

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## Grom Social Enterprises, Inc.

**Form: 10-Q**

**Date Filed: 2020-08-06**

Corporate Issuer CIK: 1662574

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2020

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act

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)

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

2060 NW Boca Raton Blvd. #6, Boca Raton, Florida

33431

(Address of principal executive offices)

(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Not applicable	Not applicable	Not applicable

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

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

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

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

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

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

As of August 5, 2020, 185,089,355 shares of the registrant's common stock were outstanding.

GROM SOCIAL ENTERPRISES, INC.

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## EXPLANTORY NOTE

On March 4, 2020, the Securities and Exchange Commission (the “SEC”) issued an order (as modified on March 25, 2020, the “SEC Order”), providing conditional relief to public companies that are unable to timely comply with their filing obligations as a result of the outbreak of the novel coronavirus (“COVID-19”). On May 15, 2020, Grom Social Enterprises, Inc., a Florida corporation (the “Company”), elected to rely on the conditional filing relief provided under the SEC Order by filing a Current Report on Form 8-K to obtain 45 additional days within which to file its Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (the “Form 10-Q”). The filing of this Form 8-K effectively moved the due date for the filing of the Form 10-Q to June 29, 2020. At the expiration of the additional 45-day period, the Company was still unable to file the Form 10-Q, because it needed additional time to complete certain disclosures and analyses to be included in the Form 10-Q due to the ongoing impact of COVID-19. Therefore, the Company filed a Notification of Late Filing on Form 12b-25 to obtain the additional five-day extension for the filing of the Form 10-Q to July 6, 2020. Unfortunately, due the continued effects of COVID-19, the Company was still not able to file the Form 10-Q at that time.

### CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements 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:

- adverse economic conditions;
- the Company’s ability to raise capital to fund 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 Company’s ability to attract and retain qualified senior management and technical personnel;
- the continued effect of the Covid-19 pandemic on the Company’s operations; and
- other risks and uncertainties related to the social media, animation services, nutritional products, and web filtering services marketplace and our business strategy.

These forward-looking statements represent our intentions, plans, expectations, assumptions, and beliefs about future events and are subject to risks, uncertainties and other factors. Considering these risks, uncertainties, and assumptions, the events described in the forward-looking statements may not occur or may occur to a different extent or at a different time than we have described.

All forward-looking statements speak only as of the date of this Report. Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, or other information contained herein, whether as a result of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise. We caution you therefore that you should not rely on any of these forward-looking statements as statements of historical fact or as guarantees or assurances of future performance.

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**GROM SOCIAL ENTERPRISES INC.**  
Condensed Consolidated Balance Sheets (Unaudited)

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 834,335	\$ 506,219
Accounts receivable, net	548,126	545,662
Inventory, net	30,528	29,562
Prepaid expenses and other current assets	375,957	329,128
<b>Total current assets</b>	<b>1,788,946</b>	<b>1,410,571</b>
Operating lease right of use assets	806,313	874,159
Property and equipment, net	768,176	852,145
Goodwill	8,853,261	8,853,261
Intangible assets, net	5,856,526	5,953,255
Deferred tax assets, net -- noncurrent	237,539	238,581
Other assets	72,461	79,065
<b>Total assets</b>	<b>\$ 18,383,222</b>	<b>\$ 18,261,037</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 786,913	\$ 808,520
Accrued liabilities	1,845,989	1,651,482
Advanced payments and deferred revenues	1,069,927	627,082
Convertible notes, net -- current	1,699,632	4,828,656
Derivative liabilities	78,351	77,584
Related party payables	384,762	462,137
<b>Total current liabilities</b>	<b>5,865,574</b>	<b>8,455,461</b>
Convertible notes, net of loan discounts	3,679,384	505,000
Lease liabilities	830,537	896,350
Other noncurrent liabilities	226,076	227,229
<b>Total liabilities</b>	<b>10,601,571</b>	<b>10,084,040</b>
Commitments and contingencies	–	–
Stockholders' Equity:		
Preferred stock, \$0.001 par value. 10,000,000 shares authorized; 925,000 and zero shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	925	925
Common stock, \$0.001 par value. 500,000,000 shares authorized; 178,666,260 and 167,382,807 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	178,666	167,383
Additional paid-in capital	59,061,481	58,154,730
Accumulated earnings (deficit)	(51,395,315)	(50,048,481)
Accumulated other comprehensive income	(64,106)	(97,560)
<b>Total stockholders' equity</b>	<b>7,781,651</b>	<b>8,176,997</b>
<b>Total liabilities and equity</b>	<b>\$ 18,383,222</b>	<b>\$ 18,261,037</b>

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

**GROM SOCIAL ENTERPRISES INC.**

Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

	<u>Three Months Ended</u> <u>March 31,</u> <u>2020</u>	<u>Three Months Ended</u> <u>March 31,</u> <u>2019</u>
Sales	\$ 1,292,239	\$ 1,966,860
Cost of goods sold	612,093	814,502
Gross profit	680,146	1,152,358
Operating expenses:		
Depreciation and amortization	195,965	222,428
Selling and marketing	34,317	28,099
General and administrative	1,449,348	1,519,720
Professional fees	52,718	290,769
Stock based compensation	16,200	16,200
Total operating expenses	1,748,548	2,077,216
Income (loss) from operations	(1,068,402)	(924,858)
Other income (expense)		
Interest income (expense), net	(277,763)	(376,160)
Gain (loss) on settlement of debt	-	(363,468)
Unrealized gain (loss) on change in fair value of derivative liabilities	(767)	-
Other gains (losses)	98	20,847
Total other income (expense), net	(278,432)	(718,781)
Net income (loss)	(1,346,834)	(1,643,639)
Convertible preferred stock beneficial conversion feature and other discounts accreted as a deemed dividend	-	644,205
Net loss attributable to common stockholders	\$ (1,346,834)	\$ (2,287,844)
Basic and diluted earnings (loss) per common share	\$ (0.01)	\$ (0.02)
Weighted-average number of common shares outstanding:		
Basic and diluted	168,649,145	140,020,849
Comprehensive loss:		
Net income (loss)	\$ (1,346,834)	\$ (1,643,639)
Foreign currency translation adjustment	33,454	11,104
Comprehensive income (loss)	\$ (1,313,380)	\$ (1,632,535)

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

**GROM SOCIAL ENTERPRISES INC.**  
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Value	Shares	Value				
Balance, December 31, 2018	—	\$ —	138,553,655	\$ 138,554	\$ 52,254,286	\$ (45,457,207)	\$ (153,254)	\$ 6,782,379
Net income (loss)	—	—	—	—	—	(1,643,639)	—	(1,643,639)
Change in foreign currency translation	—	—	—	—	—	—	11,104	11,104
Issuance of Series A preferred stock with common stock in connection with sales made under private offerings	800,000	800	—	—	354,795	—	—	355,595
Issuance of common stock in connection with sales of Series A preferred stock	—	—	4,000,000	4,000	440,405	—	—	444,405
Beneficial conversion feature related to preferred stock	—	—	—	—	199,800	—	—	199,800
Deemed dividend on conversion of convertible preferred stock to common stock	—	—	—	—	(199,800)	—	—	(199,800)
Accretion of Series A preferred stock	—	—	—	—	440,405	—	—	440,405
Deemed dividend on accretion of Series A preferred stock	—	—	—	—	(440,405)	—	—	(440,405)
Issuance of common stock in exchange for consulting, professional and other services	—	—	1,377,338	1,377	348,268	—	—	349,645
Issuance of common stock in lieu of cash for loans payable and other accrued obligations	—	—	99,720	100	26,840	—	—	26,940
Issuance of common stock in connection with the amendment of terms of promissory note(s)	—	—	800,000	800	219,200	—	—	220,000
Balance, March 31, 2019	800,000	\$ 800	144,830,713	\$ 144,831	\$ 53,643,794	\$ (47,100,846)	\$ (142,150)	\$ 6,546,429

**GROM SOCIAL ENTERPRISES INC.**

Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited) (continued)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Value	Shares	Value				
Balance, December 31, 2019	925,000	\$ 925	167,382,807	\$ 167,383	\$ 58,154,730	\$ (50,048,481)	\$ (97,560)	\$ 8,176,997
Net income (loss)	-	-	-	-	-	(1,346,834)	-	(1,346,834)
Change in foreign currency translation	-	-	-	-	-	-	33,454	33,454
Issuance of common stock in exchange for consulting, professional and other services	-	-	2,404,153	2,404	238,101	-	-	240,505
Issuance of common stock in lieu of cash for accounts payable, loans payable and other accrued obligations	-	-	500,000	500	49,500	-	-	50,000
Issuance of common stock in connection with the issuance of convertible debenture(s)	-	-	8,120,000	8,120	560,280	-	-	568,400
Conversion of convertible notes and accrued interest into common stock	-	-	259,300	259	14,741	-	-	15,000
Recognition of beneficial conversion features related to convertible notes	-	-	-	-	44,129	-	-	44,129
Balance, March 31, 2020	925,000	\$ 925	178,666,260	\$ 178,666	\$ 59,061,481	\$ (51,395,315)	\$ (64,106)	\$ 7,781,651

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

**GROM SOCIAL ENTERPRISES INC.**  
Condensed Consolidated Statements of Cash Flows (Unaudited)

	<b>Three Months Ended March 31, 2020</b>	<b>Three Months Ended March 31, 2019</b>
<b>Cash flows from operating activities of continuing operations:</b>		
Net income (loss)	\$ (1,346,834)	\$ (1,643,639)
<b>Adjustments to reconcile net loss to cash used in operating activities:</b>		
Depreciation and amortization	195,965	222,428
Amortization of debt discount	91,746	147,875
Common stock issued in exchange for fees and services	240,505	349,645
Deferred taxes	1,042	(2,658)
Stock based compensation	16,200	16,200
Loss on extinguishment of debt	–	363,468
Unrealized (gain) loss on change in fair value of derivative liabilities	767	–
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(2,464)	366,631
Inventory	(966)	517
Prepaid expenses and other current assets	(63,029)	(138,456)
Operating lease right of use assets	24,205	5,548
Other assets	6,605	40,237
Accounts payable	(21,676)	(16,126)
Accrued liabilities	249,506	5,678
Advanced payments and deferred revenues	442,844	(75,197)
Income taxes payable and other noncurrent liabilities	(1,153)	(38,705)
Related party payables	(77,375)	(154,216)
Net cash provided by (used in) operating activities	(244,112)	(550,770)
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(15,267)	(105,241)
Net cash provided by (used in) financing activities	(15,267)	(105,241)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of preferred stock, net of issuance costs	–	356,395
Proceeds from issuance of common stock, net of issuance costs	–	443,605
Proceeds from issuance of convertible notes	3,655,000	–
Repayments of convertible notes	(3,078,857)	(26,286)
Net cash provided by (used in) financing activities	576,143	773,714
Effect of exchange rates on cash and cash equivalents	11,352	11,204
Net increase (decrease) in cash and cash equivalents	328,116	128,907
Cash and cash equivalents at beginning of period	506,219	633,593
Cash and cash equivalents at end of period	\$ 834,335	\$ 762,500
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ –	\$ 67,073
Cash paid for income taxes	\$ –	\$ –
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Common stock issued for financing costs incurred in connection with convertible and promissory notes	\$ 568,400	\$ –
Common stock issued to reduce convertible and promissory notes payable	\$ –	\$ –
Common stock issued to reduce accounts payable and other accrued liabilities	\$ 50,000	\$ 26,940
Conversion of convertible notes and accrued interest into common stock	\$ 15,000	\$ –
Discount for beneficial conversion features on convertible notes	\$ 44,129	\$ –

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

**1. NATURE OF OPERATIONS**

Grom Social Enterprises, Inc. (the “Company”, “Grom” “we”, “us” or “our”), a Florida corporation f/k/a Illumination America, Inc. (“Illumination”), is a media, technology and entertainment company that focuses on delivering content to children under the age of 13 years in a safe secure platform that is compliant with the Children’s Online Privacy Protection Act (“COPPA”) and can be monitored by parents or guardians.

The Company operates its business through the following four wholly-owned subsidiaries:

- Grom Social, Inc. (“Grom Social”) was incorporated in the State of Florida on March 5, 2012 and operates the Company’s social media network designed for children under the age of 13 years.
- TD Holdings Limited (“TD Holdings”) was incorporated in Hong Kong on September 15, 2005. TD Holdings operates through its two subsidiary companies: (i) Top Draw Animation Hong Kong Limited (“TDAHK”), a Hong Kong corporation and (ii) Top Draw Animation, Inc. (“Top Draw” or “TDA”), a Philippines corporation. The group’s principal activities are the production of animated films and televisions series.
- Grom Educational Services, Inc. (“GES”) was incorporated in the State of Florida on January 17, 2017. GES operates the Company’s web filtering services provided to schools and government agencies.
- Grom Nutritional Services, Inc. (“GNS”) was incorporated in the State of Florida on April 19, 2017. GNS intends to market and distribute nutritional supplements to children. GNS has not generated any revenue since its inception.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Going Concern

The accompanying unaudited condensed 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 the sale of common stock or other securities and obtaining some short-term loans in order to fund its operations.

Impact of COVID-19

On January 30, 2020, the World Health Organization announced a global health emergency because of the spread of a new strain of the novel coronavirus (“COVID-19”). On March 11, 2020, the World Health Organization declared the outbreak of COVID-19, a global pandemic. COVID-19 has and continues to significantly affect the United States and global economies.

The Company has experienced significant disruptions to its business and operations due to circumstances related to COVID-19, and as a result of delays caused government-imposed quarantines, office closings and travel restrictions, which affect both the Company’s and its service providers. The Company has significant operations in Manila, Philippines, which was locked down by the government on March 12, 2020 due to concerns related to the spread of COVID-19. As a result of the Philippines government’s call to contain COVID-19, the Company’s animation studio, located in Manila, Philippines, which accounts for approximately 90% of the Company’s total revenues on a consolidated basis, has been closed.

In response to the outbreak and business disruption, the Company has instituted employee safety protocols to contain the spread, including domestic and international travel restrictions, work-from-home practices, extensive cleaning protocols, social distancing and various temporary closures of its administrative offices and production studio. The Company has implemented a range of actions aimed at temporarily reducing costs and preserving liquidity.

The outbreak has and may continue to spread, which could materially impact the Company's business. The full extent of potential impacts on the Company's business, financing activities and the global economy will depend on future developments, which cannot be predicted due to the uncertain nature of the continued COVID-19 pandemic, government mandated shut downs, and its adverse effects, including new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others. These effects could have a material adverse impact on the Company's business, operations, financial condition and results of operations.

#### Management's Representation of Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The Company uses the same accounting policies in preparing quarterly and annual financial statements. Certain information and footnote 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 condensed 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 condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto at December 31, 2019, as presented in the Company's Annual Report on Form 10-K filed on June 30, 2020 with the SEC.

#### Basis of Presentation

The condensed consolidated financial statements of the Company have been prepared in accordance with GAAP and are expressed in United States dollars. For the three months ended March 31, 2020, the condensed 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 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

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance provided in Accounting Standards Codification ("ASC") Topic 606 ("ASC 606") requires entities to use a five-step model to recognize revenue by allocating the consideration from contracts to performance obligations on a relative standalone selling price basis. Revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. The standard also requires new disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASC 606 also includes Subtopic 340-40, *Other Assets and Deferred Costs – Contracts with Customers*, which requires the deferral of incremental costs of obtaining a contract with a customer. This new guidance was initially effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016 and early adoption was not permitted. However, in July 2015, the FASB voted to defer the effective date of this ASU by one year for reporting periods beginning after December 15, 2017, with early adoption permitted as of the original effective date. As a result, the effective date for the Company is January 1, 2018.

Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. The Company adopted this ASU in accordance with the modified retrospective method, effective January 1, 2018 for all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP.

Under the applicable revenue recognition guidance for fiscal 2017 and prior years, these transactions were recognized when the amounts were billed to the customer.

As a result of the Company's transition to ASC 606, the Company recorded a net change in beginning retained earnings of \$263,741 on January 1, 2018 due to the cumulative effect of adopting ASC 606.

#### Animation Revenue

For the three months ended March 31, 2020 and 2019, the Company recorded a total of \$1,153,236 and \$1,793,763, respectively, of animation revenue from contracts with customers.

Animation revenue is primarily generated from contracts with customers for preproduction and production services related to the development of animated movies and television series. Preproduction activities include producing storyboards, location design, model and props design, background color and color styling. Production focuses on library creation, digital asset management, background layout scene assembly, posing, animation and after effects. The Company provides services under fixed-price contracts. Under fixed-price contracts, the Company agrees to perform the specified work for a pre-determined price. To the extent actual costs vary from estimated costs, the Company's profit may increase, decrease, or result in a loss.

The Company identifies a contract under ASC 606 once (i) it is approved by all parties, (ii) the rights of the parties are identified, (iii) the payment terms are identified, (iv) the contract has commercial substance, and (v) collectability of consideration is probable.

