

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

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

For the fiscal year ended: December 31, 2018

or

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

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

**SURGE HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

Nevada  
(State or Other Jurisdiction of  
Incorporation or Organization)

000-52522  
(Commission  
File Number)

98-0550352  
(I.R.S. Employer  
Identification No.)

**3124 Brother Blvd 104, Bartlett TN 38133**  
(Address of Principal Executive Offices) (Zip Code)

**10624 S. Eastern Ave., Suite A-910, Henderson, NV 89052**  
(former address)

**(800) 760-9689**  
(Registrant's telephone number, including area code)

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

Title of each class – None

Name of each exchange on which registered – N/A

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

Title of each class – Common Stock, \$0.001 Par Value

Name of each exchange on which registered – N/A

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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.

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 Act). Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. June 30, 2018 - \$12,683,757.

**Note:** If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in the Form.

**APPLICABLE ONLY TO CORPORATE REGISTRANTS**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of April 1, 2018, the registrant had outstanding 88,046,391 shares of its common stock, par value of \$0.001.

**DOCUMENTS INCORPORATED BY REFERENCE**

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The

listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information in this Annual Report on Form 10-K may constitute “forward-looking statements.” The words “believe,” “expect,” “anticipate,” “plan,” “intend,” “foresee,” “outlook,” “estimate,” “potential,” “continues,” “may,” “will,” “seek,” “approximately,” “predict,” “anticipate,” “should,” “would,” “could” or other similar expressions are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Known material factors that could cause our actual results to differ from those in the forward-looking statements are described in “Risk Factors” herein.

Readers are cautioned not to place undue reliance on forward-looking statements, which are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

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## REFERENCES WITHIN THIS REPORT

All references to “Surge Holdings,” the “Company,” “we,” “us,” and “our” refer to Surge Holdings, Inc. and its subsidiaries, unless the context otherwise requires or where otherwise indicated.

## ITEM I: BUSINESS

### PART 1 - DESCRIPTION OF BUSINESS

#### Corporate History and Overview

Surge Holdings, Inc. (“Surge Holdings” or “the Company”), incorporated in Nevada on August 18, 2006, is a company focused on Telecom, Media, Blockchain, FinTech and Cryptocurrency applications serving customers worldwide online and across social media, gaming and mobile platforms.

The Company was previously known as North American Energy Resources, Inc. (“NAER”) and KSIX Media Holdings, Inc. (“KSIX Media”). Prior to April 27, 2015, the Company operated solely as an independent oil and natural gas company engaged in the acquisition, exploration and development of oil and natural gas properties and the production of oil and natural gas through its wholly owned subsidiary, NAER. On April 27, 2015, NAER entered into a Share Exchange Agreement with Ksix Media whereby KSIX Media became a wholly-owned subsidiary of NAER and which resulted in the shareholders of KSIX Media owning approximately 90% of the voting stock of the surviving entity. While the Company continued the oil and gas operations of NAER following this transaction, on August 4, 2015, the Company changed its name to Ksix Media Holdings, Inc. On December 21, 2017, the Company changed its name to Surge Holdings, Inc. to better reflect the diversity of its business operations.

Surge Holdings operates through its wholly-owned subsidiaries: (i) Ksix Media, Inc. (“Media”), incorporated in Nevada on November 5, 2014, Ksix, LLC (“KSIX”), a Nevada limited liability company that was formed on September 14, 2011, (ii) Surge Blockchain, LLC (“Blockchain”), formerly Blvd. Media Group, LLC (“BLVD”), a Nevada limited liability company that was formed on January 29, 2009, (iii) DigitizeIQ, LLC (“DIQ”) an Illinois limited liability company that was formed on July 23, 2014, (iv) Surge Cryptocurrency Mining, Inc. (“Crypto”), formerly North American Exploration, Inc. (“NAE”), a Nevada corporation that was incorporated on August 18, 2006, (v) Surge Logics Inc (“Logics”), an Nevada corporation that was formed on October 2, 2018 and (vi) True Wireless, Inc., an Oklahoma corporation (formerly True Wireless, LLC) (“TW”).

#### Business description

The Company’s current focus is the provision of financial and telecommunications services to the financially underserved (i.e. persons who have little or no access to credit) within the population. The Company provides a suite of services which are primarily marketed through small retail establishments which are utilized by members of its target market.

Historically, the Company’s principal business has been digital advertising and lead generation through two of its wholly owned subsidiaries—DIQ, which is a full-service digital advertising agency specializing in survey generation and landing page optimization specifically designed for mass tort action lawsuits and KSIX, which is an Internet marketing company and has an advertising network designed to create revenue streams for its affiliates and to provide advertisers with increased measurable audience. KSIX has an online advertising network that works directly with advertisers and other networks to promote advertiser campaigns and manage offer tracking, reporting and distribution.

