

SURGE COMPONENTS INC  
Form 10-Q  
April 14, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For The Quarterly Period Ended February 28, 2017**

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

*COMMISSION FILE NUMBER 000-27688*

**SURGE COMPONENTS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**11-2602030**  
(I.R.S. Employer  
Identification No.)

**95 East Jefryn Blvd., Deer Park, New York**  
(Address of principal executive offices)

**11729**  
(Zip code)

Issuer's telephone number: **(631) 595-1818**

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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 April 6, 2017 there were 5,224,431 outstanding shares of the Registrant's Common Stock, \$.001 par value.

**SURGE COMPONENTS, INC**

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**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****SURGE COMPONENTS, INC. AND SUBSIDIARIES**

## Consolidated Balance Sheets

	February 28, 2017 (unaudited)	November 30, 2016
<b>ASSETS</b>		
Current assets:		
Cash	\$7,250,109	\$7,120,601
Accounts receivable - net of allowance for doubtful accounts of \$159,976 and \$159,976	4,033,848	5,558,808
Inventory, net	3,058,909	2,929,570
Prepaid expenses and income taxes	136,040	144,824
Deferred income taxes	318,253	304,887
Total current assets	14,797,159	16,058,690
Fixed assets – net of accumulated depreciation and amortization of \$2,193,374 and \$2,185,540	87,334	81,974
Deferred income taxes	747,502	609,773
Other assets	13,384	13,384
Total assets	\$15,645,379	\$16,763,821

See notes to consolidated financial statements

## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(Continued)

	February 28, 2017 (unaudited)	November 30, 2016
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$2,957,156	\$3,237,592
Accrued expenses and taxes	958,048	1,544,882
Accrued salaries	533,825	431,111
Total current liabilities	4,449,029	5,213,585
Deferred rent	38,748	39,962
Total liabilities	4,487,777	5,253,547
Commitments and contingencies		
Shareholders' equity		
Preferred stock - \$.001 par value stock, 5,000,000 shares authorized:		
Series A – 260,000 shares authorized, none outstanding, non-voting, convertible, redeemable.		
Series B – 200,000 shares authorized, none outstanding, voting, convertible, redeemable.		
Series C–100,000 shares authorized, 10,000 and 10,000 shares issued and outstanding, redeemable, convertible, and a liquidation preference of \$5 per share	10	10
Series D – 75,000 shares authorized, none issued or outstanding, voting, convertible, redeemable.		
Common stock - \$.001 par value stock, 75,000,000 shares authorized, 10,224,431 and 10,224,431 shares issued and outstanding	10,224	10,224
Additional paid-in capital	23,702,310	23,702,310
Accumulated deficit	(12,554,942)	(12,202,270 )
Total shareholders' equity	11,157,602	11,510,274
Total liabilities and shareholders' equity	\$15,645,379	\$16,763,821

See notes to consolidated financial statements.

## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

(unaudited)

	Three Months Ended	
	February 28, 2017	February 29, 2016
Net sales	\$5,665,147	\$6,316,011
Cost of goods sold	4,255,794	4,659,999
Gross profit	1,409,353	1,656,012
Operating expenses:		
Selling and shipping expenses	560,776	525,846
General and administrative expenses	1,329,063	998,902
Depreciation and amortization	7,834	7,816
Total operating expenses	1,897,673	1,532,564
(Loss) Income before other income and income taxes	(488,320 )	123,448
Other income:		
Investment income	2,968	1,325
Other income	2,968	1,325
(Loss) Income before income taxes	(485,352 )	124,773
Income taxes (benefits)	(135,180 )	30,302
Net (Loss) income	\$(350,172 )	\$94,471
Dividends on preferred stock	2,500	2,500
Net (Loss) income available to common shareholders	\$(352,672 )	\$91,971
Net (Loss) income per share available to common shareholders:		
Basic	\$(.03 )	\$.01
Diluted	\$(.03 )	\$.01



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Weighted Shares Outstanding:

Basic	10,224,431	9,999,125
Diluted	10,224,431	10,115,350

See notes to consolidated financial statements.

## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(unaudited)

	Three Months Ended	
	February 28, 2017	February 29, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (Loss) Income	\$(350,172 )	\$ 94,471
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,834	7,816
Stock compensation expense	-	-
Deferred income taxes	(151,095 )	(2,436 )
Allowance for doubtful accounts	-	8,440
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES:</b>		
Accounts receivable	1,524,960	679,426
Inventory	(129,339 )	220,052
Prepaid expenses and income taxes	8,784	(8,045 )
Other assets	-	-
Accounts payable	(280,436 )	(869,343 )
Deferred rent	(1,214 )	(355 )
Accrued expenses	(486,620 )	(214,002 )
<b>NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>142,702</b>	<b>(83,976 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of fixed assets	(13,194 )	(1,520 )
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>\$(13,194 )</b>	<b>\$(1,520 )</b>

## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(unaudited)

(Continued)

	Three Months Ended	
	February 28, 2017	February 29, 2016
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of Common Stock	\$-	\$-
Proceeds from exercising stock options	-	-
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN CASH</b>	<b>129,508</b>	<b>(85,496 )</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>7,120,601</b>	<b>7,169,118</b>
<b>CASH AT END OF PERIOD</b>	<b>\$7,250,109</b>	<b>\$7,083,622</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Income taxes paid	\$9,611	\$3,355
Interest paid	\$-	\$-
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Accrued dividends on preferred stock	\$2,500	\$2,500

See notes to consolidated financial statements.

SURGE COMPONENTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE A – ORGANIZATION, DESCRIPTION OF COMPANY’S BUSINESS AND BASIS OF PRESENTATION

Surge Components, Inc. (“Surge”) was incorporated in the State of New York and commenced operations on November 24, 1981 as an importer of electronic products, primarily capacitors and discrete semi-conductors selling to customers located principally throughout North America. On June 24, 1988, Surge formed Challenge/Surge Inc. (“Challenge”), a wholly-owned subsidiary to engage in the sale of electronic component products and sounding devices from established brand manufacturers to customers located principally throughout North America.

In May 2002, Surge and an officer of Surge founded and became sole owners of Surge Components, Limited (“Surge Limited”), a Hong Kong corporation. Under current Hong Kong law, Surge Limited is required to have at least two shareholders. Surge owns 999 shares of the outstanding common stock and the officer of Surge owns 1 share of the outstanding common stock. The officer of Surge has assigned his rights regarding his 1 share to Surge. Surge Limited started doing business in July 2002. Surge Limited operations have been consolidated with the Company. Surge Limited is responsible for the sale of Surge’s products to customers located in Asia.

On August 31, 2010, the Company changed its corporate domicile by merging into a newly-formed corporation, Surge Components, Inc. (Nevada), which was formed in the State of Nevada for that purpose. Surge Components Inc. is the surviving entity. The number of common stock shares authorized for issuance was increased to 75,000,000 shares.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of Consolidation:

The consolidated financial statements include the accounts of Surge, Challenge, and Surge Limited (collectively the “Company”). All material intercompany balances and transactions have been eliminated in consolidation.

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The accompanying interim consolidated financial statements have been prepared without audit, in accordance with the instructions to Form 10-Q for interim financial reporting pursuant to the rules and regulations of the Securities and Exchange Commission.

The results and trends in these interim consolidated financial statements for the three months ended February 28, 2017 and February 29, 2016 may not be representative of those for the full fiscal year or any future periods.