The Company evaluates the services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. The services in the Company's contracts are distinct from one another as the referring parties typically can direct all, limited, or single portions of the various preproduction and production activities required to create and design and entire episode to us and we therefore have a history of developing standalone selling prices for all of these distinct components. Accordingly, our contracts are typically accounted for as containing multiple performance obligations.

The Company determines the transaction price for each contract based on the consideration it expects to receive for the distinct services being provided under the contract.

The Company recognizes revenue as performance obligations are satisfied and the customer obtains control of the services. In determining when performance obligations are satisfied, the Company considers factors such as contract terms, payment terms and whether there is an alternative future use of the product or service. Substantially all of the Company's revenue is recognized over time as it performs under the contract due to the contractual terms present in each contract which irrevocably transfer control of the work product to the customer as the services are performed.

For performance obligations recognized over time, revenue is recognized based on the extent of progress made towards completion of the performance obligation. The Company uses the percentage-of-completion cost-to-cost measure of progress because it best depicts the transfer of control to the customer as the Company incurs costs against its contracts. Under the percentage-of-completion cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs to complete the performance obligation. The percentage-of-completion cost-to-cost method requires management to make estimates and assumptions that affect the reported amounts of contract 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 the total estimated amount of costs that will be incurred for a project or job.

### Web Filtering Revenue

For the three months ended March 31, 2020 and 2019, the Company recorded a total of \$138,143 and \$170,590, respectively, of web filtering revenue from contracts with customers.

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

### Contract Assets and Liabilities

Animation revenue contracts vary with movie contracts typically allowing for progress billings over the contract term while other episodic development activities are typically billable upon delivery of the performance obligation for an episode. These episodic activities typically create unbilled contract assets between episode delivery dates while movies can create contract assets or liabilities based on the progress of activities versus the arranged billing schedule. Revenues from web filtering contracts are all billed in advance and therefore represent contract liabilities until fully recognized on a ratable basis over the contract life.

The following table depicts the composition of our contract assets and liabilities as of March 31, 2020, and December 31, 2019:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Animation contract assets	\$ 478,804	\$ 513,388
Web filtering contract assets	61,985	24,937
Other contract assets	7,337	7,337
Total contract assets	<u>\$ 548,126</u>	<u>\$ 545,662</u>
Animation contract liabilities	\$ 456,043	\$ 51,054
Web filtering contract liabilities	602,384	564,528
Other contract liabilities	11,500	11,500
Total contract liabilities	<u>\$ 1,069,927</u>	<u>\$ 627,082</u>

### 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 December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)* which enhances and simplifies various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. The amendment will be effective for public companies with fiscal years beginning after December 15, 2020; early adoption is permitted. The Company is evaluating the impact of this amendment on its consolidated financial statements.

In February 2020, the FASB issued ASU 2020-02, *Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842)* which amends the effective date of the original pronouncement for smaller reporting companies. ASU 2016-13 and its amendments will be effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2022. The Company believes the adoption will modify the way the Company analyzes financial instruments, but it does not anticipate a material impact on results of operations. The Company is in the process of determining the effects adoption will have on its consolidated financial statements.

### 3. ACCOUNTS RECEIVABLE, NET

The following table sets forth the components of the Company's accounts receivable at March 31, 2020, and December 31, 2019:

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Billed accounts receivable	\$ 374,876	\$ 353,778
Unbilled accounts receivable	215,022	233,869
Allowance for doubtful accounts	(41,772)	(41,985)
Total accounts receivable, net	<u>\$ 548,126</u>	<u>\$ 545,662</u>

As of December 31, 2019, the Company evaluated its outstanding trade receivables and established a provision for doubtful accounts of \$41,985. As of March 31, 2020, the Company determined that no additional provision for doubtful accounts was necessary.

During the three months ended March 31, 2020, the Company had three customers that accounted for 79.4% of revenues and three customers that accounted for 66.7% of accounts receivable. During the year ended December 31, 2019, the Company had three customers that accounted for 42.3% of revenues and one customer that accounted for 38.7% of accounts receivable.

### 4. PROPERTY AND EQUIPMENT

The following table sets forth the components of the Company's property and equipment at March 31, 2020 and December 31, 2019:

	<u>March 31, 2020</u>			<u>December 31, 2019</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Capital assets subject to depreciation:						
Computers, software and office equipment	\$ 2,180,209	\$ (1,929,637)	\$ 250,572	\$ 2,184,327	\$ (1,882,567)	\$ 301,760
Machinery and equipment	176,884	(129,547)	47,337	175,761	(125,272)	50,489
Vehicles	158,330	(83,771)	74,559	158,849	(77,133)	81,716
Furniture and fixtures	401,067	(328,597)	72,470	399,512	(323,771)	75,741
Leasehold improvements	1,082,751	(784,816)	297,935	1,081,076	(764,070)	317,006
Total fixed assets	<u>3,999,241</u>	<u>(3,256,368)</u>	<u>760,873</u>	<u>3,999,525</u>	<u>(3,172,813)</u>	<u>826,712</u>
Capital assets not subject to depreciation:						
Construction in progress	25,303	-	25,303	25,433	-	25,433
Total fixed assets	<u>\$ 4,024,554</u>	<u>\$ (3,256,368)</u>	<u>\$ 768,176</u>	<u>\$ 4,024,958</u>	<u>\$ (3,172,813)</u>	<u>\$ 852,145</u>

For the three months ended March 31, 2020 and 2019, the Company recorded depreciation expense of \$99,236 and \$125,699, respectively.

## 5. LEASES

The Company has entered into operating leases primarily for real estate. These leases have terms which range from three years to five years, and often include one or more options to renew or in the case of equipment rental, to purchase the equipment. These operating leases are listed as separate line items on the Company's condensed consolidated financial statements and represent the Company's right to use the underlying asset for the lease term. The Company's obligation to make lease payments are also listed as separate line items on the Company's condensed consolidated financial statements.

Operating lease right-of-use assets and liabilities commencing after January 1, 2019 are recognized at commencement date based on the present value of lease payments over the lease term. For the three months ended March 31, 2020, the Company recognized approximately \$90,993 in total lease costs

Because the rate implicit in each lease is not readily determinable, the Company uses its incremental borrowing rate to determine the present value of the lease payments.

Information related to the Company's operating ROU assets and related lease liabilities are as follows:

	<b>Three Months Ended March 31, 2020</b>
Cash paid for operating lease liabilities	\$ 88,942
Weighted-average remaining lease term	2.9
Weighted-average discount rate	10%
Minimum future lease payments	\$ 995,829

The following table presents the amortization of the Company's lease liabilities under ASC 842 for each of the following years ending December 31:

2020	\$ 263,253
2021	304,326
2022	302,781
2023	25,990
2024 and thereafter	—
	<u>\$ 896,350</u>

## 6. 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. At March 31, 2020, the carrying amount of the Company's goodwill was \$8,853,261.

The following table sets forth the components of the Company's intangible assets at March 31, 2020 and December 31, 2019:

	<b>March 31, 2020</b>				<b>December 31, 2019</b>		
	<u>Amortization Period (Years)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Intangible assets subject to amortization:							
Customer relationships	10.00	\$ 1,600,286	\$ (596,407)	\$ 1,003,879	\$ 1,600,286	\$ (556,400)	\$ 1,043,886
Web filtering software	5.00	1,134,435	(737,383)	397,052	1,134,435	(680,661)	453,774
Subtotal	—	2,734,721	(1,333,790)	1,400,931	2,734,721	(1,237,061)	1,497,660
Intangible assets not subject to amortization:							
Trade names	—	4,455,595	—	4,455,595	4,455,595	—	4,455,595
Total intangible assets	—	<u>\$ 7,190,316</u>	<u>\$ (1,333,790)</u>	<u>\$ 5,856,526</u>	<u>\$ 7,190,316</u>	<u>\$ (1,237,061)</u>	<u>\$ 5,953,255</u>

For the three months ended March 31, 2020 and 2019, the Company recorded amortization expense of \$96,729 and \$96,729, respectively, for intangible assets subject to amortization.

The following table provides information regarding estimated amortization expense for intangible assets subject to amortization for each of the following years ending December 31:

2020	\$	386,916
2021		386,916
2022		160,029
2023		160,029
2024		160,029
Thereafter		243,742
	<u>\$</u>	<u>1,497,660</u>

#### 7. ACCRUED LIABILITIES

The following table sets forth the components of the Company's accrued liabilities at March 31, 2020 and December 31, 2019:

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Executive and employee compensation	\$ 1,357,514	\$ 1,237,531
Interest on convertible debentures and promissory notes	285,812	314,309
Other accrued expenses and liabilities	202,663	99,641
Total accrued liabilities	<u>\$ 1,845,989</u>	<u>\$ 1,651,482</u>

#### 8. RELATED PARTY PAYABLES

The Company has engaged the family of Darren Marks, its Chief Executive Officer, to assist in the development of the Grom Social website and mobile application. These individuals have created over 1,400 hours of original short form content. Mr. Marks' wife Sarah, his sons Zachary (the founder of Grom), Luke, Jack, and Dawson, and his daughters Caroline and Victoria all work for the Company either as employees or contractors.

- The amounts paid to these related parties during the three months ended March 31, 2020 were as follows: Zachary \$9,500.
- The amounts paid to these related parties during the three months ended March 31, 2019 were as follows: Sarah \$8,400, Zachary \$22,500, Luke \$9,600, Jack \$1,200, Victoria \$1,500 and Caroline \$2,500.

Compensation for services provided by the Marks family is expected to continue for the foreseeable future. Each member of the Marks family is actively involved in the creation of content for the website and mobile app, including numerous videos focusing on social responsibility, anti-bullying, digital citizenship, unique blogs, and special events.

Liabilities Due to Executive and Other Officers

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. No such loans were made to the Company during the three months ended March 31, 2020. 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 March 31, 2020 and December 31, 2019, the outstanding balances due to Mr. Marks were \$168,590 and \$215,122, respectively, and the outstanding balances due to Mr. Leiner were \$180,137 and \$210,929, respectively.

On July 13, 2018, Dr. Thomas Rutherford, a director, loaned the Company \$50,000 to help fund operations. The loan is non-interest bearing and callable on demand. Dr. Rutherford does not have any intention of calling the loan at present. The loan balance is classified as a short-term obligation under Related Party Payables on the Company's balance sheet.

As of March 31, 2020 and December 31, 2019, the aggregate related party payables were \$384,762 and \$462,137, respectively.

**9. CONVERTIBLE NOTES**

The following tables set forth the components of the Company's convertible notes as of March 31, 2020 and December 31, 2019:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
10% Unsecured Convertible Redeemable Notes – Variable Conversion Price	\$ 190,000	\$ 100,000
10% Secured Convertible Notes with Original Issuance Discounts	664,473	664,473
12% Senior Secured Convertible Notes (Newbridge)	210,286	289,143
12% Senior Secured Convertible Notes (Original TDH Notes)	1,000,000	4,000,000
12% Senior Secured Convertible Notes (TDH Secured Notes)	3,000,000	505,000
12% Senior Secured Convertible Notes (Additional Secured Notes)	1,060,000	–
Loan discounts	<u>(745,743)</u>	<u>(224,958)</u>
Total convertible notes, net	5,379,016	5,333,658
Less: current portion of convertible notes, net	<u>(1,699,632)</u>	<u>(4,828,658)</u>
Convertible notes, net	<u>\$ 3,679,384</u>	<u>\$ 505,000</u>

10% Unsecured Convertible Redeemable Note – Variable Conversion Price

On July 9, 2019, the Company issued a convertible redeemable note to an unrelated party in the principal amount of \$100,000 less \$5,000 in third party fees resulting in net cash proceeds to the Company of \$95,000. The note accrues interest at a rate of 10% per annum, is due on July 9, 2020 and is convertible into common stock of the Company at the option of the noteholder six months after issuance at a rate equal to a 30% discount from the lowest volume weighted average price of the Company's common stock in the preceding 20 trading days.

The Company analyzed the conversion feature of the note for a beneficial conversion feature, for which the Company concluded that a beneficial conversion feature existed. The beneficial conversion feature was measured using the commitment-date stock price and its fair value was determined to be \$51,730. This amount is recorded as a debt discount and is amortized as interest expense over the term of the note.

The Company also analyzed the conversion feature of the note for derivative accounting consideration and determined that the embedded conversion features should be classified as a derivative because the exercise price of the convertible note is subject to a variable conversion rate. The aggregate fair value of the derivative at the issuance date of the note was \$85,410 which was recorded as a derivative liability on the balance sheet. The Company recorded a debt discount of \$43,270 which was up to the face value of the convertible note with the excess fair value at initial measurement of \$42,140 being recognized as derivative expense. At March 31, 2020, the Company remeasured the fair value of its derivative liabilities at \$78,350 and recorded an unrealized loss of \$767 from change in fair value for the three months ended March 31, 2020. The fair value of the embedded derivative was determined using a Black-Scholes option pricing model based on the following assumptions: (1) expected volatility of 166.9%, (2) risk-free interest rate of 0.11%, (3) an exercise price of \$0.039, and (4) an expected life of 0.27 years.

On March 1, 2020, the Company issued a convertible redeemable note to an unrelated party in the principal amount of \$100,000. The note accrues interest at a rate of 10% per annum, is due on August 31, 2020 and is convertible into common stock of the Company at the option of the noteholder at a rate equal to a 30% discount from the lowest volume weighted average price of the Company's common stock in the preceding 20 trading days.

The Company analyzed the conversion feature of the note for a beneficial conversion feature, for which the Company concluded that a beneficial conversion feature existed. The beneficial conversion feature was measured using the commitment-date stock price and its fair value was determined to be \$44,129. This amount is recorded as a debt discount and is amortized as interest expense over the term of the note.

#### 10% Secured Convertible Notes with Original Issuance Discounts

During the year ended December 31, 2017, the Company issued secured, convertible notes with original issuance discounts to accredited investors for gross proceeds of \$601,223. The notes were issued with original issuance discounts of 10.0%, or \$60,122, bear interest at a rate of 10% per annum, are payable semiannually in cash, and carry a two-year term with a fixed conversion price of \$0.78. In connection with the issuance of these notes, the Company issued to such investors an aggregate of 150,305 shares of common stock as an inducement to lend. These shares were valued at \$78,321 with share prices ranging between \$0.48 and \$0.70 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 notes. As of March 31, 2020, the principal balance of these notes was \$311,223 and all associated loan discounts were fully amortized.

During the year ended December 31, 2018, the Company issued secured, convertible notes with original issuance discounts to accredited investors for gross proceeds of \$1,313,485 in a private offering. The notes were issued with original issuance discounts of 10.0%, or \$131,348, bear interest at a rate of 10% per annum, are payable semiannually in cash, and carry a two-year term with a fixed conversion price of \$0.78. In connection with the issuance of these notes, the Company issued to such investors an aggregate of 328,371 shares of common stock as an inducement to lend. These shares were valued at \$198,259 with share prices ranging between \$0.30 and \$0.81 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 notes. As of March 31, 2020, 2019, the principal balance of these notes was \$297,250 and all associated loan discounts were fully amortized.

During the year ended December 31, 2018, the Company also issued secured, convertible notes with original issuance discounts to accredited investors for gross proceeds of \$356,000 in a private offering. The notes were issued with original issuance discounts of 20.0%, or \$71,200, bear interest at a rate of 10% per annum, are payable semiannually in cash, and carry a two-year term with a fixed conversion price of \$0.50. In connection with the issuance of these notes, the Company issued to such investors an aggregate of 203,000 shares of common stock as an inducement to lend. These shares were valued at \$62,269 with share prices ranging between \$0.29 and \$0.35 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 notes. As of March 31, 2020, the principal balance of these notes was \$56,000 and the remaining balance on the associated loan discounts was \$3,768.

12% Senior Secured Convertible Notes (Newbridge Offering)

On November 30, 2018, the Company closed a private offering in which it sold 12% secured convertible promissory notes ("12% Notes") in an aggregate principal amount of \$552,000 and issued an aggregate of 730,974 shares of its common stock to nine accredited investors pursuant to a private placement memorandum and subscription agreement. The 12% Notes which are due and payable two years from issuance are secured by certain assets of the Company and rank senior to all other indebtedness of the Company except for the \$4,000,000 promissory notes (the "TD Notes") issued to the shareholders of TD Holdings in connection with a share sale agreement dated June 30, 2016, as amended. Messrs. Marks and Leiner pledged an aggregate of 10,000,000 shares of common stock of the Company pursuant to a pledge and security agreement to secure the timely payment of the 12% Notes. The 12% Notes are convertible, in whole or in part, by the noteholders at a conversion rate of \$0.40 if the Company's common stock trades or is quoted at more than \$0.40 per share for 10 consecutive days. The conversion price is subject to adjustment resulting from certain corporate actions including the subdivision or combination of stock, payment of dividends, reorganization, reclassification, consolidations, merger or sale of the Company.