Commencing in 2018, the Company’s focus has significantly expanded to include the pursuit of the following business models:

## Surge Telecom

**True Wireless** is licensed to provide subsidized wireless service to qualifying low income customers in 5 states. Utilizing all 4 major USA wireless backbones, True Wireless provides discounted and free wireless service to over 60,000 veterans and other qualifying federal programs such as SNAP (EBT) and Medicaid.

**SurgePhone** offers discounted talk, text, and 4G LTE data wireless plans at prices that average 15% – 40% lower than competitors. (Unlimited plans start at just \$10/month) Available nationwide, SurgePhone also offers strategic discounts such as the Surge Heroes campaign that rewards teachers, first responders, active military and veterans with a free Android smartphone (surgeheroes.com).

**SafeHomePhone** is a nationwide home phone alternative. This product has a modem that connects to the PCS network and allows customers to plug in their traditional home phone without paying the local phone company or worrying about wiring. Customers can save 60% or more and keep their same number.

**The SurgePhone Volt 5XL's** slim, sturdy, affordable design fits comfortably in your hand and easily in your pocket. It's mesmerizing 5" LCD touchscreen display delivers an HD entertainment experience for your favorite videos and movies, while dual front and back cameras allow you to capture stunning photos. Plus, with an expandable micro SD memory slot, you can add even more storage for your best memories.

**SurgePays Visa** is targeted for a Q4 2018-Q1 2019 launch. This card will perform the functions of a traditional credit card and also a checking account for the unbanked or credit challenged. The SurgePays card will offer safety, security and convenience of using the card anywhere that accepts Visa. Customers will be able to access their accounts from the connected app to remit money to friends and relatives while avoiding costly fees. In addition, customers will also be able to take a picture of their paycheck and load the cash to their cards (eliminating costly check cashing fees).

**Surge Money Order** will launch in the Midwest and southeast in Q1 2019. This is a natural add-on to our convenient store Fintech product suite and will ensure we box out any other stand-alone product competitors. Entering the \$20 Billion a year money order business will enable unbanked customers to send secure payments.

**SurgePays Portal** is a multi-purpose software interface for convenient stores, bodegas and other corner merchants providing goods and services to the underbanked community. The merchant or clerk is able to use the portal – similar to a website – with image driven navigation to add wireless minutes for any carrier, pay bills and also load debit cards etc. What makes SurgePays unique is that it also offers the merchant access to order wholesale goods through the portal with one touch ease. SurgePays is essentially an e-commerce store front that allows manufacturers and distribution companies to have access to merchants while cutting out the middle man. The goal of the SurgePays Portal is to provide every Fintech and Telecom product available to convenient stores, corner markets, bodegas, and supermarkets while procuring other consumable products commonly sold in these same stores. From the Telecom and Fintech products such as SurgePhone Androids, SurgePhone Wireless Service, Wireless Top-ups, Bill Payments, Pinless LD, Money Remittance, Money Orders and Reloadable Visa debit load cards to distributing partner company's consumables such as energy drinks, CBD oils, dry foods, frozen foods, snacks, automotive parts and many more goods you will find next time you are in a convenient store and look around.

## Surge Digital Assets

**Surge Cryptocurrency** strategically mines Ethereum, Litecoin and cryptocurrencies. The Company's mining operation consists of 136 machines pooled together with other machines in a mining pool to maximize the processing power and yields. This operation does not require any Surge human capital and runs 24/7. The goal for this subsidiary is to hold Bitcoin, Litecoin, Ripple and Stellar as digital assets with the expectation of future appreciation.

**The Surge Utility Token** is part of our rewards program intended to incentivize customer loyalty while also encouraging each customer to purchase additional Surge services. For example, a wireless customer should also become a SurgePays Visa holder and/or other products in the Surge ecosystem as we expand. The Surge Tokens are issued on the Ethereum blockchain and are ERC-20 compliant. The tokens will be used for redeeming gifts and prizes from the Surge Rewards website. The launch target for the Surge Utility Token is Q4 2018.

**TokenSpinner** is the first smartphone app that Surge Holdings Inc. has developed with a launch date target of Q4 2018. The app provides a simple game of chance spin of the wheel to win a prize. The app has multiple Ad Network feeds that pay Surge per impression. Players of the game have an opportunity to earn additional spins by participating in other activities (where Surge is compensated) like watching videos or filling out surveys. The prizes will vary from gift cards, to electronics and of course Surge Tokens.

### **Surge Digital Media**

**Surge Logics** is a full-service digital advertising agency, specializing in lead generation, Pay Per Call, landing page optimization and managed ad spending. Our primary media buying platforms are Google AdWords, Facebook, Instagram and Bing. We have a call center that can handle Live Call Transfers, Customer Service Support, Lead Verification and Attorney Case Support.

**Lead generation** describes the marketing process of stimulating and capturing interest in a product or service for the purpose of developing sales pipeline.

