

SURGE COMPONENTS INC  
Form 10-Q  
April 15, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 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, 2019**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File No. 000-27688**

**SURGE COMPONENTS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

**11-2602030**

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

**95 East Jefryn Boulevard**

**11729**

**Deer Park, New York**

(Address of principal executive offices) (Zip Code)

**(631) 595-1818**

(Registrant's telephone number, including area code)

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

If an emerging growth company, indicate by 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

The registrant's common stock outstanding as of April 12, 2019, was 5,262,128 shares of common stock.



**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, 2019 (unaudited)	November 30, 2018
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,816,521	\$ 1,761,863
Accounts receivable - net of allowance for doubtful accounts of \$163,357 and \$161,560	5,604,308	5,997,493
Inventory, net	3,350,369	3,389,065
Prepaid expenses and income taxes	36,836	19,589
Total current assets	10,808,034	11,168,010
Fixed assets – net of accumulated depreciation and amortization of \$2,276,205 and \$2,266,627	111,997	115,995
Deferred income taxes	1,098,485	982,624
Other assets	22,607	13,384
Total assets	\$ 12,041,123	\$ 12,280,013

See notes to consolidated financial statements

## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(Continued)

	February 28, 2019 (unaudited)	November 30, 2018
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$3,631,964	\$4,420,013
Loan payable	-	-
Capital lease payable, current maturities	7,258	7,036
Accrued expenses and taxes	594,586	603,203
Accrued salaries	381,650	508,873
Total current liabilities	4,615,458	5,539,125
Capital lease payable, net of current maturities	21,967	25,500
Deferred rent	22,567	25,554
Total liabilities	4,659,992	5,590,179
Commitments and contingencies		
Shareholders' equity:		
Preferred stock - \$.001 par value, 5,000,000 shares authorized:		
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, 50,000,000 shares authorized, 5,262,128 and 5,262,128 shares issued and outstanding	5,262	5,262
Additional paid-in capital	16,577,772	16,577,772
Accumulated deficit	(9,201,913 )	(9,893,210 )
Total shareholders' equity	7,381,131	6,689,834
Total liabilities and shareholders' equity	\$12,041,123	\$12,280,013

See notes to consolidated financial statements.





## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

(Unaudited)

	Three Months Ended February 28,	
	2019	2018
Net sales	\$8,407,342	\$6,982,327
Cost of goods sold	6,083,782	5,168,653
Gross profit	2,323,560	1,813,674
Operating expenses:		
Selling and shipping expenses	642,896	618,421
General and administrative expenses	1,087,037	1,097,956
Depreciation and amortization	9,578	11,954
Total operating expenses	1,739,511	1,728,331
Income before other income and income taxes	584,049	85,343
Other (expense) income :		
Interest expense	(733 )	(6,021 )
Other income	1	1
Other income (expense) :	(732 )	(6,020 )
Income before income taxes	583,317	79,323
Income (benefit) taxes	(110,480 )	43,766
Net income	\$693,797	\$35,557
Dividends on preferred stock	2,500	2,500
Net income available to common shareholders	\$691,297	\$33,057
Net income per share available to common shareholders:		
Basic	\$.13	\$.01
Diluted	\$.13	\$.01

Weighted Shares Outstanding:

Basic	5,262,128	5,224,431
Diluted	5,362,128	5,345,145

See notes to consolidated financial statements.

## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended February 28,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 693,797	\$ 35,557
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,578	11,954
Deferred income taxes	(115,861)	26,366
Allowance for doubtful accounts	(1,797 )	-
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES:</b>		
Accounts receivable	394,982	1,119,022
Inventory	38,696	593,147
Prepaid expenses and income taxes	(17,247 )	(16,299 )
Other Assets	(9,223 )	-
Accounts payable	(788,049)	(1,323,056)
Deferred rent	(2,987 )	(2,092 )
Accrued expenses	(138,340)	(196,953 )
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>63,549</b>	<b>247,646</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of fixed assets	(5,580 )	(18,798 )
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>\$(5,580 )</b>	<b>\$(18,798 )</b>

## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(Unaudited)