Interest on the 12% Notes is payable monthly in 21 equal installments commencing four months after the issuance of the 12% Notes. Upon the occurrence of an event of default, the interest rate will increase to 15% and the 12% Notes will become immediately due and payable. The Company may prepay the 12% Notes in full at any time by paying accrued interest and 110% of the outstanding principal balance. Newbridge Securities Corporation acted as exclusive placement agent for the offering and received (i) \$55,200, (ii) 113,586 shares of common stock; and (iii) \$11,040, representing a non-accountable expense allowance for its services.

As of March 31, 2020, the remaining principal balance on the 12% Notes was \$ 210,286 and the remaining unamortized discounts were \$ 111,719.

12% Senior Secured Convertible Notes (Original TDH Notes)

On June 20, 2016, the Company issued \$4,000,000 of senior secured promissory notes to the shareholders of TD Holdings (the "TDH Sellers") in connection with a share sale agreement pursuant to which the Company acquired 100% of the common stock of TD Holdings ("the TDH Share Sale Agreement"). The notes bear interest at 5.0% per annum and are 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 notes are collateralized by all of the assets of TD Holdings.

First Amendment to the TDH Share Sale Agreement

On January 3, 2018, the Company entered into an amendment to the TDH Share Sale Agreement (the "First Amendment"). Under the terms of the First Amendment:

- The maturity date of the notes was extended from July 1, 2018 until July 1, 2019.
- The interest rate on the notes during for one-year extension period from July 2, 2018 to July 1, 2019 was increased to 10%.
- Interest is payable quarterly in arrears during the one-year extension period, instead of annually in arrears. The first such quarterly interest payment of \$100,000 is due on September 30, 2018.
- Under the terms of the terms of TDH Share Sale Agreement, the TDH Sellers could earn up to an additional \$5.0 million in contingent earnout payments. The original earnout period ended on December 31, 2018. The First Amendment extended the earnout period by one year to December 31, 2019.

As consideration to enter into the First Amendment, the Company issued 800,000 shares of its common stock valued at \$480,000 to the TDH Sellers.

Second Amendment to the TDH Share Sale Agreement

On January 15, 2019, the Company entered into a second amendment to the TDH Share Sale Agreement (the "Second Amendment"). Under the terms of the Second Amendment:

- The maturity date of the notes was extended from July 1, 2019 to April 2, 2020.
- The TDH Sellers shall have the right to convert the notes at a conversion price of \$0.27 per share, either in whole or in part at any time prior to the maturity, subject to the terms and conditions set forth in the Second Amendment.
- In the event that the notes are not repaid prior to July 2, 2019, no funds will be transferred by TDH to the Company.
- The payment terms of the contingent earnout was modified from 50% payable in cash and 50% payable in stock to 75% payable in cash and 25% payable in stock.

As consideration to enter into the Second Amendment, the Company issued an additional 800,000 shares of its common stock valued at \$220,000 to the TDH Sellers.

Due to the inclusion of a conversion feature, the Second Amendment was considered an extinguishment and subsequent reissuance of the notes under the guidelines of ASC 470-20-40-7 through 40-9. As a result, the Company recorded a loss on the extinguishment of debt of \$363,468 related to the Second Amendment during the year ended December 31, 2019.

The principal value of the notes was reclassified to convertible notes, net – current on the Company's condensed consolidated financial statements.

Third Amendment to the TDH Share Sale Agreement

On March 16, 2020, the Company entered into a third amendment (the "Third Amendment") to the TDH Share Sale Agreement, pursuant to which the Company's subsidiary, Grom Holdings, had acquired 100% of the common stock of TDH (representing ownership of the animation studio) from certain individuals (the "TDH Sellers"). The Company used the proceeds received from the TDH Secured Notes Offering to pay the TDH Sellers \$3,000,000 of the principal due under the Original TDH Notes, leaving a balance due to the TDH Sellers of \$1,000,000 in principal (plus accrued interest and costs). In addition, the accrued interest of \$361,767 due to the TDH Sellers pursuant to the Original TDH Notes will be paid by three monthly payments of \$93,922, commencing April 16, 2020, and thereafter nine monthly installments of \$6,667.

Pursuant to the Third Amendment, the TDH Sellers and the Company agreed, among other things:

- To extend the maturity date of the remaining Original TDH Notes by one year to June 30, 2021;
- To increase the interest rate on the remaining Original TDH Notes to 12%;
- To grant a first priority security interest on the shares of TDH and TDAHK to the TDH Sellers, pari passu with the holders of the TDH Secured Notes; and
- To pay the balance of the Original TDH Notes monthly in arrears, amortized over a four-year period.

12% Senior Secured Convertible Notes (TDH Secured Notes)

On March 16, 2020, the Company sold (the "TDH Secured Notes Offering") an aggregate \$3,000,000 of its 12% senior secured convertible notes (the "TDH Secured Notes"), to eleven accredited investors (the "TDH Secured Note Lenders"), pursuant to a subscription agreement with the TDH Secured Note Lenders. Interest on the TDH Secured Notes accrues on the outstanding principal amount at the rate of 12% per annum. Principal and interest on the TDH Secured Notes are payable monthly, on an amortized basis over 48 months, with the last payment due on March 16, 2024. Pursuant to the TDH Secured Notes, TD Holdings will pay amounts due under the TDH Secured Notes. Prepayment of amounts due under TDH Secured Notes is subject to a prepayment penalty in an amount equal to 4% of the amount prepaid.

The TDH Secured Notes are convertible at the option of the holders at 75% of the average sales price of the Company's common stock over the 60 trading days immediately preceding conversion provided that the conversion price shall not be less than \$0.10 per share.

The Company's obligations under the TDH Secured Notes, are secured by Grom Holdings' shares of stock of TDH, and of its wholly owned subsidiary, TDAHK. The TDH Secured Notes rank equally and ratably on a pari passu basis with (i) the other TDH Secured Notes and (ii) the Original TDH Notes issued by the Company pursuant to TDH Share Sale Agreement.

If the Company sells the animation studio located in Manila, Philippines, which is currently owned by TDH through TDAHK (the "Animation Studio"), for more than \$12,000,000, and so long as any amount of principal is outstanding under the TDH Secured Notes, the Company will pay the TDH Secured Notes holders from the proceeds of the sale (i) all amounts of principal outstanding under the TDH Secured Notes, (ii) such amount of interest which would be due and payable assuming the TDH Secured Notes were held to maturity (minus any amounts of interest previously paid hereunder), and (iii) an additional 10% of the amount of principal outstanding under the TDH Secured Notes within five days of the closing of such sale.

In connection with the issuance of the TDH Secured Notes, the Company issued to each TDH Secured Note holder shares of common stock equal to 20% of the principal amount of such holder's TDH Secured Note, divided by \$0.10. Accordingly, an aggregate of 6,000,000 shares of common stock were issued to the TDH Secured Note holders on March 16, 2020. These shares were valued at \$420,000, or \$0.07 per share, which represents fair market value. The Company recorded the value of these shares as a loan discount to be amortized as interest expense over the term of the notes. As of March 31, 2020, the principal balance of these notes was \$3,000,000 and the remaining balance on the associated loan discounts was \$415,625.

#### 12% Senior Secured Convertible Notes (Additional Secured Notes)

On March 16, 2020, the Company issued to seven accredited investors (the "Additional Secured Note Lenders") an aggregate of \$1,060,000 of its 12% senior secured convertible notes (the "Additional Secured Notes") in a private offering pursuant to a subscription agreement with substantially the same terms as the TDH Secured Notes except that the Additional Secured Notes are secured by all of the assets of the Company other than the shares and other assets of TDH and TDAHK, pursuant to a security agreement by and among the Company and the Additional Secured Note Lenders.

Interest on the Additional Secured Notes accrues on the outstanding principal amount at the rate of 12% per annum. Principal and interest on the Additional Secured Notes are payable monthly, on an amortized basis over 48 months, with the last payment due on March 16, 2024. Prepayment of the amounts due under the Additional Secured Notes is subject to a prepayment penalty of 4% of the amount prepaid.

The Additional Secured Notes are convertible at the option of the holders at 75% of the average sales price of the Company's common stock over the 60 trading days immediately preceding conversion provided that the conversion price shall not be less than \$0.10 per share.

In connection with the issuance of the Additional Secured Notes, the Company issued to each Additional Secured Note Lender shares of common stock equal to 20% of the principal amount of such holder's Additional Secured Note, divided by \$0.10. Accordingly, an aggregate of 2,120,000 shares of common stock were issued. These shares were valued at \$148,000, or \$0.07 per share, which represents fair market value. 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 notes. As of March 31, 2020, the principal balance of these notes was \$1,060,000 and the remaining balance on the associated loan discounts was \$146,854.

#### Future Minimum Principal Payments

The principal repayments based upon the maturity dates of the Company's borrowings for each of the next five years are as follows:

2020	\$	1,929,452
2021	\$	1,758,149
2022	\$	1,046,862
2023	\$	1,179,630
2024	\$	210,666

## 10. STOCKHOLDERS' EQUITY

### Preferred Stock

The Company is authorized to issue 25,000,000 shares of preferred stock, par value of \$0.001 per share and had 925,000 shares of preferred stock issued and outstanding as of March 31, 2020 and December 31, 2019.

### Preferred Stock Issued in Private Placements

On February 22, 2019, the Company designated 2,000,000 shares of its preferred stock as 10% Series A convertible preferred stock, par value \$0.001 per share ("Series A Stock"). Each share of Series A Stock is convertible, at any time, into five shares of common stock of the Company.

### Common stock

The Company is authorized to issue 500,000,000 shares of common stock, par value of \$0.001 per share and had 178,666,260 and 167,382,807 shares of common stock issued and outstanding as of March 31, 2020 and December 31, 2019, respectively.

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

During the three months ended March 31, 2020, the Company issued 2,414,053 shares of common stock with a fair market value of \$240,505 to contractors for services rendered.

During the three months ended March 31, 2019, the Company issued 1,377,338 shares of common stock with a fair market value of \$778,411 to contractors for services rendered.

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

During the three months ended March 31, 2020, the Company issued 500,000 shares of common stock with a fair market value of \$50,000 to satisfy loans payable and other accrued obligations.

During the three months ended March 31, 2019, the Company issued 99,720 shares of common stock with a fair market value of \$26,940 to satisfy loans payable and other accrued obligations.

### Common Stock Issued in Connection with the Conversion of Convertible Note Principal and Accrued Interest

During the three months ended March 31, 2020, the Company issued 259,300 shares of common stock upon the conversion of \$15,000 in convertible note principal and accrued interest.

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

During the three months ended March 31, 2019, the Company issued 800,000 shares of common stock valued at \$220,000 to amend the terms of a convertible note.

Common Stock Issued in Connection with the Issuance of Convertible Promissory Notes

During the three months ended March 31, 2020, the Company issued 8,120,000 shares of common stock valued at \$568,400 in connection with the issuance of convertible notes. Refer to the disclosures for TDH Secured Notes and Additional Secured Notes under Note 9 – Convertible Debt for additional information.

Stock Purchase Warrants

Stock purchase warrants are accounted for as equity in accordance with ASC 480, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, Distinguishing Liabilities from Equity*.

The following table reflects all outstanding and exercisable warrants at March 31, 2020 and December 31, 2019. All warrants are exercisable for a period of five years from the date of issuance.

	<u>Number of Warrants Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Contractual Life (Yrs.)</u>
Balance January 1, 2019	781,910	\$ 1.36	1.38
Warrants issued	5,450,000	\$ 0.25	
Warrants exercised	–	\$ –	
Warrants forfeited	(567,166)	\$ –	
December 31, 2019	<u>5,664,744</u>	<u>\$ 0.28</u>	<u>1.79</u>
Warrants issued	500,000	\$ 0.10	
Warrants exercised	–	\$ –	
Warrants forfeited	–	\$ –	
Balance March 31, 2020	<u>6,164,744</u>	<u>\$ 0.26</u>	<u>1.70</u>

Stock Options

The following table represents all outstanding and exercisable stock options as of March 31, 2020.

<u>Year Issued</u>	<u>Options Issued</u>	<u>Options Forfeited</u>	<u>Options Outstanding</u>	<u>Vested Options</u>	<u>Strike Price</u>	<u>Weighted Average Remaining Life (Yrs.)</u>
2013	7,735,350	(834,000)	6,901,350	6,901,350	\$ 0.24	3.47
2015	11,467,500	–	11,467,500	11,467,500	\$ 0.36	0.06
2016	5,421,000	–	5,421,000	5,421,000	\$ 0.78	0.94
2018	60,000	–	60,000	60,000	\$ 0.78	3.08
Total	<u>24,683,850</u>	<u>(834,000)</u>	<u>23,849,850</u>	<u>23,849,850</u>	<u>\$ 0.59</u>	<u>1.88</u>

During the three months ended March 31, 2020 and 2019, the Company did not record any stock-based compensation expense related to stock options.

## 11. COMMITMENTS AND CONTINGENCIES

In the United States, the Company leases approximately 2,100 square feet of office space in Boca Raton, Florida at the rate of \$4,000 per month pursuant to a three-year lease which expires in October 2021. The Florida office space is the location of the Company's corporate headquarters and administrative staff.

The Company's animation operations leases portions of three floors aggregating approximately 28,800 square feet in the West Tower of the Philippine Stock Exchange Centre in Pasig City, Manila. The space is used for administration and production purposes. The Company pays approximately \$24,000 per month in the aggregate for such space (which increases by approximately 5% annually). These leases expire in December 2022.

The Company's web filtering operations lease approximately 1,400 square feet of office space in Norcross, Georgia. The Company pays approximately \$2,100 per month pursuant to a five-year lease which expires in December 2023. The lease payment increases by approximately 3% annually.

## 12. SUBSEQUENT EVENTS

In accordance with FASB ASC 855-10, *Subsequent Events*, the Company has analyzed its operations subsequent to March 31, 2020 to the date these consolidated financial statements were issued, and has determined that it does not have any material subsequent events to disclose in these consolidated financial statements, except as follows:

### Exchange Agreements

On August 6, 2020, the Company, entered into exchange agreements (the "Debt Exchange Agreements") with holders of the Company's (a) 10% convertible notes (the "OID Notes") in the aggregate amount of \$411,223 of outstanding principal and accrued and unpaid interest; (b) 12% secured convertible notes, which were secured against the assets of TD Holdings, (the "TDH Notes"), in the aggregate amount of \$1,101,000 of outstanding principal and accrued and unpaid interest; and (iii) 12% secured convertible notes, which were secured against all of the other assets of the Company (the "Other Secured Notes", and together with the OID Notes and the TDH Notes, the "Notes") in the aggregate amount of \$782,500 of outstanding principal and accrued and unpaid interest. Pursuant to the terms of the Debt Exchange Agreements, the holders of the Notes exchanged the outstanding Notes, and all amounts owed by the Company thereunder, for an aggregate of 3,623,884 shares of the Company's newly designated Series B 8% convertible preferred stock (the "Series B Stock"). At the time of the exchange, all amounts due under the Notes were deemed to be paid-in-full and the Notes were cancelled.

In addition, on August 6, 2020, the Company entered into exchange agreements (the "Series A Exchange Agreements" and together with the Debt Exchange Agreements, the "Exchange Agreements") with the holders of 925,000 issued and outstanding shares of the Company's Series A Stock. Pursuant to the terms of the Series A Exchange Agreements, the holders of Series A Stock exchanged their shares for an aggregate of 1,202,500 shares of the Company's Series B Stock. At the time of the exchange, all of the exchanged shares of Series A Preferred Stock were cancelled.

In connection with the execution and delivery of the Exchange Agreements, the holders of the Notes and the Series A stockholders executed and delivered proxies to Darren Marks and Melvin Leiner, both officers and directors of the Company, granting each of them the power to vote all their shares in the Company for a period of two years. As a result, Messrs. Marks and Leiner, collectively, have an aggregate of 314,596,923 votes, or 71.6% of the voting capital of the Company.

### Subscription Agreements

On August 6, 2020, the Company issued an aggregate of 250,000 shares of Series B Stock to one accredited investor (the "Investor") for gross cash proceeds of \$250,000, pursuant to the terms of a subscription agreement.

Series B Stock

On August 4, 2020, the Company filed with the Secretary of State of the State of Florida a Certificate of Designation of Preferences, Rights and Limitations of Series B Stock designating 10,000,000 shares as Series B Preferred Stock. The Series B Stock ranks senior and prior to all other classes or series of the Company's preferred stock and common stock.

The holder may at any time after the 12-month anniversary of the issuance of the shares of Series B Stock convert such shares into common stock at a conversion price equal to the 30-day volume weighted average price ("VWAP") of a share of common stock for each share of Series B Stock to be converted. In addition, the Company at any time may require conversion of all or any of the Series B Stock then outstanding at a 50% discount to the 30-day VWAP.

