,500
Common stock issued for financing costs incurred in connection with convertible and promissory notes	$	–	$	667,332
Common stock issued to reduce accounts payable and other accrued liabilities	$	33,000	$	150,000
Contingent purchase consideration	$	362,500	$	3,987,602
Conversion of convertible debentures and accrued interest into common stock	$	–	$	669,350
Debt issued related to acquisition of a business	$	1,000,000	$	4,500,000
Discount for beneficial conversion features on convertible debentures	$	–	$	67,917
Discount for fair value adjustment on promissory notes	$	–	$	309,049

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

1. NATURE OF OPERATIONS

Effective August 17, 2017, Grom Social Enterprises, Inc. ("Grom" or the "Company), a Florida corporation f/k/a Illumination America, Inc. ("Illumination"), consummated the acquisition of Grom Holdings, Inc. ("Grom Holdings"). Pursuant to the terms of the share exchange agreement dated May 15, 2017, the Company amended its articles of incorporation to increase its authorized capital to 200,000,000 shares of common stock, as well as to change its name to "Grom Social Enterprises, Inc." Further, the Company issued an aggregate of 110,853,883 shares of its common stock to the Grom Holdings' shareholders, pro rata to their respective ownership percentage. Each share of Grom Holdings was exchanged for 4.17 shares of Illumination's common stock. As a result, the stockholders of Grom Holdings are now stockholders of the Company and own approximately 92% of the Company's issued and outstanding shares of common stock.

The acquisition was deemed a reverse acquisition in accordance with FASB ASC 805-40, *"Reverse Acquisitions"*. The legal acquirer is Illumination and the legal acquiree is Grom Holdings. However, the transaction was accounted for as a recapitalization effected by a share exchange, wherein Grom Holdings is considered the acquirer for accounting and financial reporting purposes. The assets and liabilities of the acquired entity have been brought forward at their book value and no goodwill has been recognized.

The Company now operates its business through five wholly-owned subsidiaries, including:

- Grom Social, Inc. ("Grom Social"), incorporated in the State of Florida in March 2012, which operates a social media network designed for children;
- TD Holdings Limited ("TD Holdings"), incorporated in Hong Kong, and its subsidiary companies, Top Draw Animation Hong Kong Limited and Top Draw Animation, Inc. The group's principal activities, based in Manila, Philippines, are the production of animated films;
- Grom Educational Services Inc. ("GES"), incorporated in the State of Florida in February 2017, which operates its NetSpective WebFiltering services that are provided to schools and libraries;
- Grom Nutritional Services ("GNS"), incorporated in the State of Florida in April 2017, which was established to market and distribute a product line of nutritional supplement beverages formulated for children; and
- Illumination America Lighting ("IAL"), which operates the lighting distribution business that was formerly Illumination America, Inc.'s principal business prior to the Grom Holdings acquisition.

Retroactive Application of the Share Exchange Ratio

All references to common share totals or values in the accompanying consolidated financial statements, unless otherwise stated, have been retroactively adjusted to reflect a share exchange ratio of 4.17 pursuant to the terms of the share exchange agreement dated May 15, 2017 described above.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going Concern

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date of these financial statements. On a consolidated basis, the Company has incurred significant operating losses since inception.

Because the Company does not expect that existing operational cash flow will be sufficient to fund presently anticipated operations, this raises substantial doubt about the Company's ability to continue as a going concern. Therefore, the Company will need to raise additional funds and is currently exploring alternative sources of financing. Historically, the Company has raised capital through private placements, convertible debentures and officer loans as an interim measure to finance working capital needs, and may continue to raise additional capital through sale of common stock or other securities, and obtaining some short-term loans. The Company will be required to continue to so until its consolidated operations become profitable. Also, the Company has, in the past, paid for consulting services with its common stock to maximize working capital, and intends to continue this practice where feasible.

Management's Representation of Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared by the Company without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted as allowed by such rules and regulations, and management believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements include all of the adjustments, which in the opinion of management are necessary to a fair presentation of financial position and results of operations. All such adjustments are of a normal and recurring nature. Interim results are not necessarily indicative of results for a full year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements at December 31, 2016 and 2015, as presented in Exhibit 99.1 on the Company's Form 8-K/A filed on November 2, 2017 with the SEC.

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with GAAP and are expressed in United States dollars. For the nine-month period ended September 30, 2017, the consolidated financial statements include the accounts of the Company; and its wholly-owned subsidiaries Grom Social, TD Holdings, GES, GNS and IAL. All intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to revenue recognition, valuation of accounts receivable and inventories, purchase price allocation of acquired businesses, impairment of long lived assets and goodwill, valuation of financial instruments, income taxes, and contingencies. The Company bases its estimates on historical experience, known or expected trends and various other assumptions that are believed to be reasonable given the quality of information available as of the date of these financial statements. The results of these assumptions provide the basis for making estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

Revenue Recognition

Revenue from the production of animated films is recognized based upon substantial completion and delivery of the Company's produced animated films on a per episodic basis. Substantial means that the animated films are 100% complete and is usually termed as a "first take". In certain animation contracts, a certain percentage of the total contract price are withheld by the Company's client for possible retakes and rejects over the finished products and are not recognized as revenue. A certain percentage of the episode price is required in advance as a down payment upon every inception of the animation of an episode and is initially recorded by the Company as deferred revenue.

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for services provided, excluding value-added tax (VAT), if any, and trade discounts. Cost and expenses are recognized in the consolidated statements of comprehensive income upon utilization of the service or at the date they are incurred.

Revenue from subscription sales are recognized on a pro-rata basis over the subscription period. Typically, a subscriber purchases computer hardware and a service license for a period of use between one year to five years for software and support. The subscriber is billed in full at the time of the sale. The Company immediately recognizes any revenue attributable to the computer hardware as it is non-refundable. The advanced billing for software and service is initially recorded as deferred revenue and subsequently recognized as revenue evenly throughout the subscription period.

Fair Value Measurements

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, "*Fair Value Measurements and Disclosures*" ("ASC 820") defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable.

Level 3 - Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of September 30, 2017 and December 31, 2016. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The respective carrying value of certain balance sheet financial instruments approximates its fair value. These financial instruments include cash, trade receivables, related party payables, accounts payable, accrued liabilities and short-term borrowings. Fair values were estimated to approximate carrying values for these financial instruments since they are short term in nature and they are receivable or payable on demand.

The estimated fair value of assets and liabilities acquired in business combinations and reporting units and long-lived assets used in the related asset impairment tests utilize inputs classified as Level 3 in the fair value hierarchy.

The Company determines the fair value of contingent consideration based on a probability-weighted discounted cash flow analysis. The fair value remeasurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in the fair value hierarchy. In each period, the Company reassesses its current estimates of performance relative to the stated targets and adjusts the liability to fair value. Any such adjustments are included as a component of Other Income (Expense) in the Consolidated Statements of Operations and Comprehensive Loss.

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2017:

	Level 1	Level 2	Level 3
Earnout liability	$ –	$ –	$ 2,294,207

The following table summarizes the change in the Company's financial assets and liabilities measured at fair value as of September 30, 2017 and December 31, 2016

Fair value, January 1, 2016	$ –
Fair value of contingent consideration issued during the period	3,987,602
Change in fair value	(2,055,895)
Fair value, December 31, 2016	1,931,707
Fair value of contingent consideration issued during the period	362,500
Change in fair value	–
Fair value, September 30, 2017	$ 2,294,207

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible and other promissory notes are reviewed to determine whether they contain embedded derivative instruments that are required to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results.

Beneficial Conversion Features

In accordance with FASB ASC 470-20, " *Debt with Conversion and Other Options"* the Company records a beneficial conversion feature ("BCF") related to the issuance of convertible debt or preferred stock instruments that have conversion features at fixed rates that are in-the-money when issued. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The intrinsic value is generally calculated at the commitment date as the difference between the conversion price and the fair value of the common stock or other securities into which the security is convertible, multiplied by the number of shares into which the security is convertible. If certain other securities are issued with the convertible security, the proceeds are allocated among the different components. The portion of the proceeds allocated to the convertible security is divided by the contractual number of the conversion shares to determine the effective conversion price, which is used to measure the BCF. The effective conversion price is used to compute the intrinsic value. The value of the BCF is limited to the basis that is initially allocated to the convertible security.