**Pay-per-call** (PPCall, also called cost-per-call) is an advertising model in which the rate paid by the advertiser is determined by the number of telephone calls made by viewers of an ad. Pay Per Call providers charge per call, per impression or per conversion.

**Media buying** is the process of buying media placements for advertising (on TV, in publications, on the radio, digital signage, apps or on websites).

A **call center** or call center is a centralized office used for receiving or transmitting a large volume of requests by telephone.

### **Centercom**

On January 17, 2019, the Company announced the completion of an agreement to acquire a 40% equity ownership of Centercom Global, S.A. de C.V. (“Centercom”). Centercom is a dynamic operations center currently providing Surge sales support, customer service, IT infrastructure design, graphic media, database programming, software development, revenue assurance, lead generation, and other various operational support services for SURG. Centercom also provides call center support for various third-party clients. The Company’s primary initiatives for Centercom are:

- Assisting in on-boarding SurgePays Portal into over 40,000 retail locations and subsequent ongoing white glove support
- Aggressively marketing new “Free Wireless Service” program to substantially grow customer base while enhancing customer service
- Launch SurgePays Reloadable Visa Card by end of 1<sup>st</sup> Quarter
- Support the Company’s IT infrastructure including database management
- Upsell-related FinTech products to our existing customer base to increase revenue

### **Employees and Labor Relations**

At December 31, 2018, we had fifteen full-time employees. We plan to add corporate and managerial staff as necessary consistent with the growth of our operations.

We plan to concentrate on the acquisition of companies where the employees are not, and have not historically been, members of unions. However, there is no assurance that any company that we acquire will not be the subject of a successful unionization vote.

## ITEM 1A - RISK FACTORS

Smaller reporting companies are not required to provide the information required by this item.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None

## ITEM 2: DESCRIPTION OF PROPERTIES

The Company presently occupies space at 3124 Brother Blvd 104, Bartlett TN 38133 on a rent-free basis. The Company will acquire additional office space as its needs warrant.

## ITEM 3: LEGAL PROCEEDINGS

The following is summary of threatened, pending, asserted or un-asserted claims against the Company or any of its wholly owned subsidiaries.

- 1) Wayne Coy v. Surge Holdings, Inc. et. al., Eight Judicial District Court, Clark County, Nevada, case # D- 539906.  
Mr. Coy filed this action against the Company to enforce a Warrant to purchase 100,000 shares of Company Common Stock purportedly issued by the Company in November 2016. The Company has filed an answer which generally denies the allegations of the Complaint and a cross-complaint was filed by the Company suggesting that the Warrant is unenforceable. This matter is currently pending and the Company cannot predict its ultimate outcome.
- 2) Alan Massara v. Surge Holdings, Inc. et. al., Eight Judicial District Court, Clark County, Nevada (unfiled).  
Mr. Massara presented the Company with a complaint seeking payment on a promissory note in the principal amount of \$101,250 which was originally issued in satisfaction of certain obligations of the Company to him. In November 2018, the Company entered into a Settlement Agreement with Mr. Massara which provided for the payment by the Company of an initial payment of \$21,250 followed by eight additional monthly payments of \$10,000.

## ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

### Market Information

Our Common Stock, \$0.001 par value per share, is traded in the OTC Markets Inc. OTCQB Market ("OTCQBs") under the symbol "SURG". Until we began trading on July 24, 2007, there was no public market for our common stock.

On March 31, 2015, the Company effected a 1 for 23 reverse stock split. All share references included herein have been adjusted as if the change took place before the date of the earliest transaction reported.

The following table sets forth the quarterly high and low daily close for our common stock as reported by OTC Markets Inc. for the two years ended December 31, 2018 and 2017. The bids reflect inter dealer prices without adjustments for retail mark-ups, mark-downs or commissions and may not represent actual transactions. There is a very limited market for the Company's common stock.

<u>Period ended</u>		<u>High</u>		<u>Low</u>
December 31, 2018	\$	0.430	\$	0.322
September 30, 2018	\$	0.407	\$	0.246
June 30, 2018	\$	0.350	\$	0.200
March 31, 2018	\$	1.400	\$	0.305
December 31, 2017	\$	0.850	\$	0.310
September 30, 2017	\$	0.420	\$	0.016
June 30, 2017	\$	0.020	\$	0.050
March 31, 2017	\$	0.030	\$	0.050



## **Penny Stock Considerations**

Our shares are presently considered a will be “penny stock” as that term is generally defined in the Securities Exchange Act of 1934 to mean equity securities with a price of less than \$5.00. Our shares thus will be subject to rules that impose sales practice and disclosure requirements on broker-dealers who engage in certain transactions involving a penny stock.