Each share of Series B Stock entitles the holder to fifty votes for each share of Series B Stock. The consent of the holders of at least two-thirds of the shares of Series B Stock is required for the amendment to any of the terms of the Series B Stock, to create any additional class of stock unless the stock ranks junior to the Series B Stock, to make any distribution or dividend on any securities ranking junior to the Series B Stock, to merge or sell all or substantially all of the assets of the Company or acquire another business or effectuate any liquidation of the Company.

Cumulative dividends accrue on each share of Series B Stock at the rate of 8% per annum of the stated value of \$1.00 per share and are payable in common stock in arrears quarterly commencing 90 days from issuance.

Upon a liquidation, dissolution or winding up of the Company, the holders of the Series B Stock are entitled to \$1.00 per share plus all accrued and unpaid dividends. No distribution may be made to holders of shares of capital stock ranking junior to the Series B Stock upon a liquidation until Series B stockholders receive their liquidation preference. The holders of 66 2/3% of the then outstanding shares of Series B Stock, may elect to deem a merger, reorganization or consolidation of the Company into or with another corporation, not affiliated with said majority, or other similar transaction or series of related transactions in which more than 50% of the voting power of the Company is disposed of in exchange for property, rights or securities distributed to holders thereof by the acquiring person, firm or other entity, or the sale of all or substantially all of the assets of the Company.

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

*The following discussion and analysis should be read in conjunction with our financial statements and the related notes thereto. The management's discussion and analysis contain forward-looking statements, such as statements of our plans, objectives, expectations, and intentions. Any statements that are not statements of historical fact are forward-looking statements. When used, the words "believe," "plan," "intend," "anticipate," "target," "estimate," "expect" and the like, and/or future tense or conditional constructions ("will," "may," "could," "should," etc.), or similar expressions, identify certain of these forward-looking statements. These forward-looking statements are subject to risks and uncertainties, including those under "Risk Factors," which appear in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, which we filed with the Securities and Exchange Commission on June 30, 2020, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of several factors. We do not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report.*

### Overview

The Company is a media, technology and entertainment company focused on delivering content to children under the age of 13 years in a safe secure Children's Online Privacy Protection Act compliant platform that can be monitored by parents or guardians. We operate our business through the following four wholly-owned subsidiaries:

- Grom Social, Inc. was incorporated in the State of Florida on March 5, 2012 and operates our social media network designed for children under the age of 13 years.
- TD Holdings Limited ("TD Holdings") was incorporated in Hong Kong on September 15, 2005. TD Holdings operates through its two subsidiary companies: (i) Top Draw Animation Hong Kong Limited, a Hong Kong corporation and (ii) Top Draw Animation, Inc., a Philippines corporation. The group's principal activities are the production of animated films and televisions series.
- Grom Educational Services, Inc. ("GES") was incorporated in the State of Florida on January 17, 2017. GES operates our web filtering services provided to schools and government agencies.
- Grom Nutritional Services, Inc. ("GNS") was incorporated in the State of Florida on April 19, 2017. GNS intends to market and distribute nutritional supplements to children. GNS has not generated any revenue since its inception.

### Impact of COVID-19

The Company has experienced significant disruptions to its business and operations due to circumstances related to COVID-19, and as a result of delays caused government-imposed quarantines, office closings and travel restrictions, which affect both the Company's and its service providers. The Company has significant operations in Manila, Philippines, which was locked down by the government on March 12, 2020 due to concerns related to the spread of COVID-19. As a result of the Philippines government's call to contain COVID-19, the Company's animation studio, located in Manila, Philippines, which accounts for approximately 90% of the Company's total revenues on a consolidated basis, has been closed.

## Recent Events

### Exchange Agreements

On August 6, 2020, the Company, entered into exchange agreements (the "Debt Exchange Agreements") with holders of the Company's (a) 10% convertible notes (the "OID Notes") in the aggregate amount of \$411,223 of outstanding principal and accrued and unpaid interest; (b) 12% secured convertible notes, which were secured against the assets of TD Holdings, (the "TDH Notes"), in the aggregate amount of \$1,101,000 of outstanding principal and accrued and unpaid interest; and (iii) 12% secured convertible notes, which were secured against all of the other assets of the Company (the "Other Secured Notes", and together with the OID Notes and the TDH Notes, the "Notes") in the aggregate amount of \$782,500 of outstanding principal and accrued and unpaid interest. Pursuant to the terms of the Debt Exchange Agreements, the holders of the Notes exchanged the outstanding Notes, and all amounts owed by the Company thereunder, for an aggregate of 3,623,884 shares of the Company's newly designated Series B 8% convertible preferred stock (the "Series B Stock"). At the time of the exchange, all amounts due under the Notes were deemed to be paid-in-full and the Notes were cancelled.

In addition, on August 6, 2020, the Company entered into exchange agreements (the "Series A Exchange Agreements" and together with the Debt Exchange Agreements, the "Exchange Agreements") with the holders of 925,000 issued and outstanding shares of the Company's Series A Stock. Pursuant to the terms of the Series A Exchange Agreements, the holders of Series A Stock exchanged their shares for an aggregate of 1,202,500 shares of the Company's Series B Stock. At the time of the exchange, all of the exchanged shares of Series A Preferred Stock were cancelled.

In connection with the execution and delivery of the Exchange Agreements, the holders of the Notes and the Series A stockholders executed and delivered proxies to Darren Marks and Melvin Leiner, both officers and directors of the Company, granting each of them the power to vote all their shares in the Company for a period of two years. As a result, Messrs. Marks and Leiner, collectively, have an aggregate of 314,596,923 votes, or 71.6% of the voting capital of the Company.

### Subscription Agreements

On August 6, 2020, the Company issued an aggregate of 250,000 shares of Series B Stock to one accredited investor (the "Investor") for gross cash proceeds of \$250,000, pursuant to the terms of a subscription agreement.

### Series B Stock

On August 4, 2020, the Company filed with the Secretary of State of the State of Florida a Certificate of Designation of Preferences, Rights and Limitations of Series B Stock designating 10,000,000 shares as Series B Preferred Stock. The Series B Stock ranks senior and prior to all other classes or series of the Company's preferred stock and common stock.

The holder may at any time after the 12-month anniversary of the issuance of the shares of Series B Stock convert such shares into common stock at a conversion price equal to the 30-day volume weighted average price ("VWAP") of a share of common stock for each share of Series B Stock to be converted. In addition, the Company at any time may require conversion of all or any of the Series B Stock then outstanding at a 50% discount to the 30-day VWAP.

Each share of Series B Stock entitles the holder to fifty votes for each share of Series B Stock. The consent of the holders of at least two-thirds of the shares of Series B Stock is required for the amendment to any of the terms of the Series B Stock, to create any additional class of stock unless the stock ranks junior to the Series B Stock, to make any distribution or dividend on any securities ranking junior to the Series B Stock, to merge or sell all or substantially all of the assets of the Company or acquire another business or effectuate any liquidation of the Company.

Cumulative dividends accrue on each share of Series B Stock at the rate of 8% per annum of the stated value of \$1.00 per share and are payable in common stock in arrears quarterly commencing 90 days from issuance.

Upon a liquidation, dissolution or winding up of the Company, the holders of the Series B Stock are entitled to \$1.00 per share plus all accrued and unpaid dividends. No distribution may be made to holders of shares of capital stock ranking junior to the Series B Stock upon a liquidation until Series B stockholders receive their liquidation preference. The holders of 66 2/3% of the then outstanding shares of Series B Stock, may elect to deem a merger, reorganization or consolidation of the Company into or with another corporation, not affiliated with said majority, or other similar transaction or series of related transactions in which more than 50% of the voting power of the Company is disposed of in exchange for property, rights or securities distributed to holders thereof by the acquiring person, firm or other entity, or the sale of all or substantially all of the assets of the Company.

## **Results of Operations**

### *Comparison of Results of Operations for the Three Months Ended March 31, 2020 and 2019*

#### **Revenue**

Revenue for the three months ended March 31, 2020 was \$1,292,239, compared to revenue of \$1,966,860 during the three months ended March 31, 2019, representing a decrease of \$674,621 or 34.3%.

Animation revenue for the three months ended March 31, 2020 was \$1,153,236, compared to animation revenue of \$1,793,763 during the three months ended March 31, 2019, representing a decrease of \$640,527 or 35.7%. The decrease in animation revenue is primarily attributable to the decline in the overall number of contracts completed, and client delays in the timing and production of certain animation projects due to concerns related to the spread of COVID-19.

Web filtering revenue for the three months ended March 31, 2020 was \$138,143, compared to web filtering revenue of \$170,590 during the three months ended March 31, 2019, representing a decrease of \$32,447 or 19.0%. The decrease is primarily due to a decline in organic sales growth, and the timing or loss of multi-year contract renewals.

Subscription and advertising revenue from our Grom Social website, Grom Social mobile application and MamaBear safety mobile application have been nominal. Subscription and advertising revenue for the three months ended March 31, 2020 was \$860 compared to subscription and advertising revenue of \$2,507 during the three months ended March 31, 2019, representing a decrease of \$1,647 or 65.7%, primarily attributable to a decrease in marketing and promotion activities.

## Gross Profit

Our gross profits vary significantly by subsidiary. Historically, our animation business has realized gross profits between 45% and 55%, while our web filtering business has realized gross profits between 75% and 90%. Additionally, our gross profits may vary from period to period due to the nature of the business of each subsidiary, and the timing and volume of customer contracts and projects. Current gross margins percentages may not be indicative of future gross margin performance.

Gross profit for the three months ended March 31, 2020 and 2019 were \$680,146, or 52.6%, and \$1,152,358, or 58.6%, respectively. The decrease in gross profit is primarily attributable to the decrease in our consolidated revenue as described above.

## Operating expenses

Operating expenses for the three months ended March 31, 2020 were \$1,748,548, compared to operating expenses of \$2,077,216 during the three months ended March 31, 2019, representing a decrease of \$328,688 or 15.8%. The decrease is primarily attributable to a decrease in general and administrative expenses and professional services fees resulting from reduced investor relations services, a delay in the timing of certain professional services rendered and general cost cutting efforts undertaken by the Company. General and administrative expenses were \$1,449,348 for the three months ended March 31, 2020, compared to \$1,519,720 for the three months ended March 31, 2019, representing a decrease of \$70,372 or 4.6%. Professional fees were \$52,718 for the three months ended March 31, 2020, compared to \$290,769 for the three months ended March 31, 2019, representing a decrease of \$238,051 or 81.9%.

## Other Income (Expense)

Net other expense for the three months ended March 31, 2020 was \$278,432, compared to a net other expense of \$718,781 for the three months ended March 31, 2019, representing a decrease of \$440,349 or 61.3%. The decrease in net other expense is primarily attributable to a decrease in interest expense and a one-time loss on the extinguishment of debt recorded during the three months ended March 31, 2019 as described below.

Interest expense is comprised of interest incurred on our convertible notes and from the amortization of note discounts. Interest expense was \$277,763 for the three months ended March 31, 2020, compared to \$376,160 during the three months ended March 31, 2019, representing a decrease of \$98,397 or 26.2%. The decrease is attributable to a reduction in amount of expense recorded for the amortization of debt discounts.

During the three months ended March 31, 2019, we recorded a one-time extinguishment loss of \$363,468 related to the amendment of our senior secured promissory notes in the principal amount of \$4,000,000 issued to the shareholders of TD Holdings Limited in connection with our acquisition of TD Holdings Limited.

## Net Loss Attributable to Common Stockholders

We realized a net loss attributable to common stockholders of \$1,346,834, or \$0.01 per share, for the three months ended March 31, 2020, compared to a net loss attributable to common stockholders of \$2,287,844, or \$0.02 per share, during the three months ended March 31, 2019, representing a decrease in net loss attributable to common stockholders of \$941,010 or 41.1%.

## Liquidity and Capital Resources

At March 31, 2020, we had cash and cash equivalents of \$834,335.

Net cash used in operating activities for the three months ended March 31, 2020 was \$244,112, compared to net cash used in operating activities of \$550,770 during the three months ended March 31, 2019, representing a decrease in cash used of \$306,658, primarily due to a change in operating assets and liabilities and the decrease in our net loss attributable to common stockholders.

Net cash used in investing activities for the three months ended March 31, 2020 was \$15,267, compared to net cash used in investing activities of \$105,241 during the three months ended March 31, 2019 representing a decrease in cash used of \$89,974. This decrease is attributable to a reduction in the amount of fixed assets purchased and leasehold improvements made by our animation studio in Manilla, Philippines during the three months ended March 31, 2020.

Net cash provided by financing activities for the three months ended March 31, 2020 was \$576,143, compared to net cash provided by financing activities of \$773,714 for the three months ended March 31, 2019, representing a decrease in cash provided of \$197,571. The decrease is attributable to the reduction in new equity and debt capital raised during the three months ended March 31, 2020. Our primary sources of cash from financing activities were attributable to \$3,655,000 in proceeds from the sale of 12% senior secured convertible notes during the three months ended March 31, 2020, as compared to \$800,000 in proceeds from the sale of preferred and common stock in private placement offerings during the three months ended March 31, 2019. On March 16, 2020, the Company repaid \$3,000,000 in principal due to the former shareholders of TD Holdings on a convertible note originally dated June 20, 2016.

We currently have a monthly consolidated cash operating loss ranging between \$100,000 to \$150,000, or approximately \$1,200,000 to \$1,800,000 annually. In order to fund our operations for the next twelve months, we believe that we will need to raise \$2,000,000. Historically, we have funded our operations through sales of equity, debt issuances and officer loans. We currently have no commitment from any investment banker or other traditional funding sources and no definitive agreement with any third party to provide us with financing, either debt or equity, and there can be no assurances that we will be able to raise additional funds, or if we are successful, on favorable terms. Future equity sales may result in dilution to current shareholders and debt may have negative covenants. In addition, the COVID-19 pandemic has had and may continue to have an adverse effect on the capital markets and our ability to raise additional funding. 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.

## **Going Concern**

The accompanying 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. On a consolidated basis, we have incurred significant operating losses since inception. Because we do not expect that existing operational cash flow will be sufficient to fund presently anticipated operations, this raises substantial doubt about our ability to continue as a going concern. Therefore, we will need to raise additional funds and are currently exploring sources of financing. Historically, we have raised capital through private offerings of debt and equity and officer loans to finance working capital needs. There can be no assurances that we will be able to continue to raise additional capital through the sale of common stock or other securities or obtain short-term loans.

## **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

## **Critical Accounting Estimates**

Our financial statements and accompanying notes have been prepared in accordance with 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. Our critical accounting estimates are more fully discussed in Note 2 to our unaudited financial statements contained herein.

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

We are a smaller reporting company and are not required to provide this information.

## **Item 4. Controls and Procedures.**

### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, as of September 30, 2019, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of March 31, 2020 to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act were recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Act Commission's rules and forms and that our disclosure controls are effectively designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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.

### **Changes in Internal Control over Financial Reporting**

During the period covered by this Report, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

There are no pending legal proceedings to which the Company is a party or in which any director, officer or affiliate of the Company, any owner of record or beneficially of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company. The Company's property is not the subject of any pending legal proceedings.

### **Item 1A. Risk Factors.**

There have been no material changes to the risk factors disclosed in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on June 30, 2019.

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

Except as set forth below, there were no sales of equity securities sold during the period covered by this Report that were not registered under the Securities Act and were not previously reported in a Current Report on Form 8-K filed by the Company.

On January 15, 2020, the Company issued 75,017 shares of common stock to a contractor for technology design services provided to the Company.

On January 15, 2020, the Company issued 50,000 shares of common stock to a consultant for investor relations services provided to the Company.

On January 17, 2020, the Company issued 259,300 shares of common stock to a noteholder upon the conversion of \$10,000 in convertible note principal and \$5,000 of accrued interest.

On February 12, 2020, the Company issued 50,000 shares of common stock to a consultant for investor relations services provided to the Company.

On February 12, 2020, the Company issued 115,558 shares of common stock to a contractor for technology design services provided to the Company.

On February 12, 2020, the Company issued 600,000 shares of common stock to a consultant for investor relations services provided to the Company.

On February 18, 2020, the Company issued 500,000 shares of common stock to a consultant for advisory board services provided to the Company.

On February 20, 2020, the Company issued 500,000 shares of common stock to a noteholder in satisfaction of \$50,000 in accrued interest.

On March 2, 2020, the Company issued 500,000 shares of common stock to a consultant for investor relations services provided to the Company.

On March 13, 2020, the Company issued 113,578 shares of common stock to a contractor for technology design services provided to the Company.

On March 16, 2020, the Company issued 8,120,000 shares of common stock to fifteen noteholders in connection with the issuance of convertible notes in the aggregate principal amount of \$4,060,000.

On March 27, 2020, the Company issued 400,000 shares of common stock to its counsel for legal services provided to the Company.

The above issuances did not involve any underwriters, underwriting discounts or commissions, or any public offering and we believe is exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(2) thereof and/or Regulation D promulgated thereunder.