Stock Purchase Warrants

The Company accounts for warrants issued to purchase shares of its common stock as equity in accordance with FASB ASC 480, " *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, Distinguishing Liabilities from Equity".*

Cash and cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks and money market funds, the fair value of which approximates cost. The Company maintains its cash balances with a high-credit-quality financial institution. At times, such cash may be in excess of the Federal Deposit Insurance Corporation insured limit of $250,000. The Company has not experienced any losses in such accounts, and management believes the Company is not exposed to any significant credit risk on its cash and cash equivalents.

Accounts receivable

Accounts receivable are customer obligations due under normal trade terms which are recorded at net realizable value. The Company establishes an allowance for doubtful accounts based on management's assessment of the collectability of trade receivables. A considerable amount of judgment is required in assessing the amount of the allowance. The Company makes judgments about the creditworthiness of each customer based on ongoing credit evaluations, and monitors current economic trends that might impact the level of credit losses in the future. If the financial condition of the customers were to deteriorate, resulting in their inability to make payments, a specific allowance will be required.

Recovery of bad debt amounts previously written off is recorded as a reduction of bad debt expense in the period the payment is collected. If the Company's actual collection experience changes, revisions to its allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Inventory

Materials are recorded at cost, determined using the first-in, first-out method. Work-in-process inventories are valued at the actual cost incurred for a specific project. The cost of work-in-process includes materials, direct labor, other direct costs and related production overheads.

Inventories are measured at the lower of cost or net realizable value. Historically, costs are generally lower in the case of the Company's inventories since all animation projects are contract based with guaranteed payments from its customers. Materials-in-transit, if any, are stated at invoice cost plus any importation or other incidental charges.

A provision for inventory obsolescence or slow-moving inventory is set-up, if necessary, based on a review of the movement and current condition of raw materials. The Company does not believe that any obsolescence is exists on finished work in process. In the event of a dispute with a client regarding quality or specifications, the Company may incur additional costs because of retakes and editing in an effort to achieve customer satisfaction.

The Company believes that no write-down for obsolete inventory is necessary as of September 30, 2017 and December 31, 2016.

Property and equipment

Property and equipment are stated at cost or fair value if acquired as part of a business combination. Depreciation is computed by the straight-line method and is charged to operations over the estimated useful lives of the assets. Maintenance and repairs are charged to expense as incurred. The carrying amount and accumulated depreciation of assets sold or retired are removed from the accounts in the year of disposal and any resulting gain or loss is included in results of operations. The estimated useful lives of property and equipment are as follows:

Computers, software and office equipment	1 – 5 years
Machinery and equipment	3 – 5 years
Vehicles	5 years
Furniture and fixtures	5 – 10 years
Leasehold improvements	Lesser of lease term or estimated useful life

Goodwill and Intangible Assets

Goodwill represents the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. The goodwill arising from the Company's acquisitions is attributable to the value of the potential expanded market opportunity with new customers. Intangible assets have either an identifiable or indefinite useful life. Intangible assets with identifiable useful lives are amortized on a straight-line basis over their economic or legal life, whichever is shorter. The Company's amortizable intangible assets consist of customer relationships and non-compete agreements. Their useful lives range from 1.5 to 10 years. The Company's indefinite-lived intangible assets consist of trade names.

Goodwill and indefinite-lived assets are not amortized, but are subject to annual impairment testing unless circumstances dictate more frequent assessments. The Company performs an annual impairment assessment for goodwill during the fourth quarter of each year and more frequently whenever events or changes in circumstances indicate that the fair value of the asset may be less than the carrying amount. Goodwill impairment testing is a two-step process performed at the reporting unit level. Step one compares the fair value of the reporting unit to its carrying amount. The fair value of the reporting unit is determined by considering both the income approach and market approaches. The fair values calculated under the income approach and market approaches are weighted based on circumstances surrounding the reporting unit. Under the income approach, the Company determines fair value based on estimated future cash flows of the reporting unit, which are discounted to the present value using discount factors that consider the timing and risk of cash flows. For the discount rate, the Company relies on the capital asset pricing model approach, which includes an assessment of the risk-free interest rate, the rate of return from publicly traded stocks, the Company's risk relative to the overall market, the Company's size and industry and other Company specific risks. Other significant assumptions used in the income approach include the terminal value, growth rates, future capital expenditures and changes in future working capital requirements. The market approaches use key multiples from guideline businesses that are comparable and are traded on a public market. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount exceeds its fair value, then the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit as calculated in step one. In this step, the fair value of the reporting unit is allocated to all of the reporting unit's assets and liabilities in a hypothetical purchase price allocation as if the reporting unit had been acquired on that date. If the carrying amount of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess.

Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates, strategic plans and future market conditions, among others. There can be no assurance that the Company's estimates and assumptions made for purposes of the goodwill impairment testing will prove to be accurate predictions of the future. Changes in assumptions and estimates could cause the Company to perform impairment test prior to scheduled annual impairment tests.

The Company performed its annual fair value assessment at December 31, 2016 on its subsidiaries with material goodwill and intangible asset amounts on their respective balance sheets and determined that no impairment exists.

Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets whenever events or changes in circumstances have indicated that an asset may not be recoverable. The long-lived asset is grouped with other assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows is less than the carrying value of the assets, the assets are written down to the estimated fair value.

The Company evaluated the recoverability of its long-lived assets on September 30, 2017 and at December 31, 2016, respectively on its subsidiaries with material amounts on their respective balance sheets and determined that no impairment exists.

Income taxes

The Company accounts for income taxes under FASB ASC 740, *"Accounting for Income Taxes"*. Under ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. FASB ASC 740-10-05, *"Accounting for Uncertainty in Income Taxes"* prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities.

The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company assesses the validity of its conclusions regarding uncertain tax positions on a quarterly basis to determine if facts or circumstances have arisen that might cause it to change its judgment regarding the likelihood of a tax position's sustainability under audit.

Foreign Currency Translation

The functional and reporting currency of TD Holdings and TDAHK is the Hong Kong Dollar. The functional and reporting currency of Top Draw is the Philippine Peso. Management has adopted FASB ASC 830, *"Foreign Currency Matters"* for transactions that occur in foreign currencies. Monetary assets denominated in foreign currencies are translated using the exchange rate prevailing at the balance sheet date. Average monthly rates are used to translate revenues and expenses.

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Exchange gains or losses arising from foreign currency transactions are included in the determination of net income for the respective periods.

Assets and liabilities of the Company's operations are translated into the reporting currency, United States dollars, at the exchange rate in effect at the balance sheet dates. Revenue and expenses are translated at average rates in effect during the reporting periods. Equity transactions are recorded at the historical rate when the transaction occurred. The resulting translation adjustment is reflected as accumulated other comprehensive income, a separate component of stockholders' equity in the statement of stockholders' equity.

Differences may arise in the amount of bad debt expense, depreciation expense and amortization expense reported in the Company's operating results as compared to the corresponding change in allowance for doubtful accounts, accumulated depreciation and accumulated amortization, respectively, due to foreign currency translation. These translation adjustments are reflected in accumulated other comprehensive income, a separate component of the Company's stockholders' equity.

Comprehensive Gain or Loss

ASC 220, *"Comprehensive Income",* establishes standards for the reporting and display of comprehensive income and its components in the financial statements. As of September 30, 2017, and December 31, 2016, the Company determined that it had items that represented components of comprehensive income and, therefore, has included a statement of comprehensive income in the financial statements.

Advertising expenses

Advertising costs are expensed as incurred and included in selling and marketing expenses.

Shipping and handling costs

Shipping and handling costs related to the acquisition of goods from vendors are included in cost of sales.

Basic and Diluted Net Income (Loss) Per Share

The Company computes net income (loss) per share in accordance with ASC 260, *"Earnings per Share"*. ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common stockholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive.

Recent accounting pronouncements

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new pronouncements that have been issued that might have a material impact on its financial position or results of operations except as noted below:

In May 2014, the FASB issued ASU 2014-09, " *Revenue from Contracts with Customers (Topic 606)".* Under the update, revenue will be recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In 2015, the FASB deferred the effective date of the standard to annual and interim periods beginning after December 15, 2017. Early adoption will be permitted for annual and interim periods beginning after December 15, 2016. The Company is currently evaluating the impact that adopting this ASU will have on its financial position, results of operations and cash flows.

3. ACCOUNTS RECEIVABLE

The following table sets forth the components of the Company's accounts receivable at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Accounts receivable	$ 942,983	$ 697,115
Allowance for doubtful accounts	(146,970)	(146,970)
Total accounts receivable, net	$ 796,013	$ 550,145

Effective July 1, 2016, the Company received $1,719,001 in gross accounts receivable in connection with its acquisition of TD Holdings. See Note 6 – Business Combinations. An allowance for bad debts totaling $146,904 was reserved against those trade receivables. As of September 30, 2017 and December 31, 2016, the Company evaluated its outstanding trade receivables and determined that its allowance for bad debts was sufficiently reserved. No bad debt expense was recorded during the nine months ended September 30, 2017 and the year December 31, 2016.