Under the penny stock regulations, a broker-dealer selling a penny stock to anyone other than an established customer or accredited investor must make a special suitability determination regarding the purchaser and must receive the purchaser’s written consent to the transaction prior to the sale, unless the broker-dealer is otherwise exempt. Generally, an individual with a net worth in excess of \$1,000,000, or annual income exceeding \$100,000 individually or \$300,000 together with his or her spouse, is considered an accredited investor. In addition, under the penny stock regulations the broker-dealer is required to:

- Deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt;
- Disclose commissions payable to the broker-dealer and our registered representatives and current bid and offer quotations for the securities;
- Send monthly statements disclosing recent price information pertaining to the penny stock held in a customer’s account, the account’s value and information regarding the limited market in penny stocks; and
- Make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction, prior to conducting any penny stock transaction in the customer’s account.

Because of these regulations, broker-dealers may encounter difficulties in their attempt to sell shares of our common stock, which may affect the ability of selling shareholders or other holders to sell their shares in the secondary market and have the effect of reducing the level of trading activity in the secondary market. These additional sales practice and disclosure requirements could impede the sale of our securities, if our securities become publicly traded. In addition, the liquidity for our securities may decrease, with a corresponding decrease in the price of our securities. Our shares in all probability will be subject to such penny stock rules and our shareholders will, in all likelihood, find it difficult to sell their securities.

## **Recent Sales of Unregistered Securities**

On March 8, 2018, the Company granted a consultant 48,000 restricted shares for services rendered.

On April 11, 2018, the Company issued 152,555,416 shares of Common Stock as consideration for the True Wireless, Inc. merger. As discussed in Note 1 to our consolidated financial statements, the equity of the Company is the historical equity of TW retroactively restated to reflect the number of shares issued by the Company in the transaction. These common shares were recorded as a retroactive 2017 transaction as incentive to complete the merger.

On April 25, 2018, the Company issued an aggregate of 480,000 shares of Common Stock to two consultants valued at \$0.27 per share.

In July 2018, the Company issued an aggregate of 1,156,587 shares of Common Stock valued at \$0.20 per share to nine parties in settlement of certain disputes between TW and Benson Communications, S.A. de C.V. The settlement had been previously reached on September 29, 2017.

As noted in Note 8 to our consolidated financial statements, in August 2018, Company reached a settlement with the debt holder and issued 2,175,000 in full settlement of the outstanding debt totaling \$435,000.

On June 29, 2018, each of Kevin Brian Cox, the Company's Chief Executive Officer, and Thirteen Nevada LLC entered into separate Exchange Agreements with the Company whereby the Shareholders agreed to exchange an aggregate of 148,741,531 shares of previously issued Company Common Stock for an aggregate of 594,966 shares of newly-issued Company Series C Convertible Preferred Stock.

During the year ended December 31, 2018, the Company issued 48,400 shares of Series C Preferred in exchange for the conversion of a note payable of \$3,000,000 and accrued interest of \$24,952.

The shares of common stock were issued in reliance on Section 4(2) promulgated under the Securities Act of 1933, as amended (the "Securities Act"). The shares of common stock issued have not been registered under the Securities Act or under any state securities laws and may not be offered or sold without registration with the United States Securities and Exchange Commission or an applicable exemption from the registration requirements.

#### **Holders**

As of April 1, 2019, there are approximately 82 shareholders of record of the Company's common stock, including 13,892,734 shares held by CEDE & Co. as nominee.

#### **Dividend Policy**

The Board of Directors has never declared or paid a cash dividend. At this time, the Board of Directors does not anticipate paying dividends in the future. The Company is under no legal or contractual obligation to declare or to pay dividends, and the timing and amount of any future cash dividends and distributions is at the discretion of our Board of Directors and will depend, among other things, on the Company's future after-tax earnings, operations, capital requirements, borrowing capacity, financial condition and general business conditions. The Company plans to retain any earnings for use in the operation of our business and to fund future growth.

#### **Securities Authorized for Issuance Under Equity Compensation Plans**

The Company does not currently have any equity compensation plans.

#### **Issuer Purchases of Equity Securities**

None.

#### **ITEM 6: SELECTED FINANCIAL DATA**

The Company operates as a smaller reporting company and is not required to provide this information.

**ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Disclosure Regarding Forward Looking Statements**

This Annual Report on Form 10-K includes forward looking statements ("Forward Looking Statements"). All statements other than statements of historical fact included in this report are Forward Looking Statements. In the normal course of its business, the Company, in an effort to help keep its shareholders and the public informed about the Company's operations, may from time-to-time issue certain statements, either in writing or orally, that contain or may contain Forward-Looking Statements. Although the Company believes that the expectations reflected in such Forward-Looking Statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of such plans or strategies, past and possible future, of acquisitions and projected or anticipated benefits from acquisitions made by or to be made by the Company, or projections involving anticipated revenues, earnings, levels of capital expenditures or other aspects of operating results. All phases of the Company operations are subject to a number of uncertainties, risks and other influences, many of which are outside the control of the Company and any one of which, or a combination of which, could materially affect the results of the Company's proposed operations and whether Forward Looking Statements made by the Company ultimately prove to be accurate. Such important factors ("Important Factors") and other factors could cause actual results to differ materially from the Company's expectations are disclosed in this report. All prior and subsequent written and oral Forward-Looking Statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the Important Factors described below that could cause actual results to differ materially from the Company's expectations as set forth in any Forward-Looking Statement made by or on behalf of the Company.