**Item 3. Defaults upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

<u>Exhibit No.</u>	<u>Description</u>
4.5	<a href="#">Certificate of Designation of Series B 8% Convertible Preferred Stock</a>
10.33	<a href="#">Form of Debt Exchange Agreement for Convertible Promissory Notes</a>
10.34	<a href="#">Form of Exchange Agreement for Series A Preferred Stock</a>
10.35	<a href="#">Form of Subscription Agreement for Series B 8% Convertible Preferred Stock</a>
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer</a>
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer</a>
32	<a href="#">Chief Executive Officer and Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
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 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: August 6, 2020

By: /s/ Darren Marks  
Darren Marks  
Chief Executive Officer and President  
(Principal Executive Officer)

Date: August 6, 2020

By: /s/ Melvin Leiner  
Melvin Leiner  
Executive Vice President, Chief Financial Officer, Chief Operating  
Officer, Treasurer and Secretary (Principal Financial and Accounting  
Officer)

**ARTICLES OF AMENDMENT  
TO  
ARTICLES OF INCORPORATION  
OF  
GROM SOCIAL ENTERPRISES, INC.**

**CERTIFICATE OF DESIGNATION OF PREFERENCES,  
RIGHTS AND LIMITATIONS  
OF  
SERIES B 8% CONVERTIBLE PREFERRED STOCK**

Grom Social Enterprises, Inc., a Florida corporation (the "Corporation"), in accordance with the provisions of Section 607.0602 of the Florida Business Corporation Act DOES HEREBY CERTIFY:

FIRST: These Articles of Amendment were adopted by the Board of Directors of the Corporation (the "Board") on June 5, 2020 in the manner prescribed by Section 607.1002 of the Florida Business Corporation Act. Shareholder action was not required.

SECOND: That pursuant to the authority vested in the Board in accordance with the provisions of the Articles of Incorporation of the Corporation filed with the Secretary of State of the State of Florida on August 4, 2014, as amended by the amendments filed with the Secretary of State of the State of Florida on each of August 17, 2017, April 8, 2019 and June 12, 2019 (collectively, the "Articles"), the Board adopted the following resolutions on June 5, 2020, designating Ten Million (10,000,000) shares of the Corporation's authorized preferred stock, par value \$0.001 per share (the "Preferred Stock") as "Series B 8% Convertible Preferred Stock":

RESOLVED, pursuant to the authority vested in the Board in accordance with the provisions of the Articles, a series of Series B 8% Convertible Preferred Stock of the Corporation is hereby created, and that the designation and number of shares thereof, and the voting and other rights, preferences, restrictions and other matters relating to such series are as follows:

\*\*\*\*\*

1. Designation and Amount.

(a) The shares of such series of Preferred Stock shall be designated Series B 8% Convertible Preferred Stock (the "Series B Preferred Stock"). The number of shares constituting the Series B Preferred Stock shall be Ten Million (10,000,000). No other shares of preferred stock shall be designated as Series B Preferred Stock. The Corporation expressly reserves the right to designate other classes or series of Preferred Stock from time to time that are junior to the Series B Preferred Stock, without the consent of the holders of the Series B Preferred Stock (the "Holders").

(b) The stated value amount per share of the Series B Preferred Stock shall be \$1.00 per share (the "Stated Value").

2. Ranking. The Series B Preferred Stock shall rank, as to dividends and upon Liquidation (as defined in Section 4(a) hereof), (a) senior and prior to Junior Securities issued by the Corporation; (b) pari passu and on parity with any other class or series of Preferred Stock hereafter created specifically ranking, by its terms, on parity with the Series B Preferred Stock; and (c) junior to any class or series of capital stock of the Corporation hereafter created specifically ranking, by its terms, senior to the Series B Preferred Stock. All equity securities of the Corporation to which the Series B Preferred Stock ranks prior, with respect to dividends and upon Liquidation, including, without limitation, the Series A Preferred Stock and the common stock of the Corporation, par value \$0.001 per share (the "Common Stock"), are collectively referred to herein as "Junior Securities."

3. Dividends. Commencing on the date that the Series B Preferred Stock is initially issued to a holder thereof (the "Original Dividend Accrual Date"), cumulative dividends shall accrue on each share of Series B Preferred Stock, at the rate of 8% per annum (the "Dividend Rate") of the Stated Value, and which shall be payable in arrears quarterly commencing three months after the Original Dividend Accrual Date (each such date, a "Dividend Payment Date"). Any calculation of the amount of such dividends accrued pursuant to the provisions of this Section 3 shall be made based on a 360-day year comprised of twelve 30-day months. The dividend shall be payable in shares of Common Stock (a "PIK Dividend"), *provided, however*, that any fractional shares of Common Stock payable as a PIK Dividend will be rounded up to the nearest share. All shares of Common Stock issued pursuant to a PIK Dividend will thereupon be duly authorized, validly issued, fully paid and non-assessable. Dividends with respect to such additional shares of Common Stock issued as a PIK Dividend shall (a) be due and payable on each Dividend Payment Date following the payment date on which such PIK Dividend was declared (or accrued, if not declared and paid on a Dividend Payment Date) and (b) accrue at the rate set forth in this Section commencing on the day immediately following the Dividend Payment Date on which such PIK Dividends were due and payable (regardless of whether the PIK Dividend was declared or whether the shares of Common Stock constituting the PIK Dividends were actually issued). The Series B Dividends shall accrue and accumulate whether or not they have been declared and whether or not there are profits, surplus or other funds of the Corporation legally available for the payment of dividends.

4. Liquidation Preference.

(a) Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary (a "Liquidation"), the Holders shall be paid, in preference and prior to any payment made to the holders of the Junior Securities and any other stock ranking in liquidation junior to the Series B Preferred Stock, an amount per share equal to the Stated Value, plus, with respect to each share, an amount equal to all accrued and unpaid dividends (whether or not declared) thereon, computed to the date that payment thereof is made available (such amount is referred to herein as the "Liquidation Preference"). If upon a Liquidation Event, the assets to be distributed among the Holders shall be insufficient to permit payment in full to the Holders of the Liquidation Preference, then the entire assets of the Corporation shall be distributed ratably among such holders in proportion to the full respective Liquidation Preference to which they are entitled.

(b) The Holders of at least sixty six and two thirds percent (66 2/3%) of the then outstanding shares of Series B Preferred Stock, may elect to deem the merger, reorganization or consolidation of the Corporation into or with another corporation, not affiliated with said majority, or other similar transaction or series of related transactions in which more than 50% of the voting power of the Corporation is disposed of in exchange for property, rights or securities distributed to holders thereof by the acquiring person, firm or other entity, or the sale of all or substantially all the assets of the Corporation, as a Liquidation for purposes of this Section 4.

5. Voting Rights.

Subject to the other provisions contained herein, each Holder shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock, and shall be entitled to notice of any stockholders' meeting in accordance with the bylaws of the Corporation (as in effect at the time in question) and applicable law, and shall be entitled to vote, together with the holders of Common Stock, with respect to any question upon which the holders of Common Stock have the right to vote, except as may be otherwise provided by applicable law. Except as otherwise expressly provided herein or as required by law, the Holders of Series B Preferred Stock and the holders of Common Stock shall vote together and not as separate classes.

On all matters put to a vote to the holders of Common Stock, each share of Series B Preferred Stock shall entitle the Holder thereof to fifty (50) votes per share of Series B Preferred Stock then held by such Holder at the record date for the determination of the stockholders entitled to vote or, if no such record date is established, the date such vote is taken or any written consent of stockholders is solicited.

6. Conversion at the Option of the Holder.

(a) The Holder shall have the right, at any time or from time to time commencing after the 12-month anniversary date of the issuance of the shares of Series B Preferred Stock to the Holder, to convert such shares into Common Stock (each, and "Optional Conversion") at a conversion ratio equal to the 30-day VWAP of a share of Common Stock for each share of Series B Preferred Stock to be converted (such conversion ratio in effect from time to time, the "Optional Conversion Ratio"). The Optional Conversion Ratio shall be determined by the Holder for the 30-day trading period prior to the Holder electing to convert all or any portion of the Series B Preferred Stock.

(b) The Holder may exercise the conversion rights set forth herein by delivering to the Corporation or any transfer agent of the Corporation for the Series B Preferred Stock as may be designated by the Corporation, the certificate or certificates for the shares to be converted, duly endorsed or assigned in blank to the Corporation (if required by it) (or such holder shall notify the Corporation or any transfer agent that such certificate(s) have been lost, stolen or destroyed and shall execute an agreement reasonably satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection therewith), accompanied by written notice stating that the Holder elects to convert such shares, evidence of the Optional Conversion Ratio and stating the name or names (with address) in which the certificate or certificates for the shares of Common Stock are to be issued. Each Optional Conversion shall be deemed to have been effected on the date when the aforesaid delivery is made (each, an "Optional Conversion Date").

(c) As promptly as practicable thereafter, the Corporation shall issue and deliver to or upon the written order of such Holder, to the place designated by such Holder, a certificate to which such Holder is entitled. The person in whose name the certificate or certificates for Common Stock are to be issued shall be deemed to have become a holder of the Common Stock of record on the applicable Optional Conversion Date. The Corporation shall not close its books against the transfer of shares of Series B Preferred Stock in any manner that would interfere with the timely conversion of any shares of Series B Preferred Stock. Upon conversion of only a portion of the number of shares covered by a certificate representing shares of Series B Preferred Stock surrendered for conversion, the Corporation shall issue and deliver to or upon the written order of the holder of the certificate so surrendered for conversion, at the expense of the Corporation, a new certificate covering the number of shares of the Series B Preferred Stock representing the unconverted portion of the certificate so surrendered.

(d) No fractional shares of Common Stock shall be issued upon conversion of shares of Series B Preferred Stock. If more than one share of Series B Preferred Stock shall be surrendered, or deemed surrendered, pursuant to subsection (c) above, for conversion at any one time by the same Holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of such Series B Preferred Stock so surrendered. Any fractional share which would otherwise be issuable upon conversion of any shares of Series B Preferred Stock (after aggregating all shares of Series B Preferred Stock held by each holder) shall be rounded to the nearest whole number (with one-half being rounded upward).

(e) The Corporation shall reserve, free from preemptive rights, out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of the shares of Series B Preferred Stock sufficient shares to provide for the conversion of all outstanding shares of Series B Preferred Stock. All shares of Common Stock which may be issued in connection with the conversion provisions set forth herein will, upon issuance by the Corporation, be validly issued, fully paid and nonassessable, with no personal liability attaching to the ownership thereof, and free from all taxes, liens or charges with respect thereto.

(f) All shares of Series B Preferred Stock which have been converted (including pursuant to a Mandatory Conversion as provided below in Section 7), shall no longer be deemed to be outstanding and all rights with respect to such shares including the rights to receive dividends and to vote, shall immediately cease and terminate on the Optional Conversion Date, except only the right of the Holder thereof to receive shares of Common Stock in exchange thereof.

7. Mandatory Conversion.

(a) The Corporation, at its option, may require conversion (each, a "Mandatory Conversion") of all or any pro rata portion of the Series B Preferred Stock then outstanding into Common Stock at a fifty percent (50%) discount to the 30-day VWAP of a share of Common Stock for each share of Series B Preferred Stock to be converted (such conversion ratio in effect from time to time, the "Mandatory Conversion Ratio"). Should the Corporation elect a Mandatory Conversion, it shall give notice thereof to all Holders, stating whether all or, if not, what portion of the Series B Preferred Stock will be converted, and selecting a date (each, a "Mandatory Conversion Date") and on which date, at the close of business, the conversion shall occur. Any notice which is mailed by the Corporation as herein provided shall be conclusively presumed to have been duly given by the Corporation on the date deposited in the mail, whether or not the Holder receives such notice; and failure properly to give such notice by mail, or any defect in such notice, to the Holders shall not affect the validity of the proceedings for the conversion of any other shares of Series B Preferred Stock.

(b) On or after the Mandatory Conversion Date, each Holder of shares shall surrender the certificate evidencing such shares to the Corporation at the place designated in the notice of such mandatory conversion for conversion. To the extent that only a portion of the shares are being mandatorily converted, the Corporation shall issue new Series B Preferred Stock certificates for the unconverted shares. On or after the Mandatory Conversion Date, notwithstanding that the certificates evidencing any shares to be converted shall not have been surrendered, to the extent that they have been called for Mandatory Conversion, such shares shall no longer be deemed outstanding and all rights whatsoever with respect to the shares to be converted (except the right of the Holder thereof to have such shares converted upon surrender of their certificates, pursuant to this Section 7) shall terminate.

8. Redemption. The Corporation shall not have the right to call or redeem at any time all or any shares of Series B Preferred Stock other than as provided in Section 7 above.

9. Protective Provisions. At any time when shares of Series B Preferred Stock are outstanding, except where the vote or written consent of the holders of a greater number of shares of the Corporation is required by law or by the Articles of Incorporation, and in addition to any other vote required by law or the Articles of Incorporation, without the written consent of at least the Holders of sixty six and two thirds percent (66 2/3%) of the then outstanding shares of Series B Preferred Stock, given in writing or by a vote at a meeting, consenting or voting (as the case may be) separately as one class, the Corporation will not:

(i) amend, alter or repeal any of the terms of the Series B Preferred Stock in an adverse manner; or

(ii) create or authorize the creation of any additional class or series of Preferred Stock, or otherwise create or authorize the creation of any additional class or series of stock unless the same ranks junior to the Series B Preferred Stock, or increase the authorized amount of such series of Series B Preferred Stock, whether any such creation, authorization or increase shall be by means of amendment to the Articles or by merger, consolidation or otherwise; or

(iii) pay or set apart for payment, any dividend on any Junior Securities or make any payment on account of, or set apart for payment, money for a sinking or other similar fund for, the purchase, redemption or other retirement of, any Junior Securities or any warrants, rights, calls or options exercisable or exchangeable for or convertible into any Junior Securities, or make any distribution in respect thereof, either directly or indirectly, and whether in cash, obligations or shares of the Corporation or other property (other than distributions or dividends in Junior Securities to the holders of Junior Securities); or

(iv) (A) merge or consolidate the Corporation with another entity; (B) sell all or substantially all of the assets owned directly or indirectly by the Corporation; (C) acquire, by merger, issuance of securities of the Corporation or otherwise, of the business, stock or assets of another entity; (D) issue securities of the Corporation in connection with or for the purpose of effecting or facilitating any of the foregoing transactions; (E) reclassify or recapitalize any capital stock of the Corporation; and/or (F) execute of any agreement in furtherance of any of the foregoing actions; or

(v) effect any Liquidation or execute any agreement to become so obligated.

10. Restriction on Transferability. The shares of the Series B Preferred Stock shall not, directly or indirectly, be sold, hypothecated, transferred, assigned or disposed of in any manner without the prior written consent of the Board and applicable securities laws.

11. Other Preferences and Rights. The shares of the Series B Preferred Stock shall have no other preferences, rights, restrictions or qualifications, except as otherwise provided by law or the Articles.

***The remainder of this page is left blank intentional. Signature page follows.***

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Designation as of this 31st day of July, 2020.

**GROM SOCIAL ENTERPRISES, INC.**

By: /s/ Melvin Leiner  
Name: Melvin Leiner  
Title: Executive Vice President

**DEBT EXCHANGE AGREEMENT**

This Debt Exchange Agreement (this "Agreement"), effective as of \_\_\_\_\_, 2020, is entered into by and between Grom Social Enterprises, Inc. , a Florida corporation (the "Company"), and the holder of the outstanding note issued by Company as described below (the "Holder").

WHEREAS, the Holder is currently the holder of one or more of the following notes issued by the Company (in either case, the "Note"): (i) a 10% Convertible Promissory Note, (ii) a 12% Senior Secured Convertible Promissory Note secured by a first priority security interest in and collateral assignment of (a) its wholly-owned subsidiary's right, title and interest in and to all of the shares of stock of TDH Holdings Limited, a Hong Kong corporation ("TDH") and (b) TDH's right, title and interest in and to all of the shares of its wholly owned subsidiary, Top Draw Animation Hong Kong Limited, a Hong Kong corporation; and/or (ii) a 12% Senior Secured Convertible Promissory Note secured by a first priority security interest in all the assets of the Company other than those granted to the holders of the notes described in (i); and

WHEREAS, the Holder desires to convert all indebtedness due and payable pursuant to the Note, including accrued and unpaid interest thereon, into shares of Series B 8% Convertible Preferred Stock of the Company (the "Preferred Stock"), the terms, preferences and rights as described in the Certificate of Designation of the Series B Convertible Preferred Stock which is annexed hereto as Exhibit A, and the Company agrees to effectuate such conversion, all on the terms and conditions provided for in this Agreement.