During the nine-month period ended September 30, 2017, the Company had four customers that accounted for 77.7% of consolidated revenues and another five customers that accounted for 74.3% of consolidated accounts receivable. Four of these customers were the same concentration customers for the period ended December 31, 2016.

During the year ended December 31, 2016, the Company had four customers that accounted for 69.8% revenues and the same four customers that accounted for 89.2% of accounts receivable.

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

The following table sets forth the components of the Company's prepaid expenses and other current assets at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Prepaid rent	$ 19,281	$ 32,500
Prepaid service agreements	181,149	83,690
Other prepaid expenses and current assets	109,837	26,018
Total	$ 310,267	$ 142,208

Prepaid expenses and other assets represent prepayments made in the normal course and in which the economic benefit is expected to be realized within twelve months.

5. PROPERTY AND EQUIPMENT

The following table sets forth the components of the Company's property and equipment at September 30, 2017 and December 31, 2016:

	September 30, 2017			December 31, 2016		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Capital assets subject to depreciation:						
Computers, software and office equipment	$ 1,608,141	$ (1,244,604)	363,537	$ 1,789,070	$ (1,430,016)	$ 359,054
Machinery and equipment	91,050	(82,581)	8,469	561,431	(536,045)	25,386
Vehicles	157,555	(101,586)	55,969	143,395	(83,130)	60,265
Furniture and fixtures	290,154	(266,062)	24,092	297,346	(263,290)	34,056
Leasehold improvements	631,693	(569,368)	62,325	648,443	(567,666)	80,777
Total fixed assets	$ 2,778,593	$ (2,264,201)	$ 514,392	$ 3,439,685	$ (2,880,147)	$ 559,538

For the nine-month period ended September 30, 2017 and the year ended December 31, 2016, the Company recorded depreciation expense of $200,566 and $131,132, respectively.

6. BUSINESS COMBINATIONS

Acquisition of TD Holdings Limited

On February 6, 2016, Grom Holdings entered into a letter of intent to acquire all of the stock of TD Holdings Limited. Grom Holdings issued 417,000 shares of its common stock valued at $0.58 per share, or $240,000, in return for a period of exclusivity through May 31, 2016.

On June 20, 2016, Grom Holdings executed a share sale agreement with TD Holdings. Under the terms of the agreement, Grom Holdings paid $12.0 million in consideration including $3.5 million in cash, the issuance of $4.0 million of its common stock and the issuance of $4.5 million in 5% senior, secured promissory notes in exchange for all of the equity of TD Holdings. The 7,367,001 shares of Grom Holdings's common stock issued were subject to a twelve-month restrictive period from the date of the transaction closing. The transaction closed effective July 1, 2016.

The Sellers were also entitled to receive $329,644 in post-closing cash payments for the excess working capital, as defined by the agreement, on TD Holdings' closing balance sheet. These amounts were subject to certain adjustments, and payable on demand after the transaction closing date. As of December 31, 2016, the excess working capital obligation was fully satisfied.

Additionally, the former stockholders will have the opportunity for contingent, earn-out payments of up to $5.0 million if certain revenue and EBITDA thresholds are achieved over the three-year post-closing period. The earn-out payments, if made, shall be payable 25% in cash and 75% in common stock. At December 31, 2016, no earn-out thresholds were achieved.

Fair Value of Consideration Transferred and Recording of Assets Acquired

The following table summarizes the acquisition date fair value of the consideration paid, identifiable assets acquired, and liabilities assumed including an amount for goodwill:

Consideration Paid:		
Cash and cash equivalents	$	3,500,000
Common stock, 7,367,001 shares of Grom common stock (includes the 417,000 Letter of Intent shares)		4,240,000
Senior, secured promissory notes, net of discount of $309,049		4,190,951
Working capital adjustment payable to sellers		329,644
Contingent purchase consideration		3,987,602
Fair value of total consideration	$	16,248,197
Recognized amount of identifiable assets acquired, and liabilities assumed:		
Financial assets:		
Cash and cash equivalents	$	1,024,424
Accounts receivables		693,406
Inventory		350,769
Prepaid and other assets		148,079
Property and equipment		405,191
Deferred tax assets		180,735
Identifiable intangible assets:		
Customer relationships		1,526,282
Non-compete agreements		846,638
Trade name		4,386,247
Financial liabilities:		
Accounts payable and accrued liabilities		(465,247)
Advance payments and deferred revenues		(697,752)
Other noncurrent liabilities		(254,631)
Total identifiable net assets		8,144,141
Goodwill		8,104,056
	$	16,248,197

In estimating the fair value of the common stock issued, the Company considered, among other factors, the recent volume and pricing of capital raise activities. The Company valued the common stock shares at $0.58 per share, which represents a 26% discount to the most recent issue price prior to the measurement date. The Company believes the discount represents a market participant perspective due to the large block and minimum six month holding period.

In determining the fair value of the promissory notes issued, the Company considered, among other factors, the market yields on debt securities depending on the time horizon and level of perceived risk of the specific investment. The Company arrived at an estimated market rate of 9.4% and calculated the present value of the $4.0 million promissory note and its related interest to be $3,690,951. As a result, the Company recorded a discount against the promissory notes of $309,049. The discount is being amortized using the effective interest method over the life of the notes. For the year ended December 31, 2016, the Company recorded $72,010 in interest expense related to the note discount. The remaining discount balance at December 31, 2016 was $237,039. For the nine-month period ended September 30, 2017, the Company recorded $108,803 in interest expense related to the note discount. The remaining discount balance at September 30, 2017, was $128,236.

The fair value of the contingent consideration was estimated using a lattice model. The forecast future up and down movements were estimated based on historical EBITDA volatility of 22.2% which includes the years 2013-2015 and the trailing twelve months ended June 30, 2016. The weighted average probability of each scenario was calculated and discounted to present value at the weighted average cost of capital to arrive at $3,987,602.

Goodwill represents the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. The goodwill arising from the acquisition is attributable to the value of the potential expanded market opportunity with new customers. The goodwill is not expected to be deductible for tax purposes.

In determining the purchase price allocation, the Company considered, among other factors, how a market participant would likely use the acquired assets. The estimated fair value of intangible assets was based on the income approach. The income approach requires a projection of the cash flow that the asset is expected to generate in the future. The projected cash flow is discounted to its present value using a rate of return, or discount rate, which accounts for the time value of money and the degree of risk inherent in the asset. The expected future cash flow that is projected should include all of the economic benefits attributable to the asset, including the tax savings associated with the amortization of the intangible asset value over the tax life of the asset. The income approach may take the form of a “relief-from-royalty” methodology, a cost savings methodology, a “with and without” methodology, or excess earnings methodology, depending on the specific asset under consideration.

The “relief-from-royalty” method was used to value the trade names acquired from TD Holdings. The “relief-from-royalty” method estimates the cost savings that accrue to the owner of an intangible asset that would otherwise be required to pay royalties or license fees on revenues earned through the use of the asset. The royalty rate used is based on an analysis of empirical, market-derived royalty rates for guideline intangible assets. Typically, revenue is projected over the expected remaining useful life of the intangible asset. The key assumptions in the prospective cash flows include a 11% compound annual sales growth rate over the five years period subsequent to the acquisition. The royalty rate is then applied to estimate the royalty savings. The key assumptions used in valuing the existing trade names acquired were as follows: royalty rate of 7.0%, discount rate of 13.8%, and a tax rate of 40.0%. The trade names are expected to be used indefinitely and the value includes a terminal value, based on a long-term sustainable growth rate of 2.0%, of the after-tax royalty savings determined using a form of the Gordon Growth model.

The fair value of customer relationships was valued using an income method. Net Operating Profit After Tax (“NOPAT”) per customer is a function of the gross profit margin of the Company, applicable contributory assets (i.e., working capital, fixed capital, work force, brand, IPR&D) charges, and the discount rate reflecting the riskiness of the asset under valuation. NOPAT per customer was used to estimate the value of the customer relationships. The key assumptions used include a revenue attrition rate of 35%, an income tax rate of 40%, and a discount rate of 13.8%.

The “with and without” method was used to value the non-compete agreement which will be amortized over three years. The key assumptions used include an income tax rate of 40%, and a discount rate of 13.8%.