**COMPARISON OF YEARS ENDED DECEMBER 31, 2018 AND 2017**

Revenues during the years ended December 31, 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Revenue	\$ 15,244,155	\$ 13,459,980
Cost of revenue	8,570,240	8,096,076
Gross profit	<u>\$ 6,673,915</u>	<u>\$ 5,363,904</u>

Revenue increased \$1,784,175 (14%) primarily as a result of the merger between Surge Holdings, Inc. and True Wireless, Inc. while gross profit increased \$1,310,011 (25%) primarily as a result of re-negotiated supply contracts in True Wireless, Inc.

Costs and expenses during the years ended December 31, 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Depreciation and amortization	\$ 149,642	\$ 6,939
Selling, general and administration	8,059,742	5,152,680
Total	<u>\$ 8,209,384</u>	<u>\$ 5,159,619</u>

Depreciation and amortization increased \$142,703 primarily as a result of the acquisition of cryptocurrency mining equipment that was subsequently sold in December 2018. See Note 6 to the Consolidated Financial Statements.

Selling, general and administrative costs (S, G & A) increased \$2,907,291 (56%) primarily as a result of the merger between Surge Holdings, Inc. and True Wireless, Inc. The S, G & A expenses of the Surge companies represent \$2,411,100 of the expenses that are not included in the 2017 expenses.

Selling, general and administrative expenses during the years ended December 31, 2018 and 2017 consisted of the following:

	<b>2018</b>	<b>2017</b>
Telecom operations center	\$ 1,852,427	\$ 1,322,449
Contractors and consultants	1,177,371	720,085
Compensation	753,373	316,245
Webhosting/internet	819,255	346,682
Professional services	1,499,685	1,478,788
Advertising and marketing	559,333	427,152
Other	1,398,298	541,279
Total	<u>\$ 8,059,742</u>	<u>\$ 5,152,680</u>

Total selling, general and administrative expense (S, G & A) increased \$2,907,062 from \$5,152,680 in 2017 to \$8,059,742 in 2018. The detail changes are discussed below:

- \* Telecom operations center expenses increased from \$1,322,449 in 2017 to \$1,852,427 in 2018. In 2017 True Wireless, Inc. was in the process of contracting with a new vendor as their previous vendor ceased operations.
- \* Contractors and consultants increased to \$1,177,371 in 2018 from \$720,085 in 2017. The 2018 period included \$692,860 in Surge companies consulting costs that not included in the 2017 expenses.
- \* Compensation increased from \$316,245 in 2017 to \$753,373 in 2018 primarily due to the merger between Surge Holdings, Inc. and True Wireless, Inc.
- \* Webhosting/internet costs increased to \$819,255 in 2018 from \$346,682 in 2017 primarily due to the merger between Surge Holdings, Inc. and True Wireless, Inc.
- \* Professional services increased from \$1,478,788 in 2017 to \$1,499,685 in 2018 primarily due to professional fees associated with the merger between Surge Holdings, Inc. and True Wireless, Inc.
- \* Other costs increased to \$1,398,298 in 2018 from \$541,279 in 2017 primarily due to the merger between Surge Holdings, Inc. and True Wireless, Inc.
- \* Advertising and marketing costs increased to \$559,333 in 2018 from \$427,152 in 2017 primarily due to the Company initiating advertising and marketing campaigns to support new products.

Other (expense) income during the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
Interest expense	\$ (140,457)	\$ (24,021)
Change in fair value of derivative liability	(4,105)	-
Change in fair value of LTC cryptocurrency	(95,387)	-
Gain on sale of assets	273,453	-
Gain on settlement of liabilities	43,117	2,587,600
	<u>\$ 76,621</u>	<u>\$ 2,563,579</u>

Interest expense increased to \$116,436 in 2018 from \$24,021 in 2017 primarily due to consolidating the debt in Surge Holdings, Inc. after the merger between Surge Holdings, Inc. and True Wireless, Inc.

The change in fair value of LTC cryptocurrency increased to \$95,387 in 2018 due to the decrease in the market value of LTC cryptocurrency.

In December 2018, the Company sold all of its Cryptocurrency assets and recognized a gain on the sale totaling \$273,453. See Note 6 to the Consolidated Financial Statements.