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

**1. The Exchange.**

(a) Issuance of Shares; Cancellation of Indebtedness. Subject to the terms and conditions of this Agreement, at the Closing (as defined below), the Company shall issue to the Holder \_\_\_\_\_ shares of Preferred Stock (the "Shares") in exchange for the cancellation of all indebtedness owed by the Company to the Holder pursuant to the terms of the Note, including without limitation, all accrued interest thereon and the release of any security interests granted by the Company to the Holder (such exchange hereinafter referred to as the "Exchange").

( b ) Section 3(a)(9) Transaction. It is the intent of the parties that the Exchange be effectuated pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 3(a)(9) thereunder and that, therefore, the holding period of the original indebtedness evidenced by the Note will, for securities law purposes, be tacked to the holding period of the Shares.

(c) Release. Subject to the terms and conditions of this Agreement, at the Closing, the Holder hereby releases, waives, discharges and relinquishes any and all rights, claims, demands, contentions and causes of action of every kind, nature, character and description whatsoever, whether known or unknown, suspected or unsuspected, apparent or concealed, fixed or contingent, arising from the Note on or before the Closing Date, which it now has or hereafter may be entitled to claim against the Company, its directors, officers, managers, members, agents and employees (the "Released Parties"), including but without limiting the generality of foregoing, all claims arising from or in connection with or otherwise resulting from any matter, event, state of facts, claim, contention or cause whatsoever, occurring or existing in connection with or relating to the debt evidenced by the Note on or before the Closing Date (collectively, the "Claims"). The Holder agrees that the waiver and release described in this Section 1(c) applies to all Claims, whether or not the Holder currently knows about them or suspects that they exist. Notwithstanding anything to the contrary expressed or implied herein, however, none of the foregoing released Claims shall include any claims against a Released Party arising by reason of such Released Party's breach of this Agreement. In addition, none of the foregoing releases extend to any breach of this Agreement, and no remedies for any such breach are being released herein.

2. **Closing Deliveries.**

(a) At or promptly after the Closing, the Company shall deliver to the Holder (i) a stock certificate or certificates in the name of the Holder evidencing the Shares, free and clear of all liens and encumbrances, other than those imposed pursuant to the Securities Act and (ii) such other documents, certificates or other information as Holder or its counsel may reasonably request.

(b) At the Closing, the Holder shall deliver to the Company:

i. a duly executed copy of this Agreement;

ii. a duly executed irrevocable proxy in the form attached hereto as Exhibit B, granting the person appointed therein as the Holder's proxy to vote the Shares; and

iii. the original Note for cancellation.

3. **The Closing.** The closing of the Exchange shall be deemed to have occurred as of the effective date referred to above (the "Closing Date") at the offices of the Company (the "Closing").

4. **Representations and Warranties of the Company.** As of the date of this Agreement and as of the Closing, the Company hereby represents and warrants to the Holder that the following representations and warranties are true and complete as of each respective date:

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

(b) **Corporate Power.** The Company has all requisite legal and corporate power and authority to execute and deliver this Agreement and the other agreements contemplated hereby, to effectuate the Exchange, to sell and issue the Shares and to carry out and perform its obligations under the terms of this Agreement.

(c) **Authorization.** All corporate action on the part of the Company and its officers, directors and stockholders necessary for the (i) authorization, execution, delivery and performance of this Agreement, (ii) authorization, sale, issuance and delivery of the Shares and (iii) performance of all of the Company's obligations hereunder have been taken or will be taken prior to the Closing. This Agreement has been duly executed by the Company and constitutes (or will constitute) the valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

(d) **No Conflicts; Consents.** The execution, delivery and performance by the Company of this Agreement and the documents to be delivered hereunder, and the consummation of the transactions contemplated hereby, do not and will not: (a) violate or conflict with the articles of incorporation or bylaws of the Company; (b) violate or conflict with any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company; (c) conflict with, or result in (with or without notice or lapse of time or both) any violation of, or default under, or give rise to a right of termination, acceleration or modification of any obligation or loss of any benefit under any agreement or other instrument to which the Company is a party. No consent, approval, waiver or authorization is required to be obtained by the Company from any person in connection with the execution, delivery and performance by the Company of this Agreement or the consummation of the transactions contemplated hereby, other than the filing of a Current Report on Form 8-K with the Securities and Exchange Commission.

(e) Valid Issuance of Stock. The Shares have been duly authorized and, when issued, sold and delivered in compliance with the provisions of this Agreement, will be duly and validly issued, fully paid and nonassessable. The shares of common stock issuable upon due conversion of the Preferred Stock will be duly and validly issued, fully paid and nonassessable. The Shares will be free and clear of any liens or encumbrances; provided, however, that the Shares shall be subject to restrictions on transfer under state and/or federal securities laws. None of the Shares will be subject to any preemptive rights or rights of first refusal.

(f) Exemption. It is the intention of the Company that the Exchange be made pursuant to an exemption from the registration requirements of the Securities Act pursuant to Section 3(a)(9) thereunder.

5. Representations and Warranties of the Holder. As of the date of this Agreement and as of the Closing, the Holder hereby represents and warrants to the Company that the following representations and warranties are true and complete as of each respective date:

(a) Organization and Standing. If the Holder is an entity, the Holder is duly organized, validly existing under, and by virtue of, the laws of the state of its incorporation or formation, as the case may be, and is in good standing under such laws.

(b) Corporate Power. The Holder has all power and authority to execute and deliver this Agreement, purchase the Shares, effectuate the Exchange, and carry out and perform its obligations under the terms of this Agreement and the transactions contemplated hereby.

(c) Authorization. All action on the part of the Holder necessary for the authorization, execution, delivery and performance of this Agreement, the purchase of the Shares, and the performance of all of the Holder's obligations hereunder have been taken or will be taken prior to the Closing. This Agreement has been duly executed by the Holder and constitutes the valid and legally binding obligation of the Holder, enforceable against it in accordance with its terms, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

(d) For Holder's Account. The Holder represents and confirms that the Shares to be issued to the Holder in the Exchange are being and will be acquired for the Holder's own account, not as nominee or agent, and not with a view to the resale or distribution of any part thereof.

(e) Accredited Investor and Investment Experience. The Holder is an accredited investor, as such term is defined in Regulation D promulgated under the Securities Act. The Holder represents that it and its representatives are experienced in evaluating and investing in securities of companies similar as the Company and that the Holder can bear the economic risk of an investment in the Shares and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the investment in the Shares in exchange for the Note.

(f) Ownership of the Debt. The Holder is the exclusive beneficial and record owner of the Note. The Holder has good, valid and marketable title to said Note, free and clear of all liens, mortgages, charges or other encumbrances and any preemptive or subscription rights, and has not assigned or otherwise transferred or granted any interest in the Note to any person.

(g) No Consents. The Holder is not required to obtain any order, consent, approval or authorization of any person or entity in connection with the execution and delivery of this Agreement or the Exchange.

(h) Information on Company. The Holder has been furnished with all information it has requested from the Company and considered all factors the Holder deems material in deciding on the advisability of converting its Note, which is secured, to the Shares. The Holder has been afforded the opportunity to ask questions of and receive answers from duly authorized officers and/or other representatives of the Company and any additional information which the Holder had requested. The Holder has also reviewed all information including the terms hereof and of the Preferred Stock, with their counsel and professional tax or economic advisers and understands the risks relating hereto.

The Holder understands that the auditors of the Company have expressed their concern as to the viability of the Company and issued a going concern opinion with respect to the Company.

(i) Compliance with Securities Act. The Holder understands and agrees that the Shares have not been registered under the Securities Act or any applicable state securities laws, by reason of their issuance in a transaction that does not require registration under the Securities Act (based in part on the accuracy of the representations and warranties of Holder contained herein), and that such Shares must be held indefinitely unless a subsequent disposition is registered under the Securities Act or any applicable state securities laws or is exempt from such registration.

(j) No other representations. The Holder is not relying on the Company, or its affiliates or agents with respect to economic considerations involved in this investment. The Holder has relied solely on its own advisors. No representations or warranties have been made to the Holder by the Company, or any officer, employee, agent, affiliate or subsidiary of the Company, other than the representations of the Company contained herein, and in effectuating the Exchange the Holder is not relying upon any representations other than those contained herein.

(k) Shares Legend. The Shares shall bear the following or similar legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH SECURITIES ACT OR ANY APPLICABLE STATE SECURITIES LAW OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO [THE COMPANY] THAT SUCH REGISTRATION IS NOT REQUIRED."

(l) Communication of Offer. The offer for the Exchange was directly communicated to the Holder by the Company. At no time was the Holder presented with or solicited by any leaflet, newspaper or magazine article, radio or television advertisement, or any other form of general advertising or solicited or invited to attend a promotional meeting otherwise than in connection and concurrently with such communicated offer.

(m) Restricted Securities. The Holder understands that the Shares have not been registered under the Securities Act and such Holder will not sell, offer to sell, assign, pledge, hypothecate or otherwise transfer any of the Shares unless pursuant to an effective registration statement under the Securities Act, or unless an exemption from registration is available. Notwithstanding anything to the contrary contained in this Agreement, such Holder may transfer (with an opinion of counsel satisfactory to the Company and its counsel) the Shares to its Affiliates (as defined below), provided that each such Affiliate is an "accredited investor" under Regulation D and such Affiliate agrees to be bound by the terms and conditions of this Agreement. For the purposes of this Agreement, an "Affiliate" of any person or entity means any other person or entity directly or indirectly controlling, controlled by or under direct or indirect common control with such person or entity. Affiliate includes each subsidiary of the Company. For purposes of this definition, "control" means the power to direct the management and policies of such person or firm, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

(n) No Governmental Review. The Holder understands that no United States federal or state agency or any other governmental or state agency has passed on or made recommendations or endorsement of the Exchange or the Shares or the suitability of the Exchange nor have such authorities passed upon or endorsed the merits of the Exchange.

(o) Correctness of Representations. Each Holder represents that the foregoing representations and warranties are true and accurate as of the date hereof and shall survive the issuance and delivery of the Shares. If, in any respect, those representations and warranties shall not be true and accurate prior to the Closing Date, the undersigned shall immediately give written notice to the Company specifying which representations and warranties are not true and accurate and the reason therefor. It is specifically understood and agreed by the Holder that neither the Company nor its officers or directors has made, nor by this Agreement shall be construed to make, directly or indirectly, explicitly or by implication, any representation, warranty, projection, assumption, promise, covenant, opinion, recommendation or other statement of any kind or nature with respect to the anticipated operations, investment returns, cash flows, profits or losses of the Company.

(p) Survival. The foregoing representations and warranties shall survive the Closing Date for a period of three years.

6. Miscellaneous.

(a) Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

(b) Governing Law. This Agreement is to be construed in accordance with and governed by the internal laws of the State of Florida without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Florida.

(c) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument. Signatures received by pdf or email shall be deemed to be original signatures.

(d) Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

(e) Notices. Except as may be otherwise provided herein, all notices, requests, waivers and other communications made pursuant to this Agreement shall be in writing and shall be conclusively deemed to have been duly given (a) if delivered personally, when received, (b) if transmitted by facsimile or email, on the date of transmission with receipt of a transmittal confirmation or (c) if by courier service, on the second (2nd) business day following the date of deposit with such courier service, or such earlier delivery date as may be confirmed in writing to the sender by such courier service. A party may change or supplement the addresses given in the signature pages hereto, or designate additional addresses, for purposes of this Section by giving the other party written notice of the new address in the manner set forth above.

(f) Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

(g) Entire Agreement. This Agreement and the documents referred to herein constitute the entire agreement among the parties with respect to the subject matter hereof and no party shall be liable or bound to any other party in any manner by any warranties, representations or covenants except as specifically set forth herein or therein.

*[Remainder of Page Intentionally Omitted; Signature Page Follows]*

IN WITNESS WHEREOF, the undersigned, being the duly authorized representatives of the parties, have executed this Agreement as of the date set forth above.

**GROM SOCIAL ENTERPRISES, INC.**

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

Name:

Title:

**HOLDER**

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

Name:

Title:

Certificate of Designation of the Series B 8% Convertible Preferred Stock

**EXHIBIT B**

**IRREVOCABLE PROXY**

The undersigned, being the legal and beneficial holder of shares of \_\_\_\_\_ shares of Series B 8% Convertible Preferred Stock of Grom Social Enterprises, Inc., a Florida corporation (the "Company"), hereby irrevocably (to the fullest extent permitted by law) appoints and constitutes \_\_\_\_\_, the attorney and proxy of the undersigned with full power of substitution, to the fullest extent of the undersigned's rights with respect to all the shares of the Company owned of record and beneficially by the undersigned, and any and all other interests or securities issued or issuable in respect thereof on or after the date hereof or which the undersigned may acquire after the date hereof (collectively, the "Shares"). Upon the execution hereof, the undersigned agrees that no subsequent proxies will be given with respect to any of the Shares.

This proxy is irrevocable and coupled with an interest. This proxy shall remain in full force and effect for 7 years after the date hereof.

The attorney and proxy named above shall be empowered at any time to exercise all voting and other rights (including, without limitation, the power to execute and deliver written consents with respect to the Shares) of the undersigned in his own discretion at every annual or special meeting of the shareholders of the Company and at every continuation or adjournment thereof, and on every action or approval by written consent of the shareholders of the Company in lieu of any such meeting.

This proxy shall be binding upon the heirs, estates, executors, personal representatives, successors and assigns of the undersigned. If any provision of this proxy or any part of any such provision is held under any circumstance to be invalid or unenforceable in any jurisdiction, then (a) such provision or part thereof shall, with respect to such circumstances and jurisdiction, be deemed amended to conform to applicable laws so as to be valid and enforceable to the fullest possible extent, (b) the invalidity or unenforceability of such provision or part thereof under such circumstances and in such jurisdiction shall not affect the validity or enforceability of such provision or part thereof under any other circumstances or in any other jurisdiction and (c) the invalidity or unenforceability of such provision or part thereof shall not affect the validity or enforceability of the remainder of such provision or the validity or enforceability of any other provision of this proxy. Upon any such determination, the undersigned agrees with the attorney and proxy named above to negotiate in good faith to modify this proxy so as to effect the original intent of the parties.

Each provision of this proxy is separable from every other provision of this proxy, and each part of each provision of this proxy is separable from every other part of such provision.

IN WITNESS WHEREOF, the undersigned has executed this irrevocable proxy as of the \_\_\_<sup>th</sup> day of \_\_\_\_\_, 2020.

\_\_\_\_\_

**EXCHANGE AGREEMENT**

This Exchange Agreement (this "Agreement"), effective as of \_\_\_\_\_, 2020, is entered into by and between Grom Social Enterprises, Inc. , a Florida corporation (the "Company"), and the holder of Series A 10% Convertible Preferred Stock (the "Holder").

WHEREAS, the Holder is currently the holder of Series A 10% Convertible Preferred Stock, par value \$0.001 per share, issued by the Company (the "Series A Shares"); and

WHEREAS, the Holder desires to convert all the Series A Shares it owns, including all dividends payable thereon, into shares of Series B 8% Convertible Preferred Stock of the Company (the "Preferred Stock"), the terms, preferences and rights as described in the Certificate of Designation of the Series B Convertible Preferred Stock which is annexed hereto as Exhibit A, and the Company agrees to effectuate such conversion, all on the terms and conditions provided for in this Agreement.

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

1. **The Exchange.**

(a) Issuance of Shares; Cancellation of Indebtedness. Subject to the terms and conditions of this Agreement, at the Closing (as defined below), the Company shall issue to the Holder \_\_\_\_\_ shares of Preferred Stock (the "Shares") in exchange for the cancellation of the Series A Shares owned by the Holder, including without limitation, all accrued dividends thereon (such exchange hereinafter referred to as the "Exchange").

( b ) Section 3(a)(9) Transaction. It is the intent of the parties that the Exchange be effectuated pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 3(a)(9) thereunder and that, therefore, the holding period of the original issuance of the Series A Shares will, for securities law purposes, be tacked to the holding period of the Shares.

(c) Release. Subject to the terms and conditions of this Agreement, at the Closing, the Holder hereby releases, waives, discharges and relinquishes any and all rights, claims, demands, contentions and causes of action of every kind, nature, character and description whatsoever, whether known or unknown, suspected or unsuspected, apparent or concealed, fixed or contingent, arising from owning the Series A Shares on or before the Closing Date, which it now has or hereafter may be entitled to claim against the Company, its directors, officers, managers, members, agents and employees (the "Released Parties"), including but without limiting the generality of foregoing, all claims arising from or in connection with or otherwise resulting from any matter, event, state of facts, claim, contention or cause whatsoever, occurring or existing in connection with or relating to the debt evidenced by the Note on or before the Closing Date (collectively, the "Claims"). The Holder agrees that the waiver and release described in this Section 1(c) applies to all Claims, whether or not the Holder currently knows about them or suspects that they exist. Notwithstanding anything to the contrary expressed or implied herein, however, none of the foregoing released Claims shall include any claims against a Released Party arising by reason of such Released Party's breach of this Agreement. In addition, none of the foregoing releases extend to any breach of this Agreement, and no remedies for any such breach are being released herein.