Acquisition of NetSpective Webfiltering

On January 1, 2017, Grom Holdings acquired the assets of Netspective Webfilter, a division of TeleMate.net Software (the “Sellers”). Under the terms of the agreement, Grom Holdings paid $1.0 million in consideration in the form of a $1.0 million redeemable, convertible promissory note. The note bears interest at 0.68% per annum. All note principal and accrued interest is payable January 1, 2020. The note is convertible at the election of the Sellers into Grom’s common stock at a conversion rate of $0.78 per share. Furthermore, if not previously converted by the Sellers, the note may be converted by the Company into shares of Grom’s common stock at a rate of $0.48 per share commencing on November 1, 2019.

The Sellers will have the opportunity for contingent, earn-out payments of up to $362,500 if certain net cash flow thresholds are achieved during the one-year post-closing period. The earn-out payments, if made, shall be payable entirely in common stock.

Consideration Paid:		
Cash and cash equivalents	$	–
Common stock, 41,700 shares paid with letter of intent		32,500
Senior, secured promissory notes		1,000,000
Contingent purchase consideration		362,500
Fair value of total consideration	$	1,395,000

Recognized amount of identifiable assets acquired, and liabilities assumed:		
Financial liabilities:		
Deferred revenues		(521,735)
Goodwill		1,916,735
	$	1,395,000

The Company expects to perform a valuation study on this acquisition by December 31, 2017 to determine the level of intangible assets.

7. GOODWILL AND INTANGIBLE ASSETS

The following table sets forth the changes in the carrying amount of the Company's goodwill at September 30, 2017 and December 31, 2016:

Balance, January 1, 2016	$	–
Acquisition of TD Holdings Limited		8,104,056
Balance, December 31, 2016	$	8,104,056
Acquisition of Netspective Webfiltering		1,916,735
Balance, September 30, 2017	$	10,020,790

The following table sets forth the components of the Company's intangible assets at September 30, 2017 and December 31, 2016:

	September 30, 2017				December 31, 2016		
	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Intangible assets subject to amortization:							
Customer relationships	10.0	$ 1,526,282	(190,785)	1,335,497	$ 1,526,282	$ (76,314)	$ 1,449,968
Mobile software applications	2.0	282,500	(205,417)	77,083	282,500	(99,479)	183,021
Noncompete agreements	1.5	846,638	(705,532)	141,106	846,638	(282,213)	564,425
Subtotal		2,655,420	(1,101,734)	1,553,686	2,655,420	(458,006)	2,197,414
Intangible assets not subject to amortization:							
Trade names		4,386,247	–	4,386,247	4,386,247	–	4,386,247
Total intangible assets		$ 7,041,667	$ (1,101,734)	$ 5,939,933	$ 7,041,667	$ (458,006)	$ 6,583,661

The Company recorded amortization expense for intangible assets subject to amortization of $643,728 for the nine-month period ended September 30, 2017 and $458,006 during the year ended December 31, 2016.

8. OTHER ASSETS

Other assets are comprised solely of guarantee deposits which are refundable upon termination of contract or delivery of subject matter of the contract. These are initially recorded at cost which is the fair value at the time of transaction and are subsequently measured at amortized cost.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Trade payables are recognized initially at the transaction price and subsequently measured at the undiscounted amount of cash or other consideration expected to be paid. Accrued expenses are recognized based on expected amount required to settle the obligation or liability.

The following table sets forth the components of the Company's accrued liabilities at September 30, 2017 and December 31, 2016.

	September 30, 2017	December 31, 2016
Executive and employee compensation	843,265	815,480
Interest on convertible debentures and promissory notes	298,837	126,882
Other accrued expenses and liabilities	332,052	207,310
Total accrued liabilities	$ 1,474,154	$ 1,149,672

Accrued expenses include approximately $138,000 for an estimated compromise settlement relating to tax deductions against supplier invoices in the Philippines at TDA. The Company, in accordance with ASC 740-10, has determined that the recording of this amount is required because it is more likely than not that the tax will be assessed.

10. RELATED PARTY PAYABLES AND DONATED CAPITAL

In January 2016, Dr. Thomas J. Rutherford, a member of the Company's board of directors, purchased an unsecured, convertible note from Grom Holdings in the principal amount of $200,000. The note bears interest at a rate of 9% per year and is payable semi-annually. In connection with the issuance of the convertible note, Grom issued to Dr. Rutherford 69,501 shares of common stock as an inducement to lend. In November 2016, Dr. Rutherford voluntarily converted his note, including inducement costs and accrued interest totaling $23,000, into 309,973 shares of common stock.

Messrs. Darren Marks and Melvin Leiner, both officers of the Company, have made numerous loans to Grom to help fund operations. These loans are non-interest bearing and callable on demand. Neither Mr. Marks nor Mr. Leiner have any intention of calling these loans at present. The loan balances are classified as short-term obligations under Related Party Payables on the Company's balance sheet.

As of September 30, 2017, and December 31, 2016, the aggregate amount of loans made from the Company's executive officers through their family trusts were $1,624,351 and 1,301,251, respectively, for Mr. Marks; and $1,009,135 and 972,459, respectively, for Mr. Leiner

Mr. Marks' son Zach and his wife Sarah are employees of Grom. Their annual salaries are $90,000 and $35,000, respectively. His sons Luke and Jack, and daughter Caroline are also employed by Grom as independent contractors. Their annual fees are $18,000, $7,200 and $15,000, respectively.

During the nine months ended September 30, 2017 and the year ended December 31, 2016, the Company's two officers and Zach Marks each voluntarily agreed to defer portion of their salaries. As of September 30, 2017, and December 31, 2016 the group was collectively owed $646,088 and $623,953, respectively, in accrued salaries. See Note 9 – Accounts Payable and Accrued Liabilities.

11. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities are comprised solely of retirement benefit costs. The Philippine Republic Act (RA) No. 7641, mandates all private employers to provide retirement benefits to employees who upon reaching the age of sixty years or more, but not beyond sixty-five years, have served at least five years in the said establishment. The amount of retirement benefit was defined as "at least one-half month salary for every year of service, a fraction of at least six months being considered as one whole year".

The balance of the accrued retirement benefit cost, as of September 30, 2017 and December 31, 2016, amounted to $233,167 and $239,719, respectively. No retirement expense was recognized for the year ended December 31, 2016, as the acquired prior period liability still approximates the Company's retirement obligation.

12. DEBT

Unsecured, Convertible Debentures

The following tables set forth the components of the Company's unsecured, convertible debentures as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Principal value of convertible notes	$ 1,100,000	$ 225,000
Loan discounts	(12,208)	(36,683)
Total convertible notes, net	$ 1,087,792	$ 188,317

On January 1, 2017, the Company issued a three-year 0.68% redeemable convertible note of $1,000,000 in connection with the acquisition of the Netspective Webfiltering assets. All note principal and accrued interest is payable January 1, 2020. The note is convertible at the election of the noteholders into Grom's common stock at a conversion rate of $3.25 per share. Furthermore, if not previously converted by the noteholders, the note may be converted by the Company into shares of Grom's common stock at a rate of $2.00 per share commencing on November 1, 2019.

During the nine- month period ended September 30, 2017, the Company did not make any private placements of convertible debt. The Company, upon receiving formal notice from a noteholder, converted $17,500 in accrued interest into 24,434 shares of common stock. For the nine-month period ended September 30, 2017, the Company recorded $24,475 from the amortization of loan discount described below.

During the year ended December 31, 2016, the Company privately placed a series of unsecured, convertible debentures with accredited investors for gross proceeds of $2,705,600. The debentures carried an interest rate of 9% per annum, payable semiannually in cash, for a two-year term with fixed conversion prices ranging from $0.72 to $0.96 per share if converted within the first year of issuance or fixed conversion prices ranging from $1.20 to $1.44 if converted during the year following issuance.

In connection with the issuance of these convertible debentures, the Company issued to its noteholders an aggregate of 884,244 shares of common stock as an inducement to lend. These shares were valued at $667,332, with share prices ranging between $0.72 and $0.96 per share. The Company recorded the value of these shares as a loan discount to be amortized as interest expense over the term of the related convertible debentures. The remaining debt discount associated with these beneficial conversion features was $32,620 as of December 31, 2016. The related amortization expense was $215,427 for the year ended December 31, 2016.