During the year ended December 31, 2018, the Company settled outstanding liabilities through the issuance of 3,815,722 shares of common stock and recorded a gain on settlement of \$43,117. During the year ended December 31, 2017, the Company settled outstanding liabilities and recorded a gain of \$2,587,600.

#### LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN

At December 31, 2018 and 2017, our current assets were \$3,059,820 and \$2,989,419, respectively, and our current liabilities were \$4,792,035 and \$2,810,528, respectively, which resulted in a working capital deficit of \$1,732,215 and a working capital surplus of \$178,891, respectively.

Total assets at December 31, 2018 and 2017 amounted to \$4,084,318 and \$3,076,838, respectively. At December 31, 2018, assets consisted of current assets of \$3,059,820, net property and equipment of \$30,990, net intangible assets of \$65,269, goodwill of \$866,782 and other long-term assets of \$61,457, as compared to current assets of \$2,989,419, net property and equipment of \$25,962 and other long-term assets of \$61,457 at December 31, 2017.

At December 31, 2018, our total liabilities of \$6,072,551 increased \$2,378,473 from \$3,694,078 at December 31, 2017.

At December 31, 2018, our total stockholders' deficit was \$1,988,233 as compared to \$617,240 at December 31, 2017. The principal reason for the increase in stockholders' deficit was the impact of the merger in April 2018.

The following table sets forth the major sources and uses of cash for the years ended December 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Net cash provided by (used in) operating activities	\$ (1,015,614)	\$ 227,802
Net cash used in investing activities	(278,035)	-
Net cash provided by financing activities	464,101	607,087
Net change in cash and cash equivalents	<u>\$ (829,548)</u>	<u>\$ 834,889</u>

At December 31, 2018, the Company had the following material commitments and contingencies.

**Notes payable – related party** - See Note 8 to the Consolidated Financial Statements.

**Notes payable and long-term debt** - See Note 9 to the Consolidated Financial Statements.

**Advances from related party** - See Note 12 to the Consolidated Financial Statements.

**Cash requirements and capital expenditures** – At the current level of operations, the Company has to borrow funds to meet basic operating costs. The Company plans to use debt and equity financing to meet the cash requirements of the TW acquisition.

**Known trends and uncertainties** – The Company is planning to acquire other businesses that are similar to its operations. The uncertainty of the economy may increase the difficulty of raising funds to support the planned business expansion.

**Going Concern** – The Company had a loss from operations of approximately \$1.5 million for the year ended December 31, 2018. As of December 31, 2018, we had cash and working capital deficit of approximately \$445,000 and \$1,732,000, respectively. Management made a decision to achieve certain goals in order to ramp up revenue in 2019 and beyond that negatively affected revenue in 2018. By implementing this process, six key achievements were successfully reached in 2018. One, we have developed and rolled out our SurgePhone wireless and SurgePays Debit card. Two, we have completed work on our second generation SurgePays Fintech software, which has now been released. Three, we have organized our human resources to support the significant growth which is a major goal for fiscal year 2019. Four, we have put in place important cost controls, including our relations with our Operations Center to support our growth in a cost-effective manner. Five, we have had ongoing productive negotiations with trade organizations to support the rapid scaling and roll-out of our products and services. Six, we have significantly restructured our balance sheet to be an effective platform for growth.

These factors, among others, were addressed by management in determining whether the Company could continue as a going concern. The Company projects that it should be cash flow positive by the end of fiscal year 2019 from ongoing operations by the combination of increased cash flow from its current subsidiaries, as well as restructuring our current debt burden. The Company has executed an agreement with a FINRA licensed broker, as well as several institutional investors, to bring in equity investments to pay down existing debt obligations, cover short term shortfalls, and complete proposed acquisitions. While the Company believes in the viability of management's strategy to generate sufficient revenue, control costs and the ability to raise additional funds if necessary, there can be no assurances to that effect. While management believes it is more likely than not the Company has the ability to continue as a going concern, this is dependent upon the ability to further implement the business plan, generate sufficient revenues and to control operating expenses.

Additionally, if necessary, management believes that both related parties (management and members of the Board of Directors of the Company) and potential external sources of debt and/or equity financing will be obtained based on management's history of being able to raise capital from both internal and external sources coupled with current favorable market conditions. Therefore, the accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

**CRITICAL ACCOUNTING ESTIMATES**

Our significant accounting policies are described in Note 2 of the Consolidated Financial Statements. During the year ended December 31, 2018, we were required to make material estimates and assumptions that affect the reported amounts and related disclosures of assets, liabilities, revenue and expenses as a result of the acquisitions completed during 2018. The estimates will require us to rely upon assumptions that were highly uncertain at the time the accounting estimates are made, and changes in them are reasonably likely to occur from period to period. Changes in estimates used in these and other items could have a material impact on our financial statements in the future. Our estimates will be based on our experience and our interpretation of economic, political, regulatory, and other factors that affect our business prospects. Actual results may differ significantly from our estimates.

**ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company operates as a smaller reporting company and is not required to provide this information.

**ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Financial Statements of Surge Holdings, Inc. the years ended December 31, 2018 and December 31, 2017, is set forth as follows:

**Index to Financial Statements**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Surge Holdings, Inc. & Subsidiaries

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Surge Holdings, Inc. & Subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders’ deficit and cash flows for each of the years in the two-year period ended December 31, 2018 and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the results of its consolidated operations and its consolidated cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Rodefer Moss & Co, PLLC

We have served as the Company’s auditor since 2017

Nashville, Tennessee

March 30, 2019



**SURGE HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 444,612	\$ 1,274,160
Accounts receivable, less allowance for doubtful accounts of \$17,000 and none, respectively	206,679	5,525
Note receivable	190,000	-
Lifeline revenue due from USAC	850,966	1,170,569
Customer phone supply	1,356,701	520,165
Prepaid expenses	10,862	-
Due from related party	-	19,000
Total current assets	<u>3,059,820</u>	<u>2,989,419</u>
Property and Equipment, less accumulated depreciation of \$13,782 and \$127,015, respectively	30,990	25,962
Intangible assets less accumulated amortization of \$319,375	65,269	-
Goodwill	866,782	-
Other long-term assets	61,457	61,457
Total assets	<u>\$ 4,084,318</u>	<u>\$ 3,076,838</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued expenses - others	\$ 3,104,234	\$ 1,696,348
Accounts payable and accrued expenses - related party	149,901	-
Payable - Telecom Operations Center - current	-	334,939
Credit card liability	394,840	-
Loss contingency	70,000	-
Deferred revenue	50,000	-
Derivative liability	51,058	-
Advance from related party	389,502	-
Note payable - related party	-	344,241
Notes payable and current portion of long-term debt, net	582,500	435,000
Total current liabilities	<u>4,792,035</u>	<u>2,810,528</u>
Long-term debt less current portion - related party	680,000	-
Trade payables - long term	600,516	883,550
Total liabilities	<u>6,072,551</u>	<u>3,694,078</u>
Commitments and contingencies		
Stockholders' deficit:		
Series A preferred stock: \$0.001 par value; 100,000,000 shares authorized; 13,000,000 and 3,000,000 shares issued and outstanding at December 31, 2018 and 2017, respectively	13,000	3,000
Series C convertible preferred stock; \$0.001 par value; 1,000,000 shares authorized; 643,366 and 0 shares issued and outstanding at December 31, 2018 and 2017, respectively	643	-
Common stock: \$0.001 par value; 500,000,000 shares authorized; 88,046,391 shares and 152,555,416 shares issued and outstanding at December 31, 2018 and 2017, respectively	88,047	152,555
Additional paid in capital	333,623	(155,555)
Accumulated deficit	<u>(2,423,546)</u>	<u>(617,240)</u>
Total stockholders' deficit	<u>(1,988,233)</u>	<u>(617,240)</u>
Total liabilities and stockholders' deficit	<u>\$ 4,084,318</u>	<u>\$ 3,076,838</u>

See accompanying notes to consolidated financial statements

**SURGE HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
**Years ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Revenue</b>	\$ 15,244,155	\$ 13,459,980
<b>Cost of revenue</b>	<u>8,570,240</u>	<u>8,096,076</u>
<b>Gross profit</b>	<u>6,673,915</u>	<u>5,363,904</u>
<b>Cost and expenses</b>		
Depreciation and amortization	149,642	6,939
Selling, general and administrative	8,059,742	5,152,680
<b>Total costs and expenses</b>	<u>8,209,384</u>	<u>5,159,619</u>
<b>Operating profit (loss)</b>	<u>(1,535,469)</u>	<u>204,285</u>
<b>Other income (expense):</b>		
Interest expense	(140,457)	(24,021)
Change in fair value of derivative liability	(4,105)	-
Change in fair value of LTC cryptocurrency	(95,387)	-
Gain on sale of assets	273,453	-
Gain on settlement of liabilities	43,117	2,587,600
<b>Total other expense (income)</b>	<u>76,621</u>	<u>2,563,579</u>
<b>Net income (loss) before provision for income taxes</b>	(1,458,848)	2,767,864
Provision for income taxes	<u>82,230</u>	-
<b>Net income (loss)</b>	<u>\$ (1,541,078)</u>	<u>\$ 2,767,864</u>
<b>Net loss per common share, basic and diluted</b>	<u>\$ (0.02)</u>	<u>\$ 0.04</u>
<b>Weighted average common shares outstanding – basic and diluted</b>	<u>81,566,892</u>	<u>76,183,385</u>

See accompanying notes to consolidated financial statements.