2. **Closing Deliveries.**

(a) At or promptly after the Closing, the Company shall deliver to the Holder (i) a stock certificate or certificates in the name of the Holder evidencing the Shares, free and clear of all liens and encumbrances, other than those imposed pursuant to the Securities Act; and (ii) such other documents, certificates or other information as Holder or its counsel may reasonably request.

(b) At the Closing, the Holder shall deliver to the Company

(i) a duly executed signature to this Agreement;

(ii) a duly executed irrevocable proxy in the form attached hereto as Exhibit B, granting the person appointed therein as the Holder's proxy to vote the Shares; and

(iii) the stock certificate evidencing the Series A Shares for cancellation.

3. **The Closing.** The closing of the Exchange shall be deemed to have occurred as of the effective date referred to above (the "Closing Date") at the offices of the Company (the "Closing").

4. **Representations and Warranties of the Company.** As of the date of this Agreement and as of the Closing, the Company hereby represents and warrants to the Holder that the following representations and warranties are true and complete as of each respective date:

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

(b) **Corporate Power.** The Company has all requisite legal and corporate power and authority to execute and deliver this Agreement and the other agreements contemplated hereby, to effectuate the Exchange, to sell and issue the Shares and to carry out and perform its obligations under the terms of this Agreement.

(c) **Authorization.** All corporate action on the part of the Company and its officers, directors and stockholders necessary for the (i) authorization, execution, delivery and performance of this Agreement, (ii) authorization, sale, issuance and delivery of the Shares and (iii) performance of all of the Company's obligations hereunder have been taken or will be taken prior to the Closing. This Agreement has been duly executed by the Company and constitutes (or will constitute) the valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

(d) **No Conflicts; Consents.** The execution, delivery and performance by the Company of this Agreement and the documents to be delivered hereunder, and the consummation of the transactions contemplated hereby, do not and will not: (a) violate or conflict with the articles of incorporation or bylaws of the Company; (b) violate or conflict with any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company; (c) conflict with, or result in (with or without notice or lapse of time or both) any violation of, or default under, or give rise to a right of termination, acceleration or modification of any obligation or loss of any benefit under any agreement or other instrument to which the Company is a party. No consent, approval, waiver or authorization is required to be obtained by the Company from any person in connection with the execution, delivery and performance by the Company of this Agreement or the consummation of the transactions contemplated hereby, other than the filing of a Current Report on Form 8-K with the Securities and Exchange Commission.

(e) **Valid Issuance of Stock.** The Shares have been duly authorized and, when issued, sold and delivered in compliance with the provisions of this Agreement, will be duly and validly issued, fully paid and nonassessable. The shares of common stock issuable upon due conversion of the Preferred Stock will be duly and validly issued, fully paid and nonassessable. The Shares will be free and clear of any liens or encumbrances; provided, however, that the Shares shall be subject to restrictions on transfer under state and/or federal securities laws. None of the Shares will be subject to any preemptive rights or rights of first refusal.

(f) Exemption. It is the intention of the Company that the Exchange be made pursuant to an exemption from the registration requirements of the Securities Act pursuant to Section 3(a)(9) thereunder.

5. Representations and Warranties of the Holder. As of the date of this Agreement and as of the Closing, the Holder hereby represents and warrants to the Company that the following representations and warranties are true and complete as of each respective date:

(a) Organization and Standing. If the Holder is an entity, the Holder is duly organized, validly existing under, and by virtue of, the laws of the state of its incorporation or formation, as the case may be, and is in good standing under such laws.

(b) Corporate Power. The Holder has all power and authority to execute and deliver this Agreement, purchase the Shares, effectuate the Exchange, and carry out and perform its obligations under the terms of this Agreement and the transactions contemplated hereby.

(c) Authorization. All action on the part of the Holder necessary for the authorization, execution, delivery and performance of this Agreement, the purchase of the Shares, and the performance of all of the Holder's obligations hereunder have been taken or will be taken prior to the Closing. This Agreement has been duly executed by the Holder and constitutes the valid and legally binding obligation of the Holder, enforceable against it in accordance with its terms, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

(d) For Holder's Account. The Holder represents and confirms that the Shares to be issued to the Holder in the Exchange are being and will be acquired for the Holder's own account, not as nominee or agent, and not with a view to the resale or distribution of any part thereof.

(e) Accredited Investor and Investment Experience. The Holder is an accredited investor, as such term is defined in Regulation D promulgated under the Securities Act. The Holder represents that it and its representatives are experienced in evaluating and investing in securities of companies similar as the Company and that the Holder can bear the economic risk of an investment in the Shares and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the investment in the Shares in exchange for the Series A Shares.

(f) Ownership of the Series A Shares. The Holder is the exclusive beneficial and record owner of the Series A Shares. The Holder has good, valid and marketable title to the Series A Shares, free and clear of all liens, hypothecations, pledges, charges or other encumbrances and any preemptive or subscription rights, and has not assigned or otherwise transferred or granted any interest in any of the Series A Shares to any person.

(g) No Consents. The Holder is not required to obtain any order, consent, approval or authorization of any person or entity in connection with the execution and delivery of this Agreement or the Exchange.

(h) Information on Company. The Holder has been furnished with all information it has requested from the Company and considered all factors the Holder deems material in deciding on the advisability of converting its Series A Shares to the Shares. The Holder has been afforded the opportunity to ask questions of and receive answers from duly authorized officers and/or other representatives of the Company and any additional information which the Holder had requested. The Holder has also reviewed all information including the terms hereof and of the Preferred Stock, with their counsel and professional tax or economic advisers and understands the risks relating hereto.

The Holder understands that the auditors of the Company have expressed their concern as to the viability of the Company and issued a going concern opinion with respect to the Company.

(i) Compliance with Securities Act. The Holder understands and agrees that the Shares have not been registered under the Securities Act or any applicable state securities laws, by reason of their issuance in a transaction that does not require registration under the Securities Act (based in part on the accuracy of the representations and warranties of Holder contained herein), and that such Shares must be held indefinitely unless a subsequent disposition is registered under the Securities Act or any applicable state securities laws or is exempt from such registration.

(j) No other representations. The Holder is not relying on the Company, or its affiliates or agents with respect to economic considerations involved in this investment. The Holder has relied solely on its own advisors. No representations or warranties have been made to the Holder by the Company, or any officer, employee, agent, affiliate or subsidiary of the Company, other than the representations of the Company contained herein, and in effectuating the Exchange the Holder is not relying upon any representations other than those contained herein.

(k) Shares Legend. The Shares shall bear the following or similar legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH SECURITIES ACT OR ANY APPLICABLE STATE SECURITIES LAW OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO [THE COMPANY] THAT SUCH REGISTRATION IS NOT REQUIRED."

(l) Communication of Offer. The offer for the Exchange was directly communicated to the Holder by the Company. At no time was the Holder presented with or solicited by any leaflet, newspaper or magazine article, radio or television advertisement, or any other form of general advertising or solicited or invited to attend a promotional meeting otherwise than in connection and concurrently with such communicated offer.

(m) Restricted Securities. The Holder understands that the Shares have not been registered under the Securities Act and such Holder will not sell, offer to sell, assign, pledge, hypothecate or otherwise transfer any of the Shares unless pursuant to an effective registration statement under the Securities Act, or unless an exemption from registration is available. Notwithstanding anything to the contrary contained in this Agreement, such Holder may transfer (with an opinion of counsel satisfactory to the Company and its counsel) the Shares to its Affiliates (as defined below), provided that each such Affiliate is an "accredited investor" under Regulation D and such Affiliate agrees to be bound by the terms and conditions of this Agreement. For the purposes of this Agreement, an "Affiliate" of any person or entity means any other person or entity directly or indirectly controlling, controlled by or under direct or indirect common control with such person or entity. Affiliate includes each subsidiary of the Company. For purposes of this definition, "control" means the power to direct the management and policies of such person or firm, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

(n) No Governmental Review. The Holder understands that no United States federal or state agency or any other governmental or state agency has passed on or made recommendations or endorsement of the Exchange or the Shares or the suitability of the Exchange nor have such authorities passed upon or endorsed the merits of the Exchange.

(o) Correctness of Representations. Each Holder represents that the foregoing representations and warranties are true and accurate as of the date hereof and shall survive the issuance and delivery of the Shares. If, in any respect, those representations and warranties shall not be true and accurate prior to the Closing Date, the undersigned shall immediately give written notice to the Company specifying which representations and warranties are not true and accurate and the reason therefor. It is specifically understood and agreed by the Holder that neither the Company nor its officers or directors has made, nor by this Agreement shall be construed to make, directly or indirectly, explicitly or by implication, any representation, warranty, projection, assumption, promise, covenant, opinion, recommendation or other statement of any kind or nature with respect to the anticipated operations, investment returns, cash flows, profits or losses of the Company.

(p) Survival. The foregoing representations and warranties shall survive the Closing Date for a period of three years.

6. Miscellaneous.

(a) Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

(b) Governing Law. This Agreement is to be construed in accordance with and governed by the internal laws of the State of Florida without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Florida.

(c) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument. Signatures received by pdf or email shall be deemed to be original signatures.

(d) Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

(e) Notices. Except as may be otherwise provided herein, all notices, requests, waivers and other communications made pursuant to this Agreement shall be in writing and shall be conclusively deemed to have been duly given (a) if delivered personally, when received, (b) if transmitted by facsimile or email, on the date of transmission with receipt of a transmittal confirmation or (c) if by courier service, on the second (2nd) business day following the date of deposit with such courier service, or such earlier delivery date as may be confirmed in writing to the sender by such courier service. A party may change or supplement the addresses given in the signature pages hereto, or designate additional addresses, for purposes of this Section by giving the other party written notice of the new address in the manner set forth above.

(f) Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

(g) Entire Agreement. This Agreement and the documents referred to herein constitute the entire agreement among the parties with respect to the subject matter hereof and no party shall be liable or bound to any other party in any manner by any warranties, representations or covenants except as specifically set forth herein or therein.

*[Remainder of Page Intentionally Omitted; Signature Page Follows]*

IN WITNESS WHEREOF, the undersigned, being the duly authorized representatives of the parties, have executed this Agreement as of the date set forth above.

**GROM SOCIAL ENTERPRISES, INC.**

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

Name:

Title:

**HOLDER**

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

Name:

Title:

Certificate of Designation of the Series B 8% Convertible Preferred Stock

**EXHIBIT B**

**IRREVOCABLE PROXY**

The undersigned, being the legal and beneficial holder of shares of \_\_\_\_\_ shares of Series B 8% Convertible Preferred Stock of Grom Social Enterprises, Inc., a Florida corporation (the "Company"), hereby irrevocably (to the fullest extent permitted by law) appoints and constitutes \_\_\_\_\_, the attorney and proxy of the undersigned with full power of substitution, to the fullest extent of the undersigned's rights with respect to all the shares of the Company owned of record and beneficially by the undersigned, and any and all other interests or securities issued or issuable in respect thereof on or after the date hereof or which the undersigned may acquire after the date hereof (collectively, the "Shares"). Upon the execution hereof, the undersigned agrees that no subsequent proxies will be given with respect to any of the Shares.

This proxy is irrevocable and coupled with an interest. This proxy shall remain in full force and effect for 7 years after the date hereof.

The attorney and proxy named above shall be empowered at any time to exercise all voting and other rights (including, without limitation, the power to execute and deliver written consents with respect to the Shares) of the undersigned in his own discretion at every annual or special meeting of the shareholders of the Company and at every continuation or adjournment thereof, and on every action or approval by written consent of the shareholders of the Company in lieu of any such meeting.

This proxy shall be binding upon the heirs, estates, executors, personal representatives, successors and assigns of the undersigned. If any provision of this proxy or any part of any such provision is held under any circumstance to be invalid or unenforceable in any jurisdiction, then (a) such provision or part thereof shall, with respect to such circumstances and jurisdiction, be deemed amended to conform to applicable laws so as to be valid and enforceable to the fullest possible extent, (b) the invalidity or unenforceability of such provision or part thereof under such circumstances and in such jurisdiction shall not affect the validity or enforceability of such provision or part thereof under any other circumstances or in any other jurisdiction and (c) the invalidity or unenforceability of such provision or part thereof shall not affect the validity or enforceability of the remainder of such provision or the validity or enforceability of any other provision of this proxy. Upon any such determination, the undersigned agrees with the attorney and proxy named above to negotiate in good faith to modify this proxy so as to effect the original intent of the parties.

Each provision of this proxy is separable from every other provision of this proxy, and each part of each provision of this proxy is separable from every other part of such provision.

IN WITNESS WHEREOF, the undersigned has executed this irrevocable proxy as of the \_\_\_<sup>th</sup> day of \_\_\_\_\_, 2020.

\_\_\_\_\_

**SUBSCRIPTION AGREEMENT**

**THIS SUBSCRIPTION AGREEMENT** (this "**Agreement**"), is dated as of \_\_\_\_\_, 2020, by and between GROM SOCIAL ENTERPRISES, INC., a Florida corporation (the "**Company**"), and the subscriber identified on the signature page hereto (each a "**Subscriber**" and collectively "**Subscribers**").

**WHEREAS**, the Company and the Subscribers are executing and delivering this Agreement in reliance upon an exemption from securities registration afforded by the provisions of Section 4(2), Section 4(6) and/or Regulation D ("**Regulation D**") as promulgated by the United States Securities and Exchange Commission (the "**Commission**") under the Securities Act of 1933, as amended (the "**1933 Act**"); and

**WHEREAS**, the parties desire that, upon the terms and subject to the conditions contained herein, the Company shall issue and sell to the Subscribers, as provided herein, and the Subscribers, in the aggregate, shall purchase up to a maximum of 10,000,000 shares, on a rolling basis, of Series B 8% Convertible Preferred Stock of the Company (the "**Preferred Stock**"), the terms, preferences and rights as described in the Certificate of Designation of the Series B Convertible Preferred Stock which is annexed hereto as **Exhibit A**, convertible into shares of the Company's Common Stock, \$0.001 par value (the "**Common Stock**"), as described therein. The per share purchase price of each share of Preferred Stock shall be \$1.00 per share (the "**Purchase Price**"). The Preferred Stock and the shares of Common Stock issuable upon conversion of the Preferred Stock (the "**Conversion Shares**") are collectively referred to herein as the "**Securities**".

**NOW, THEREFORE**, in consideration of the mutual covenants and other agreements contained in this Agreement, the Company and the Subscribers hereby agree as follows:

1 . Purchase: Closing Date. The Subscriber understands and acknowledges that the Purchase Price to be remitted to the Company in exchange for the Preferred Stock is as indicated on the signature page hereto. The Subscriber's delivery of this Agreement to the Company shall be accompanied by payment of the Purchase Price, payable in United States Dollars, by wire transfer, or check of immediately available funds delivered contemporaneously with the Subscriber's delivery of this Agreement to the Company in accordance with the wire instructions provided on **Exhibit C**. The Subscriber understands and agrees that, subject to Section 2 and applicable laws, by executing this Agreement, it is entering into a binding agreement.

The "**Closing Date**" shall be the date that the Purchase Price is transmitted by wire transfer or otherwise credited to or for the benefit of the Company and the Company accepts the Purchase Price, as indicated by sending the Subscriber a signature page to this Agreement, duly executed by the Company. Subject to the satisfaction or waiver of the terms and conditions of this Agreement, on the Closing Date, each Subscriber shall purchase and the Company shall sell to each Subscriber the number of shares of Preferred Stock in the amount designated on the signature page hereto for the Purchase Price indicated thereon.

The Subscriber agrees and acknowledges that there is no minimum amount to be raised in this offering, and therefore the Company will accept the Purchase Price upon the transmittal thereof. Accordingly, the Company may not raise sufficient funds to effectuate its business plan.

The Subscriber further agrees and acknowledges that the majority of the shares of the Preferred Stock to be issued shall be issued to current securityholders of the Company who are converting their outstanding debt and equity securities to shares of the Preferred Stock.

2. Subscriber's Representations and Warranties. Each Subscriber hereby represents and warrants to and agrees with the Company only as to such Subscriber that:

(a) Organization and Standing of the Subscribers. If the Subscriber is an entity, such Subscriber is a corporation, partnership or other entity duly incorporated or organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization.

(b) Authorization and Power. Each Subscriber has the requisite power and authority to enter into and perform this Agreement and to purchase the Preferred Stock being sold to it hereunder. The execution, delivery and performance of this Agreement by such Subscriber and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate or partnership action, and no further consent or authorization of such Subscriber or its Board of Directors, stockholders, partners, members, trustees, as the case may be, is required. This Agreement has been duly authorized, executed and delivered by Subscriber and constitutes, or shall constitute when executed and delivered, a valid and binding obligation of the Subscriber enforceable against the Subscriber in accordance with the terms thereof.