All of the convertible debentures were analyzed at the time of their issuance for a beneficial conversion feature. In some instances, the Company concluded that a beneficial conversion feature existed. The beneficial conversion features were measured using the commitment-date stock price and were determined to aggregate $67,917. This amount is recorded as a debt discount and is amortized as interest expense over the term of the related convertible debentures. The remaining debt discount associated with these beneficial conversion features was $4,063 as of December 31, 2016. The related amortization expense was $22,891 for the year ended December 31, 2016.

During the year ended December 31, 2016, the Company converted, upon receiving formal notices from its noteholders, $2,480,600 in note principal, plus inducement costs and accrued interest totaling $233,029, into 3,771,928 shares of common stock. As a result of the conversions, the Company wrote off the corresponding unamortized loan discounts totaling $460,248 as a charge to interest expense.

At December 31, 2016, the number of shares of common stock underlying these convertible debentures totaled 312,750 shares.

The Company has analyzed the convertible debentures for derivative accounting consideration and determined that derivative accounting does not apply.

Senior, Secured Promissory Notes

The following tables set forth the components of the Company's senior, secured promissory notes at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Principal value of promissory notes	$ 4,040,000	$ 4,000,000
Loan discounts	(128,236)	(237,039)
Total promissory notes, net	$ 3,911,764	$ 3,762,961

On May 11, 2017, the Company issued a promissory note to an accredited investor. The note totaled $40,000 in principal, with an original issuance discount ("OID") of 20.0%, or $8,000. The note bears interest at a rate of 10.0% per annum, and is payable in full upon maturity on May 11, 2018.

At October 1, 2016, Grom owed $250,000 in principal on the second note to the former shareholders of TD Holdings. The Company negotiated an extension of terms through December 31, 2016 in exchange for 41,700 shares of Grom common stock. These shares were valued at $32,500, or $0.78 per share, and recorded as interest expense in the Company's consolidated financial statements. This promissory note obligation was fully satisfied as of December 31, 2016.

On July 1, 2016, the Company issued a secured promissory note to the shareholders of TD Holdings in connection with the closing of the TD Holdings acquisition. The note totaled $500,000, bears interest at 5.0% per annum and is due on the earlier of (i) October 1, 2016 or (ii) the date on which the Company successfully completes a qualified initial public offering as defined in the agreement. The note is also collateralized by all of the assets of TD Holdings.

On June 20, 2016, the Company issued a secured promissory note to the shareholders of TD Holdings in connection with the share sale agreement. The note totaled $4.0 million, bears interest at 5.0% per annum and is due on the earlier of (i) June 20, 2018 or (ii) the date on which the Company successfully completes a qualified initial public offering as defined in the agreement. The note is collateralized by all of the assets of TD Holdings.

Maturities of the Company's borrowings for each of the next five years are as follows:

2017	$	–
2018	$	4,265,000
2019	$	1,000,000
2020	$	–
2021	$	–

13. STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue 25,000,000 shares of preferred stock at a par value of $0.001. No shares of preferred stock were issued and outstanding as of either September 30, 2017 or December 31, 2016.

Common Stock

The Company is authorized to issue 200,000,000 shares of common stock at a par value of $0.001 and had 120,621,893 and 101,452,789 shares of common stock issued and outstanding as of September 30, 2017 and December 31, 2016, respectively.

Common Stock Issued and Warrants Exercised in Private Placements

During the nine-month period ended September 30, 2017, the Company issued 6,300,870 shares of common stock for proceeds of $1,511,000 under a series of stock warrant exercises with a share price of $0.24 per share.

During the year ended December 31, 2016, the Company issued 5,216,670 shares of common stock for proceeds of $1,251,000 under a series of stock warrant exercises with a share price of $0.24 per share.

During the year ended December 31, 2016, the Company issued 436,987 shares of common stock for proceeds of $340,076 under a series of private placement equity offerings with share prices ranging between $0.72 and $0.78 per share.

Common Stock Issued in Exchange for Consulting, Professional and Other Services

During the nine-month period ended September 30, 2017, the Company issued 851,931 shares of common stock with a fair market value of $663,975 to employees, officers and directors in lieu of cash payment. Additionally, the Company issued 1,597,965 shares of common stock with a fair value of $956,705 to consultants and other professionals in lieu of cash payments.

During the year ended December 31, 2016, the Company issued 543,030 shares of common stock with a fair market value of $343,225 to consultants and other professionals in lieu of cash payments.

Each share issuance made in exchange for services was valued based upon the private placement offering price of the Company's common stock in place on its respective date of award.

Common Stock Issued In lieu of Cash for Loans Payable and Other Accrued Obligations

During the nine months ended September 30, 2017, the Company issued 45,870 shares of common stock with a fair market value of $33,000 to satisfy loans payable and other accrued obligations.

During the year ended December 31, 2016, the Company issued 521,250 shares of common stock with a fair market value of $150,000 to satisfy loans payable and other accrued obligations.

Common Stock Issued in Connection with the Amendment of Terms of a Promissory Note

At October 1, 2016, Grom Holdings owed $250,000 in past due principal on a promissory note to the former shareholders of TD Holdings. Grom Holdings negotiated an extension of terms through December 31, 2016 in exchange for 41,700 shares of Grom's common stock. These shares were valued at $32,500, or $0.78 per share, and recorded as interest expense in the Company's consolidated financial statements. See Note 12 – Debt.

Common Stock Issued in Connection with the Issuance of Convertible Debentures

During the year ended December 31, 2016, the Company issued 884,244 shares of common stock with a fair market value of $667,332 to investors as an inducement to lend in connection with the issuance of its unsecured, convertible notes. The fair value of the shares was recorded as interest expense in the Company's consolidated financial statements. See Note 12 – Debt.

Common Stock Issued in the Acquisition of a Business

On July 1, 2016, the Company issued 7,617,201 shares of its common stock valued at approximately $0.58 per share, or $4,435,000, in connection with its acquisition of TD Holdings. See Note 6 – Business Combinations.

Common Stock Issued in the Acquisition of Intangible Assets

On August 26, 2016, the Company issued 208,500 shares of its common stock valued at $0.78 per share, or $162,500, in connection with its acquisition of the MamaBear mobile software application from GeoWaggle LLC.

Conversion of Convertible Debentures and Accrued Interest into Common Stock

During the year ended December 31, 2016, the Company converted, upon receiving formal instructions from its noteholders, $2,480,600 in note principal, plus inducement costs and accrued interest of $233,029, into 3,771,928 shares of common stock. See Note 12 – Debt.

Stock Purchase Warrants

The following table reflects all outstanding and exercisable warrants at September 30, 2017 and December 31, 2016. All stock warrants are exercisable for a period of approximately five years from the date of issuance.

	Number of Warrants Outstanding		**Weighted Avg. Exercise Price**	**Avg. Remaining Contractual Life (Yrs)**
Balance January 1, 2017	7,351,699	$	0.26	0.75
Warrants issued	567,166	$	1.50	2.25
Warrants exercised	(7,107,765)	$	0.24	
Warrants forfeited	(29,190)	$	0.24	
Balance September 30, 2017	781,910	$	1.36	2.63

14. COMMITMENTS AND CONTINGENCIES

Grom leases its principal offices in Boca Raton, Florida, at an annual base cost of approximately $33,168. The lease expires in October 31, 2018.

TD Holdings leases its principal offices in Manila, Philippines at an annual base cost of approximately $151,000. The lease is for a five-year term expiring on December 31, 2019. Lease payments escalate by 5% commencing in the second year. Further, the lease contract provides a renewal option that gives TD Holdings the right to extend the lease period on terms mutually agreed upon with the lessor.

15. RESTATEMENT OF FINANCIAL STATEMENTS

Our interim financial statements for the three and nine-month periods ended September 30, 2017, as previously filed as part of our Form 10-Q filed with the SEC on November 20, 2017 have been restated. The previously filed financial statements did not reflect the proper accounting treatment of the acquisition of Grom Holdings, Inc. by Illumination America, Inc. during the appropriate quarterly interim periods. The impact of this restatement on the Company's Balance Sheet, Income Statements for the three and nine-month periods ended September 30, 2017, and on the Statements of Cash Flows for the periods ended September 30, 2017 and 2016, are reflected in the tables below:

GROM SOCIAL ENTERPRISES INC.