(Continued)

	Three Months Ended February 28,	
	2019	2018
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net Borrowings on loans payable	\$(3,311 )	\$(250,000 )
<b>NET CASH FLOWS (USED IN) FINANCING ACTIVITIES</b>	<b>(3,311 )</b>	<b>(250,000 )</b>
<b>NET CHANGE IN CASH</b>	<b>54,658</b>	<b>(21,152 )</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>1,761,863</b>	<b>1,086,999</b>
<b>CASH AT END OF PERIOD</b>	<b>\$1,816,521</b>	<b>\$1,065,847</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Income taxes paid	\$3,739	\$15,651
Interest paid	\$733	\$6,021
<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.

In February 2019, the Company converted into a Delaware corporation. The number of authorized shares of common stock was decreased to 50,000,000 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.

The accompanying interim consolidated financial statements have been prepared without audit, in accordance with the instructions to Form 10-Q for interim financial reporting and 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, 2019 and February 28, 2018 may not be representative of those for the full fiscal year or any future periods.

(2) Accounts Receivable:

Trade accounts receivable are recorded at the net invoice value and are not interest bearing. The Company considers receivables past due based on the payment terms. The Company reviews its exposure to amounts receivable and reserves specific amounts if collectability is no longer reasonably assured. The Company also reserves a percentage of its trade receivable balance based on collection history and current economic trends that might impact the level of future credit losses. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed. Based on the Company’s operating history and customer base, bad debts to date have not been material.

(3) Revenue Recognition:

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers: Topic 606.” This ASU replaces nearly all existing U.S. generally accepted accounting principles guidance on revenue recognition. The standard prescribes a five-step model for recognizing revenue, the application of which will require significant judgment by the Company. The Company adopted the standard using the modified retrospective approach in its fiscal year beginning December 1, 2017. The preponderance of the Company’s contracts with customers are standard ship and bill arrangements where revenue is recognized at the time of shipment. Adoption of this ASU did not have a significant impact on the Company’s consolidated financial position, results of operations or cash flows.

Revenue is recognized for products sold by the Company when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed and determinable, collectability is reasonably assured and title and risk of loss have been transferred to the customer. This occurs when product is shipped from the Company’s warehouse.

For direct shipments, revenue is recognized when product is shipped from the Company's supplier. The Company has a long term supply agreement with one of its suppliers. The Company purchases the merchandise from the supplier and has the supplier directly ship to the customer through a freight forwarder. Title passes to customer upon the merchandise being received by a freight forwarder. Direct shipments were approximately \$702,000 and \$783,000 for the three months ended February 28, 2019 and February 28, 2018, respectively.

The Company also acts as a sales agent to certain customers in North America for one of its suppliers. The Company reports these commissions as revenues in the period they are earned. Commission revenue totaled \$22,029 and \$38,967 for the three months ended February 28, 2019 and February 28, 2018, respectively.

The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses.

SURGE COMPONENTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Revenue Recognition (continued):

The Company and its subsidiaries currently have agreements with several distributors. There are no provisions for the granting of price concessions in any of the agreements. Revenues under these distribution agreements were approximately \$1,519,000 and \$1,158,000 for the three months ended February 28, 2019 and February 28, 2018, respectively.

(4) Inventories:

Inventories, which consist solely of products held for resale, are stated at the lower of cost (first-in, first-out method) or net realizable value. Products are included in inventory when the Company obtains title and risk of loss on the products, primarily when shipped from the supplier. Inventory in transit principally from foreign suppliers at February 28, 2019 was \$1,102,736. The Company, at February 28, 2019, has a reserve against slow moving and obsolete inventory of \$233,565. From time to time the Company's products are subject to legislation from various authorities on environmental matters.

(5) Depreciation and Amortization:

Fixed assets are recorded at cost. Depreciation is generally calculated on a straight line method and amortization of leasehold improvements is provided for on the straight-line method over the estimated useful lives of the various assets as follows:

Furniture, fixtures and equipment 5 - 7 years



Computer equipment	5 years
Leasehold Improvements	Estimated useful life or lease term, whichever is shorter