(c) No Conflicts. The execution, delivery and performance of this Agreement and the consummation by such Subscriber of the transactions contemplated hereby or relating hereto do not and will not (i) result in a violation of such Subscriber's charter documents or bylaws or other organizational documents or (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of any agreement, indenture or instrument or obligation to which such Subscriber is a party or by which its properties or assets are bound, or result in a violation of any law, rule, or regulation, or any order, judgment or decree of any court or governmental agency applicable to such Subscriber or its properties (except for such conflicts, defaults and violations as would not, individually or in the aggregate, have a material adverse effect on such Subscriber). Such Subscriber is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement or to purchase the Securities in accordance with the terms hereof, provided that for purposes of the representation made in this sentence, such Subscriber is assuming and relying upon the accuracy of the relevant representations and agreements of the Company herein.

(d) Information on Company. The Subscriber has been furnished with all information it has requested from the Company and considered all factors the Subscriber deems material in deciding on the advisability of investing in the Securities. The Subscriber further understands that the Company has been filing reports with the Commission. The Subscriber has been afforded the opportunity to ask questions of and receive answers from duly authorized officers and/or other representatives of the Company and any additional information which the Subscriber had requested. The Subscriber has also reviewed all information including the terms hereof and of the Preferred Stock, with their counsel and professional tax or economic advisers and understands the risks relating hereto.

The Subscriber understands that the auditors of the Company have expressed their concern as to the viability of the Company and issued a going concern opinion with respect to the Company.

(e) Information on Subscriber. The Subscriber is, and will be at the time of the conversion of the Preferred Stock, an "**accredited investor**", as such term is defined in Regulation D promulgated by the Commission under the 1933 Act, is experienced in investments and business matters, has made investments of a speculative nature and has purchased securities of companies in private placements in the past and, with its representatives, has such knowledge and experience in financial, tax and other business matters as to enable the Subscriber to utilize the information made available by the Company to evaluate the merits and risks of and to make an informed investment decision with respect to the proposed purchase, which represents a speculative investment. The Subscriber has the authority and is duly and legally qualified to purchase and own the Securities. The Subscriber is able to bear the risk of such investment for an indefinite period and to afford a complete loss thereof. The information set forth on the signature page hereto and on the accredited investor questionnaire annexed hereto as **Exhibit B** regarding the Subscriber is accurate.

( f ) Purchase of Preferred Stock. On the Closing Date, the Subscriber will purchase the Preferred Stock as principal for its own account for investment only and not with a view toward, or for resale in connection with, the public sale or any distribution thereof. The Subscriber has been advised of and acknowledges that (i) there is currently no market for the Preferred Stock being purchased herein, and (ii) it is not intended that any market will develop for the Preferred Stock.

(g) Compliance with Securities Act. The Subscriber understands and agrees that the Securities have not been registered under the 1933 Act or any applicable state securities laws, by reason of their issuance in a transaction that does not require registration under the 1933 Act (based in part on the accuracy of the representations and warranties of Subscriber contained herein), and that such Securities must be held indefinitely unless a subsequent disposition is registered under the 1933 Act or any applicable state securities laws or is exempt from such registration.

(h) Experience of Subscriber. The Subscriber is (i) experienced in making investments of the kind described in this Agreement and the related documents, (ii) able, by reason of the business and financial experience of its officers (if an entity) and professional advisors (who are not affiliated with or compensated in any way by the Company or any of its affiliates or selling agents), to protect its own interests in connection with the transactions described in this Agreement, and the related documents, and (iii) able to afford the entire loss of its investment in the Securities. The Subscriber's overall commitment to investments which are not readily marketable is not disproportionate to the Subscriber's net worth, and an investment in the Securities will not cause such overall commitment to become excessive.

( i ) No other representations. The Subscriber is not relying on the Company, or its affiliates or agents with respect to economic considerations involved in this investment. The Subscriber has relied solely on its own advisors. No representations or warranties have been made to the Subscriber by the Company, or any officer, employee, agent, affiliate or subsidiary of the Company, other than the representations of the Company contained herein, and in subscribing for the Securities the Subscriber is not relying upon any representations other than those contained herein.

(j) Shares Legend. The Preferred Stock and the Conversion Shares shall bear the following or similar legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THESE SHARES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH SECURITIES ACT OR ANY APPLICABLE STATE SECURITIES LAW OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO [THE COMPANY] THAT SUCH REGISTRATION IS NOT REQUIRED."

(k) Communication of Offer. The offer to sell the Securities was directly communicated to the Subscriber by the Company. At no time was the Subscriber presented with or solicited by any leaflet, newspaper or magazine article, radio or television advertisement, or any other form of general advertising or solicited or invited to attend a promotional meeting otherwise than in connection and concurrently with such communicated offer.

(l) Authority; Enforceability. This Agreement and other agreements delivered together with this Agreement or in connection herewith have been duly authorized, executed and delivered by the Subscriber and are valid and binding agreements enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity; and Subscriber has full power and authority necessary to enter into this Agreement and such other agreements and to perform its obligations hereunder and under all other agreements entered into by the Subscriber relating hereto.

( m ) Restricted Securities. Subscriber understands that the Securities have not been registered under the 1933 Act and such Subscriber will not sell, offer to sell, assign, pledge, hypothecate or otherwise transfer any of the Securities unless pursuant to an effective registration statement under the 1933 Act, or unless an exemption from registration is available. Notwithstanding anything to the contrary contained in this Agreement, such Subscriber may transfer (with an opinion of counsel satisfactory to the Company and its counsel) the Securities to its Affiliates (as defined below), provided that each such Affiliate is an "accredited investor" under Regulation D and such Affiliate agrees to be bound by the terms and conditions of this Agreement. For the purposes of this Agreement, an "Affiliate" of any person or entity means any other person or entity directly or indirectly controlling, controlled by or under direct or indirect common control with such person or entity. Affiliate includes each subsidiary of the Company. For purposes of this definition, "control" means the power to direct the management and policies of such person or firm, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

(n) No Governmental Review. Each Subscriber understands that no United States federal or state agency or any other governmental or state agency has passed on or made recommendations or endorsement of the Securities or the suitability of the investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

(o) Correctness of Representations. Each Subscriber represents that the foregoing representations and warranties are true and accurate as of the date hereof and shall survive the issuance and delivery of the Conversion Shares. If, in any respect, those representations and warranties shall not be true and accurate prior to delivery of the payment pursuant to Section 1 above, the undersigned shall immediately give written notice to the Company specifying which representations and warranties are not true and accurate and the reason therefor. It is specifically understood and agreed by the Subscriber that neither the Company nor its officers or directors has made, nor by this Agreement shall be construed to make, directly or indirectly, explicitly or by implication, any representation, warranty, projection, assumption, promise, covenant, opinion, recommendation or other statement of any kind or nature with respect to the anticipated operations, investment returns, cash flows, profits or losses of the Company.

(p) Survival. The foregoing representations and warranties shall survive the Closing Date for a period of three years.

3. Company Representations and Warranties. The Company represents and warrants to and agrees with each Subscriber that:

(a) Due Incorporation. The Company is a corporation or other entity duly incorporated or organized, validly existing and in good standing under the laws of the State of Florida and has the requisite corporate power to own its properties and to carry on its business as presently conducted.

(b) Authority; Enforceability. This Agreement and any other agreements delivered together with this Agreement or in connection herewith (collectively "**Transaction Documents**") have been duly authorized, executed and delivered by the Company and are valid and binding agreements of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity. The Company has full corporate power and authority necessary to enter into and deliver the Transaction Documents and to perform its obligations thereunder.

(c) Consents. No consent, approval, authorization or order of any court, governmental agency or body or arbitrator having jurisdiction over the Company, or any of its Affiliates nor the Company's shareholders is required for the execution by the Company of the Transaction Documents and compliance and performance by the Company of its obligations under the Transaction Documents, including, without limitation, the issuance and sale of the Securities. The Transaction Documents and the Company's performance of its obligations thereunder has been unanimously approved by the Company's Board of Directors.

(d) No Violation or Conflict. Assuming the representations and warranties of the Subscribers in Section 2 are true and correct, neither the issuance and sale of the Securities nor the performance of the Company's obligations under this Agreement and all other agreements entered into by the Company relating thereto by the Company will violate, conflict with, result in a breach of, or constitute a default (or an event which with the giving of notice or the lapse of time or both would be reasonably likely to constitute a default) under (A) the articles or certificate of incorporation, charter or bylaws of the Company, (B) to the Company's knowledge, any decree, judgment, order, law, treaty, rule, regulation or determination applicable to the Company of any court, governmental agency or body, or arbitrator having jurisdiction over the Company or over the properties or assets of the Company or any of its Affiliates, (C) the terms of any bond, debenture, note or any other evidence of indebtedness, or any agreement, stock option or other similar plan, indenture, lease, mortgage, deed of trust or other instrument to which the Company or any of its Affiliates is a party, by which the Company or any of its Affiliates is bound, or to which any of the properties of the Company or any of its Affiliates is subject.

(e) The Securities. The Securities upon issuance:

- (i) are, or will be, free and clear of any security interests, liens, claims or other encumbrances, subject to restrictions upon transfer under the 1933 Act and any applicable state securities laws;
- (ii) have been, or will be, duly and validly authorized and issued, fully paid and non-assessable;
- (iii) will not have been issued or sold in violation of any preemptive or other similar rights of the holders of any securities of the Company;
- (iv) will not subject the holders thereof to personal liability by reason of being such holders; and
- (v) assuming the representations warranties of the Subscribers as set forth in Section 2 hereof are true and correct, will not result in a violation of Section 5 under the 1933 Act.

(f) No Integrated Offering. Neither the Company, nor any of its Affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would cause the offer of the Securities pursuant to this Agreement to be integrated with prior offerings by the Company for purposes of the 1933 Act or any applicable stockholder approval provisions. Nor will the Company nor any of its Affiliates take any action or steps that would cause the offer or issuance of the Securities to be integrated with other offerings which would impair the exemptions relied upon in this offering or the Company's ability to timely comply with its obligations hereunder. The Company will not conduct any offering other than the transactions contemplated hereby that will be integrated with the offer or issuance of the Securities, which would impair the exemptions relied upon in this offering or the Company's ability to timely comply with its obligations hereunder.

(g) No General Solicitation. Neither the Company, nor any of its Affiliates, nor to its knowledge, any person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the 1933 Act) in connection with the offer or sale of the Securities.

(h) Correctness of Representations. The Company represents that the foregoing representations and warranties are true and correct as of the date hereof in all material respects, and, unless the Company otherwise notifies the Subscribers prior to the Closing Date, shall be true and correct in all material respects as of the Closing Date.

#### 4. Indemnification.

(a) The Company agrees to indemnify, hold harmless, reimburse and defend the Subscribers, the Subscribers' officers, directors, agents, Affiliates, control persons, and principal shareholders, against any claim, cost, expense, liability, obligation, loss or damage (including reasonable legal fees) of any nature, incurred by or imposed upon the Subscriber or any such person which results, arises out of or is based upon (i) any material misrepresentation by Company or breach of any warranty by Company in this Agreement or in any Exhibits attached hereto, or other agreement delivered pursuant hereto; or (ii) after any applicable notice and/or cure periods, any breach or default in performance by the Company of any covenant or undertaking to be performed by the Company hereunder, or any other agreement entered into by the Company and Subscriber relating hereto.

(b) Each Subscriber agrees to indemnify, hold harmless, reimburse and defend the Company and each of the Company's officers, directors, agents, Affiliates, control persons against any claim, cost, expense, liability, obligation, loss or damage (including reasonable legal fees) of any nature, incurred by or imposed upon the Company or any such person which results, arises out of or is based upon (i) any misrepresentation by such Subscriber in this Agreement or in any Exhibits attached hereto, or other agreement delivered pursuant hereto; or (ii) after any applicable notice and/or cure periods, any breach or default in performance by such Subscriber of any covenant or undertaking to be performed by such Subscriber hereunder, or any other agreement entered into by the Company and Subscribers, relating hereto.

5. Miscellaneous.

(a) Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be: (i) if to the Company, to: Grom Social Enterprises, Inc., 2060 NW Boca Raton Blvd. #6 Boca Raton, Florida 33431, (ii) if to the Subscriber, to: the one or more addresses and telecopier numbers indicated on the signature pages hereto.

(b) Entire Agreement; Assignment. This Agreement and other documents delivered in connection herewith represent the entire agreement between the parties hereto with respect to the subject matter hereof and may be amended only by a writing executed by both parties. Neither the Company nor the Subscribers have relied on any representations not contained or referred to in this Agreement and the documents delivered herewith. No right or obligation of the Subscriber shall be assigned without prior notice to and the written consent of the Company.

(c) Counterparts/Execution. This Agreement may be executed in any number of counterparts and by the different signatories hereto on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument. The delivery of an executed counterpart of this Agreement by electronic means, including by facsimile or by "pdf" attachment to email, shall be deemed to be valid delivery thereof binding upon all the parties hereto.

(d) Law Governing this Agreement. This Agreement shall be governed by and construed in accordance with the laws of the State of Florida without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of Florida or in the federal courts located in the state and county of Florida located in Palm Beach County, Florida. The parties to this Agreement hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. The prevailing party shall be entitled to recover from the other party its reasonable attorneys' fees and costs. The parties executing this Agreement and other agreements referred to herein or delivered in connection herewith on behalf of the Subscriber agree to submit to the in personam jurisdiction of such courts. In the event that any provision of this Agreement or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. **IN ANY ACTION, SUIT, OR PROCEEDING IN ANY JURISDICTION BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY, THE PARTIES EACH KNOWINGLY AND INTENTIONALLY, TO THE GREATEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY AND EXPRESSLY WAIVES FOREVER TRIAL BY JURY.**

(e) Independent Nature of Subscribers. The Company acknowledges that the obligations of each Subscriber under the Transaction Documents are several and not joint with the obligations of any other Subscriber, and no Subscriber shall be responsible in any way for the performance of the obligations of any other Subscriber under the Transaction Documents. The Company acknowledges that each Subscriber has represented that the decision of each Subscriber to purchase Securities has been made by such Subscriber independently of any other Subscriber and independently of any information, materials, statements or opinions as to the business, affairs, operations, assets, properties, liabilities, results of operations, condition (financial or otherwise) or prospects of the Company which may have been made or given by any other Subscriber or by any agent or employee of any other Subscriber, and no Subscriber or any of its agents or employees shall have any liability to any Subscriber (or any other person) relating to or arising from any such information, materials, statements or opinions. The Company acknowledges that nothing contained in any Transaction Document, and no action taken by any Subscriber pursuant hereto or thereto shall be deemed to constitute the Subscribers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Subscribers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. The Company acknowledges that each Subscriber shall be entitled to independently protect and enforce its rights, including without limitation, the rights arising out of the Transaction Documents, and it shall not be necessary for any other Subscriber to be joined as an additional party in any proceeding for such purpose. The Company acknowledges that it has elected to provide all Subscribers with the same terms and Transaction Documents for the convenience of the Company and not because Company was required or requested to do so by the Subscribers. The Company acknowledges that such procedure with respect to the Transaction Documents in no way creates a presumption that the Subscribers are in any way acting in concert or as a group with respect to the Transaction Documents or the transactions contemplated thereby.

*Remainder of Page Intentionally Omitted; Signature Pages to Follow*

**SIGNATURE PAGE TO SUBSCRIPTION AGREEMENT**

Please acknowledge your acceptance of the foregoing Subscription Agreement by signing and returning a copy to the Company; the Agreement shall become a binding agreement between us upon the execution by the Company.

**GROM SOCIAL ENTERPRISES, INC.**

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

Name:

Title:

Dated: \_\_\_\_\_, 2020

SUBSCRIBER	PURCHASE PRICE AND AMOUNT OF SHARES OF PREFERRED STOCK
Name of Subscriber: _____  Address: _____  Fax No.: _____  Email address: _____  Taxpayer ID# (if applicable): _____  _____  (Signature) By:	

*If an individual, provide copy of government issued identification, such as passport or drivers' license*

*If an entity, provide copy of articles of incorporation, certificate of formation or other documentation*

**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 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: August 6, 2020

/s/ Darren Marks

Darren Marks, Chief Executive Officer, President, and Chairman  
(Principal Executive Officer)

**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 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: August 6, 2020

/s/ Melvin Leiner

Melvin Leiner, Chief Operating Officer, Executive Vice President, Chief Financial Officer, Director and Secretary (Principal Financial and Accounting Officer)

**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 for the three month period ended March 31, 2020, as filed with the Securities and Exchange Commission on May 20, 2019 (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: August 6, 2020

/s/ Darren Marks  
Darren Marks, Chief Executive Officer, President, and Chairman  
(Principal Executive Officer)

Dated: August 6, 2020

/s/ Melvin Leiner  
Melvin Leiner, Chief Operating Officer, Executive Vice President, Chief Financial Officer, Director and Secretary (Principal Financial and Accounting Officer)