Consolidated Balance Sheets

	As revised	As reported	As revised	As reported
	as of September 30, 2017		as of December 31, 2016	
ASSETS				
Current assets:				
Cash and cash equivalents	$ 712,319	$ 712,319	$ 443,494	$ 445,901
Accounts receivable, net	796,013	796,013	550,145	666,044
Inventory, net	407,389	407,389	390,931	390,931
Prepaid expenses and other current assets	310,267	310,267	142,208	144,820
Total current assets	2,225,988	2,225,988	1,526,778	1,647,696
Investment in subsidiary companies	–		–	
Accounts receivable, net -- noncurrent	–		–	
Property and equipment, net	514,392	514,392	559,538	559,538
Goodwill	10,020,790	10,020,790	8,104,056	8,104,056
Intangible assets, net	5,939,933	5,939,933	6,583,661	6,583,661
Deferred tax assets, net -- noncurrent	174,141	174,141	165,901	165,901
Other assets	64,585	64,585	45,704	49,023
Total assets	$ 18,939,829	$ 18,939,829	$ 16,985,638	$ 17,109,875
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$ 624,418	$ 624,418	$ 771,870	$ 996,897
Accrued liabilities	1,474,154	1,474,154	1,149,672	1,266,527
Advanced payments and deferred revenues	1,275,617	1,275,617	347,162	347,162
Senior secured promissory notes, net -- current	3,911,764	3,911,764	–	–
Related party payables	2,633,486	2,633,486	2,119,263	2,273,710
Income taxes payable	–	–	30,137	30,137
Total current liabilities	9,919,439	9,919,439	4,418,104	4,914,433
Convertible debentures, net of loan discounts	1,087,792	1,087,792	188,317	188,317
Senior secured promissory notes, net of loan discounts	–	–	3,762,961	3,762,961
Contingent purchase consideration	2,294,207	2,294,207	1,931,707	1,931,707
Other noncurrent liabilities	233,167	233,167	239,719	239,719
Total liabilities	13,534,605	13,534,605	10,540,808	11,037,137
Commitments and contingencies	–		–	
Stockholders' Equity:				
Preferred stock, $0.001 par value. 10,000,000 shares authorized; zero shares				
Common stock	120,622	36,888	101,454	34,594
Additional paid-in capital	45,907,035	49,136,475	41,195,941	43,758,354
Accumulated earnings (deficit)	(40,543,068)	(43,688,774)	(34,797,909)	(37,665,554)
Accumulated other comprehensive income	(79,365)	(79,365)	(54,656)	(54,656)
Total stockholders' equity	5,405,224	5,405,224	6,444,830	6,072,738
Total liabilities and equity	$ 18,939,829	$ 18,939,829	$ 16,985,638	$ 17,109,875
Shares outstanding	120,621,893	120,621,893	101,452,789	111,717,533

GROM SOCIAL ENTERPRISES INC.

Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

	As revised Three Months Ended September 30, 2017	As reported Three Months Ended September 30, 2017	As revised Three Months Ended September 30, 2016	As reported Three Months Ended September 30, 2016	As revised Nine Months Ended September 30, 2017	As reported Nine Months Ended September 30, 2017	As revised Nine Months Ended September 30, 2016	As reported Nine Months Ended September 30, 2016
Sales	$ 2,194,275	$ 2,371,776	$ 1,878,465	$ 1,973,595	$ 5,679,831	$ 6,021,400	$ 1,878,465	$ 2,485,453
Cost of goods sold	877,147	1,020,745	912,875	967,972	2,491,521	2,754,329	912,875	1,386,222
Gross margin	1,317,128	1,351,031	965,590	1,005,623	3,188,310	3,267,071	965,590	1,099,231
Operating expenses:								
Depreciation and amortization	282,748	282,748	273,152	273,152	844,294	844,294	312,402	312,402
Selling and marketing	88,388	88,388	70,658	71,277	201,359	207,177	211,726	225,750
General and administrative	1,723,103	1,755,164	1,047,430	1,168,773	3,880,628	4,106,232	2,219,615	2,552,833
Professional fees	277,918	298,698	305,479	365,107	1,305,579	1,430,148	846,868	1,055,191
Stock based compensation	413,475	413,475	3,989,777	3,989,777	2,376,835	2,376,835	6,992,551	6,992,551
Total operating expenses	2,785,632	2,838,473	5,686,496	5,868,086	8,608,695	8,964,686	10,583,162	11,138,727
Income (loss) from operations	(1,468,504)	(1,487,442)	(4,720,906)	(4,862,463)	(5,420,385)	(5,697,615)	(9,617,572)	(10,039,496)
Other income (expense)								
Interest income (expense), net	(322,551)	(322,551)	(315,108)	(315,259)	(530,132)	(530,963)	(580,938)	(581,104)
Other gains (losses)	179,969	165,929	17,058	(4,968)	205,358	205,358	17,201	17,201
Total other income (expense)	(142,582)	(156,622)	(298,050)	(320,227)	(324,774)	(325,605)	(563,737)	(563,903)
Income (loss) before income taxes	(1,611,086)	(1,644,064)	(5,018,956)	(5,182,690)	(5,745,159)	(6,023,220)	(10,181,309)	(10,603,399)
Provision for income taxes (benefit)	–	–	36,961	36,961	–	–	36,961	36,961
Net income (loss)	(1,611,086)	(1,644,064)	(5,055,917)	(5,219,651)	(5,745,159)	(6,023,220)	(10,218,270)	(10,640,360)
Basic and diluted earnings (loss) per common share	$ (0.01)	$ (0.01)	$ (0.05)	$ (0.05)	$ (0.05)	$ (0.06)	$ (0.11)	$ (0.10)
Weighted-average number of common shares outstanding:								
Basic and diluted	111,380,009	118,340,249	96,829,137	106,947,587	106,119,177	106,947,587	91,122,598	106,947,587
Comprehensive loss:								
Net income (loss)	$ (1,611,086)	$ (1,644,064)	$ (5,055,917)	$ (5,219,651)	$ (5,745,159)	$ (6,023,220)	$ (10,218,270)	$ (10,640,360)
Foreign currency translation adjustment	(24,709)	(9,639)	(270,542)	(270,542)	(24,709)	(24,709)	(270,542)	(270,542)
Comprehensive income (loss)	$ (1,635,795)	$ (1,653,703)	$ (5,326,459)	$ (5,490,193)	$ (5,769,868)	$ (6,047,929)	$ (10,488,812)	$ (10,910,902)

GROM SOCIAL ENTERPRISES INC.

Consolidated Statements of Cash Flows (Unaudited)

	As revised Nine Months Ended September 30, 2017	As reported Nine Months Ended September 30, 2017	As revised Nine Months Ended September 30, 2016	As reported Nine months Ended September 30 2015
Cash flows from operating activities of continuing operations:				
Net income (loss)	$ (5,745,159)	$ (6,023,220)	$ (10,218,270)	$ (10,640,360)
Adjustments to reconcile net loss to cash used in operating activities:				
Depreciation and amortization	844,294	844,294	445,874	445,874
Amortization of debt discount	141,278	141,278	352,508	352,508
Common stock issued for financing costs	17,499	17,499	–	–
Common stock issued in exchange for fees and services	956,705	956,705	235,250	235,250
Deferred taxes	(8,240)	(8,240)	(13,481)	(13,481)
Stock based compensation	2,376,835	2,376,835	6,992,551	6,992,551
Changes in operating assets and liabilities:				
Accounts receivable	(245,867)	(129,968)	59,092	52,551
Inventory	(16,458)	(16,458)	2,019	2,019
Prepaid expenses and other current assets	(200,558)	(197,946)	(38,516)	(34,148)
Other assets	(18,882)	(15,564)	(3,999)	(3,999)
Accounts payable	(74,775)	(279,478)	140,037	359,625
Accrued liabilities	318,547	207,625	(287,497)	(235,275)
Advanced payments and deferred revenues	406,721	406,721	57,204	57,204
Income taxes payable and other noncurrent liabilities	(36,689)	(36,689)	2,698	2,698
Related party payables	315,520	359,777	1,660,551	1,754,628
Net cash provided by (used in) operating activities	(969,229)	(1,396,829)	(613,979)	(672,355)
Cash flows from investing activities:				
Cash consideration for acquisition of business	–	–	(3,500,000)	(3,500,000)
Cash acquired in acquisition of business	182		1,024,424	
Purchase of intangible assets	–	–	–	(156,500)
Purchase of fixed assets	(155,420)	(155,420)	(249,283)	(249,283)
Net cash provided by (used in) investing activities	(155,238)	(155,420)	(2,724,859)	(3,905,783)
Cash flows from financing activities:				
Proceeds from issuance of common stock, net of issuance costs	–	–	336,827	443,960
Proceeds from donated capital	–	425,375	–	–
Proceeds from exercise of common stock purchase warrants, net of issuance costs	1,511,000	1,511,000	1,201,000	1,201,000
Proceeds from issuance of convertible debentures	–	–	2,655,600	2,655,600
Proceeds from issuance of senior, secured promissory notes	32,000	32,000	–	–
Repayments of convertible debentures	(125,000)	(125,000)	–	–
Repayments of loans payable	–	–	(250,000)	(250,000)
Net cash provided by (used in) financing activities	1,418,000	1,843,375	3,943,427	4,050,560
Effect of exchange rates on cash and cash equivalents	(24,708)	(24,708)	(270,274)	(270,175)
Net increase (decrease) in cash and cash equivalents	268,825	266,418	334,315	(797,753)
Cash and cash equivalents at beginning of period	443,494	445,901	3,090	1,135,187
Cash and cash equivalents at end of period	$ 712,319	$ 712,319	$ 337,405	$ 337,434
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ –		$ –	
Cash paid for income taxes	$ –		$ –	
Supplemental disclosure of non-cash investing and financing activities:				
Accretion of preferred stock	$ –		$ –	
Cancellation of promissory notes, accrued interest and other related payables	$ –		$ –	
Common stock issued related to acquisition of business	$ –		$ 4,240,000	4,240,000
Common stock issued with letter of intent to acquire a business	$ –		$ –	
Common stock issued related to acquisition of intangible assets	$ 60,000	$ 60,000	$ 162,500	162,500
Common stock issued for financing costs incurred in connection with convertible and promissory notes	$ –		$ 667,332	667,332
Common stock issued to reduce convertible and promissory notes payable	$ –		$ –	
Common stock issued to reduce accounts payable and other accrued liabilities	$ 33,000	$ 33,000	$ 150,000	150,000
Contingent purchase consideration	$ 362,500	$ 362,500	$ 3,987,602	3,987,602
Conversion of convertible debentures and accrued interest into common stock	$ –		$ 669,350	669,350
Debt issued related to acquisition of a business	$ 1,000,000	$ 1,000,000	$ 4,500,000	4,500,000
Discount for beneficial conversion features on convertible debentures	$ –		$ 67,917	67,917
Discount for fair value adjustment on promissory notes	$ –		$ 309,049	309,049

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations*****.**

The following discussion should be read in conjunction with our financial statements and notes thereto included herein. In connection with, and because we desire to take advantage of, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward-looking statements in the following discussion and elsewhere in this report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on our behalf. We disclaim any obligation to update forward looking statements.

Overview

Acquisition of Grom Holdings, Inc.

Effective August 17, 2017, Grom Social Enterprises, Inc. (the "Company", "Grom" "we", "us"), a Florida corporation f/k/a Illumination America, Inc. ("Illumination"), consummated the acquisition of Grom Holdings, Inc. ("Grom Holdings"). Pursuant to the terms of the share exchange agreement dated May 15, 2017, the Company amended its articles of incorporation to increase its capitalization to 200,000,000 shares of common stock authorized, as well as to change its name to "Grom Social Enterprises, Inc." Further, the Company issued an aggregate of 110,853,883 shares of its common stock to the Grom Holdings shareholders, pro rata to their respective ownership. Each share of Grom Holdings was exchanged for 4.17 shares of Illumination common stock. As a result, the stockholders of Grom Holdings are now stockholders of the Company; and the Grom shareholders own approximately 92% of our issued and outstanding shares of common stock.

The acquisition was deemed a reverse acquisition in accordance with FASB ASC 805-40, *"Reverse Acquisitions"*. The legal acquirer is Illumination and the legal acquiree is Grom Holdings. However, the transaction was accounted for as a recapitalization effected by a share exchange, wherein Grom Holdings is considered the acquirer for accounting and financial reporting purposes. The assets and liabilities of the acquired entity have been brought forward at their book value and no goodwill has been recognized.

As a result of the acquisition of Grom Holdings, Inc. the Company now operates its business through five wholly-owned subsidiaries, including:

- Grom Social which operates our social media network designed for children;
- TD Holdings and its subsidiary companies, Top Draw Animation Hong Kong and Top Draw Animation, Inc. The group's principal activities, based in Manila, Philippines, are the production of animated films;
- Grom Educational Services which operates our NetSpective WebFiltering services that are provided to schools and libraries;
- Grom Nutritional Services which was established to market and distribute a product line of nutritional supplement beverages formulated for children, and
- Illumination America Lighting, which operates the lighting distribution business that was Illumination America, Inc.'s principal business prior to the Grom Holdings acquisition.

Retroactive Application of the Share Exchange Ratio

All references to common share totals or values in this Form 10-Q, unless otherwise stated have been retroactively adjusted to reflect a share exchange ratio of 4.17 pursuant to the terms of the share exchange agreement dated May 15, 2017 described above..

Our executive offices are located at 2060 NW 2nd Avenue, Suite 6, Boca Raton, FL 33431, telephone (561)-287-5776. Our website address is www.gromsocial.com.

Results of Operations

Comparison of Results of Operations for the Three Months Ended September 30, 2017 and 2016

Revenue

During the three-month period ended September 30, 2017, we generated revenues of $2,194,275, as compared to revenues of $1,878,465 during the three-month period ended September 30, 2016, an increase of $315,810, or 16.8%. This increase is primarily attributable to (i) the inclusion of $195,313 in revenue from web filtering services generated by GES, which was acquired on January 1, 2017, as compared to zero in the comparable period in the prior year and (ii) an increase in revenue of $115,494 from TD Holdings.

Subscription and advertising based revenues generated by our Grom Social children's social media website and our MamaBear safety application for the three-month period ended September 30, 2017 were nominal.

Gross margin

Gross margin is calculated by subtracting cost of sales from revenue. Gross margin percentage is calculated by dividing gross margins by revenue. Our gross margins vary significantly by subsidiary. Margins at our largest subsidiary, TD Holdings are approximately 45-55%; margins for our web filtering revenues are typically in the 75-78% range; and margins at our lighting business have historically been between 12-18%. Our consolidated blended gross margin may be subject to fluctuation from period to period as we continue to grow our businesses. Current gross margins percentages may not be indicative of future gross margin performance.

Gross margin for the three-month periods ended September 30, 2017 and 2016 was 60.0% and 51.4%, respectively. The increase in gross margin for the three months ended September 30, 2017 as compared to the comparable prior year period, is primarily attributable to the inclusion of the current year operating results from our web filtering services.

Operating expenses

During the three-month period ended September 30, 2017, operating expenses were $2,785,632 as compared to operating expenses of $5,686,496 incurred during the three-month period ended September 30, 2016, a decrease of 2,900,864 or 51.0%. The principal reasons for the decrease in operating expenses was attributable to a decrease in stock based compensation from $3,989,777 in 2016 to $413,475 in 2017; offset by an increase in general and administrative expenses of $675,673 in the three-month period ended September 30, 2017 as compared to the same period in 2016.

This increase in general and administrative expenses is primarily attributable to the inclusion of approximately $284,000 in expenses incurred by our web filtering business as compared to zero in the prior period, and an increase of approximately $394,000 in expenses at TD Holdings. The change in expenses at TD Holdings are attributable to additional payroll and facility costs required to expand its operations in anticipation of higher revenues in 2018.

Interest Expense

Interest expense is comprised of interest incurred on the Company's $4,000,000 promissory note issued to the sellers of TD Holdings, as well as, interest incurred on the Company's convertible notes outstanding, and the amortization of certain loan discounts. Interest expense was $332,551 for the three-month period ended September 30, 2017, as compared to $315,259 during the same period ended September 30, 2016.

Other Income

Other income was $179,969 for the three months ended September 30, 2017, as compared to $17,508 for the three months ended September 30, 2016. The increase is attributable to royalty income at TD Holdings on film projects. These royalties are not expected to occur at current levels in future periods.

Net loss

As a result of the above, we incurred a net loss of ($1,611,086) during the three-month period ended September 30, 2017, or ($0.01) per share, as compared to a net loss of ($5,055,917) or ($0.05) per share incurred during the three-month period ended September 30, 2016.

Comparison of Results of Operations for the Nine Months Ended September 30, 2017 and 2016

Revenue

During the nine-month period ended September 30, 2017, we generated revenues of $5,679,831, as compared to revenues of $1,878,465 during the nine-month period ended September 30, 2016, an increase of $3,801,366, or 202.4%. This increase is primarily attributable to the inclusion of nine months of revenue totaling $4,991,798 for TD Holdings in 2017, as compared to just three months of revenue in 2016 totaling $1,877,703 since TD Holdings was acquired on July 1, 2016. The increase also reflects the inclusion of $674,569 in web filtering service revenues generated in 2017 by GES, as compared to zero during the prior year period.

We are currently working on plans to monetize our Grom Social database, consisting of approximately twelve million children, parents and guardians, for 2018 through the generation of advertising, merchandising and subscription based revenues. However, we can offer no assurances that we will be successful in generating any such revenues.

Gross margin

Gross margin is calculated by subtracting cost of sales from revenue. Gross margin percentage is calculated by dividing gross margins by revenue. Our gross margins vary significantly by subsidiary. Margins at our largest subsidiary, TD Holdings are approximately 45-55%; margins for our web filtering revenues are typically in the 75-78% range; and margins at our lighting business have historically been between 12-18%. Our consolidated blended gross margin may be subject to fluctuation from period to period as we continue to grow our businesses. Current gross margins percentages may not be indicative of future gross margin performance

Gross margin for the nine-month periods ended September 30, 2017 and 2016 were 56.1% and 51.4%, respectively. The increase in gross margin is primarily attribute to the inclusion of from the current year operating results from our web filtering services, and nine months of gross margins at TD Holdings in 2017 compared to just three months in the 2016 period.

Operating expenses

During the nine-month period ended September 30, 2017, operating expenses were $8,608,695, as compared to operating expenses of $10,583,162 incurred during the nine-month period ended September 30, 2016, a decrease of $1,974,467 or 18.7% The principal reasons for the decrease in operating expenses was primarily attributable to a decrease in stock based compensation from $6,992,551 in 2016 to $2,376,835 in 2017; offset by an increase in general and administrative expenses of $1,661,013 in the nine month period ended September 30, 2017 as compared to the same period in 2016.

This increase in general and administrative expenses is primarily attributable to the inclusion of approximately $598,000 in expenses incurred by our web filtering business as compared to zero in the prior year period, and an increase of approximately $1,192,000 in expenses from TD Holdings due to the inclusion of nine months of operations in 2017 as compared to just three months during 2016.

Interest Expense

Interest expense is comprised of cash interest payable on the Company's $4,000,000 promissory note issued to the sellers of TD Holdings, as well as interest incurred on the Company's convertible notes outstanding, and amortization of certain loan discounts. Interest expense was $530,132 for the nine-month period ended September 30, 2017 compared to $580,938 during the same period ended September 30, 2016. The decrease is attributable to a reduction in interest expense related to convertible notes.

Other Income

Other income was $205,358 for the three months ended September 30, 2017, as compared to $17,201 in the prior year period. The increase is attributable to royalty income at TD Holdings on film projects. These royalties are not expected to occur at current levels in future period.

Net loss

As a result of the above, we incurred a net loss of ($5,745,1591) during the nine-month period ended September 30, 2017, or ($0.05) per share, as compared to a net loss of ($10,218,270), or $(0.11) per share, incurred during the nine-month period ended September 30, 2016.

Liquidity and Capital Resources

At September 30, 2017, we had $712,319 in cash.

During the nine-month period ended September 30, 2017 net cash used in operating activities was $969,229 compared to a net cash used of $613,979 during the same nine-month period in 2016. The increase in net cash used of $355,250 is primarily attributable to an increase in net operating losses less stock based compensation of approximately $142,000 in 2017 compared to the same period in 2016; and due to a net decrease in operating assets and liabilities of approximately $213,000 in 2017 compared to 2016.

Net cash used in investing activities decreased from $2,724,859 for the nine-month period ended September 30, 2016 to 155,238 during the nine-month period ended September 30, 2017. The decrease is primarily attributable to acquisition activity in 2016 where the Company invested $3,500,000 to acquire TDA, less cash acquired at TDA of $1,024,424.

Net cash provided by financing activities was $1,418,000 for the nine-month period ended September 30, 2016 compared to $3,943,427 for the same nine-month period ended September 30, 2016. The decrease in financing activities of approximately $2,525,427 is due to a reduction of $2,655,600 in the issuance of convertible debenture from 2016 to 2017.

Our consolidated financial statements have been prepared assuming we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business for the twelve-month period following the date of these financial statements. We have incurred annual losses since inception and expect we may have incur additional losses in future periods. Additionally, as of September 30, 2017 excluding related party payables to our officers and principal shareholders which are not anticipated to be paid for the foreseeable future, we had a working capital deficit of $5,059,965.

We currently have a consolidated cash operating loss of approximately $125,000. In order to fund our operations we believe we will be required to raise approximately $1.5 million. As of the date of this report we have no commitment from any investment banker or other traditional funding sources and, while we have had discussions with various potential funding sources, we have no definitive agreement with any third party to provide us with financing, either debt or equity. The failure to obtain the financing necessary to allow us to continue to implement our business plan will have a significant negative impact on our anticipated results of operations.

In addition, we have started discussions with potential lenders to refinance the $4.0 million Seller's Note maturing on July 11, 2018 applicable to the acquisition of TH Holdings. While we are optimistic that we will obtain this additional debt financing in a timely manner, as of the date of this report we have no agreement with any third party to provide us with this financing and there are no assurances that we will reach an agreement with any third party to provide us with the same. The failure to obtain this debt financing in a timely fashion will have a significant, negative impact upon our business and future operations.

We expect to reduce our monthly cash operating loss through improved profitability. There can be no assurance we will be successful. Historically we have successfully funded our losses through equity issuances, debt issuance and through officer loans. We expect to be able to continue to fund our operating losses in a similar manner and believe that we can secure capital on reasonable terms although there can be no assurances.

Inflation

Although our operations are influenced by general economic conditions, we do not believe that inflation had a material effect on our results of operations during the nine-month period ended September 30, 2017.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2017 and December 31, 2016.

Critical Accounting Estimates

Our financial statements and accompanying notes have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. We continually evaluate the accounting policies and estimates used to prepare the financial statements. The estimates are based on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management. Certain accounting policies that require significant management estimates and are deemed critical to our results of operations or financial position are discussed in our 2016 Form 10-K, Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*.

Not applicable

Item 4. *Controls and Procedures*.

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we have carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2017. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer. Based on this evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of September 30, 2017 at reasonable assurance levels.

Inherent Limitations – Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all error 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. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. 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 our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake. In particular, many of our current processes rely upon manual reviews and processes to ensure that neither human error nor system weakness has resulted in erroneous reporting of financial data.

We believe that our financial statements presented in this quarterly report on Form 10-Q fairly present, in all material respects, our financial position, results of operations, and cash flows for the period presented herein.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the last quarterly period covered by this report that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. *Legal Proceedings.*

We are not a party to any legal proceeding that we believe will have a material adverse effect upon our business or financial position and no such action has been threatened.

Item 1A. *Risk Factors.*

As a smaller reporting company, we are not required to provide the information required by this Item.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds.*

During the nine-month period ended September 30, 2017, we sold 567,166 units to nine “accredited” investors at a price of $0.75 per unit and received aggregate proceeds of $425,375. Each unit consisted of one share of common stock and one common stock purchase warrant exercisable to purchase one share of common stock at an exercise price of $1.50 per warrant.

Item 3. *Defaults upon Senior Securities.*

None.

Item 4. *Mine Safety Disclosures.*

Not applicable.

Item 5. *Other Information.*

None.

Item 6. *Exhibits.*

31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Chief Executive Officer and Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Date: February 20, 2018

By: /s/ Darren Marks
Darren Marks
Chief Executive Officer

Exhibit 31.1

CERTIFICATION PURSUANT TO
18 USC, SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Darren Marks, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Grom Social Enterprises, Inc.;

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 in order 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(s) 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 controls 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 procedure 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 upon 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 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(s) 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.

Dated: February 20, 2018

/s/ Darren Marks
Darren Marks, Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
18 USC, SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Melvin Leiner, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Grom Social Enterprises, Inc.;

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 in order 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(s) 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 controls 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 procedure 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 upon 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 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(s) 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.

Dated: February 20, 2018

/s/ Melvin Leiner
Melvin Leiner, Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 USC, SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this quarterly report of Grom Social Enterprises, Inc. (the “Company”) on Form 10-Q/A for the nine month period ended September 30, 2017, as filed with the Securities and Exchange Commission on November 20, 2017 (the “Report”), we, the undersigned, in the capacities and on the date indicated below, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

1. The Report fully complies with the requirements of Rule 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.

Dated: February 20, 2018

/s/ Darren Marks
Darren Marks, Chief Executive Officer

Dated: February 20, 2018

/s/ Melvin Leiner
Melvin Leiner, Chief Financial Officer