**SURGE HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Statement of Stockholders' Deficit**  
**Years ended December 31, 2018 and 2017**

	Series A Preferred		Series C Preferred		Common Stock		Additional Paid-in Capital	Members' Equity	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
<b>Balance, January 1, 2017</b>	-	\$ -	-	\$ -	-	\$ -	\$ -	\$ (3,379,915)	\$ -	\$ (3,379,915)
Issuance of common shares to facilitate the reverse merger agreement	-	-	-	-	152,555,416	152,555	(152,555)	-	-	-
Issuance of Series A Preferred shares to facilitate the reverse merger agreement	3,000,000	3,000	-	-	-	-	(3,000)	-	-	-
Members' contributions	-	-	-	-	-	-	-	124,811	-	124,811
Members' withdrawals	-	-	-	-	-	-	-	(130,000)	-	(130,000)
Reclassification of undistributed members' earnings to accumulated deficit	-	-	-	-	-	-	-	2,767,864	-	2,767,864
Net income	-	-	-	-	-	-	-	617,240	(617,240)	-
<b>Balance, December 31, 2017</b>	3,000,000	3,000	-	-	152,555,416	152,555	(155,555)	-	(617,240)	(617,240)
Recapitalization in reverse merger	10,000,000	10,000	-	-	79,888,784	79,889	(3,687,835)	-	(265,228)	(3,863,174)
Issuance of common stock and options for services rendered	-	-	-	-	528,000	528	157,380	-	-	157,908
Issuance of common stock for settlement of accounts payable	-	-	-	-	1,206,741	1,207	249,328	-	-	250,535
Issuance of common stock for settlement of debt and accrued interest	-	-	-	-	2,608,981	2,609	597,303	-	-	599,912
Issuance of Series C Preferred Stock for conversion of promissory note and accrued interest	-	-	48,400	48	-	-	3,024,856	-	-	3,024,904
Issuance of Series C Preferred Stock in exchange for Common Stock	-	-	594,966	595	(148,741,531)	(148,741)	148,146	-	-	-
Net loss	-	-	-	-	-	-	-	-	(1,541,078)	(1,541,078)
<b>Balance, December 31, 2018</b>	<u>13,000,000</u>	<u>\$ 13,000</u>	<u>643,366</u>	<u>\$ 643</u>	<u>88,046,391</u>	<u>\$ 88,047</u>	<u>\$ 333,623</u>	<u>\$ -</u>	<u>\$ (2,423,546)</u>	<u>\$ (1,988,233)</u>

See accompanying notes to consolidated financial statements.

**SURGE HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Net income (loss)	\$ (1,541,078)	\$ 2,767,864
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization and depreciation	149,642	6,939
Stock-based compensation	157,907	-
Change in fair value of LTC cryptocurrency coins	63,487	-
Change in fair value of derivative liability	4,105	-
Gain on settlement of liabilities	(61,709)	-
Loss on settlement of debt	14,667	-
Changes in operating assets and liabilities:		
Accounts receivable	(102,815)	664
Lifeline revenue due from USAC	319,603	(33,296)
Customer phone supply	(836,536)	288,335
LTC Cryptocurrency Coins	(96,992)	-
Prepaid expenses	40,465	-
Deferred revenue	(171,500)	-
Loss contingency	120,000	-
Accounts payable and accrued expenses	925,140	(2,802,704)
<b>Net cash provided by (used in) operating activities</b>	<b>(1,015,614)</b>	<b>227,802</b>
<b>Investing activities</b>		
Net cash received in business combination	243,768	-
Advances under note receivable	(190,000)	-
Purchase of fixed assets	(331,803)	-
<b>Net cash used in investing activities</b>	<b>(278,035)</b>	<b>-</b>
<b>Financing activities</b>		
Capital contributions - net	-	(3,155)
Due from related party - net	17,554	(19,000)
Note payable - net	(31,250)	285,000
Line of credit - advances	1,441,029	-
Line of credit - repayments	(1,441,029)	-
Loan repayments – related party	-	-
Loan proceeds under related party financing arrangement	1,653,500	1,271,242
Loan repayments under related party financing arrangement	(1,175,703)	(927,000)
<b>Net cash provided by financing activities</b>	<b>464,101</b>	<b>607,087</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(829,548)</b>	<b>834,889</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,274,160</b>	<b>439,271</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 444,612</b>	<b>\$ 1,274,160</b>
<b>Supplemental cash flow information</b>		
<b>Cash paid for interest and income taxes:</b>		
Interest	\$ 10,580	\$ 3,052
Income taxes	\$ 82,230	\$ -
<b>Non-cash investing and financing activities:</b>		
Acquisition of customer phones through related party note payable	\$ -	\$ 35,000
Debt acquired in business combination	\$ 3,000,00	\$ -
Exchange of Common Stock for Series C Preferred Stock	\$ 148,741	\$ -
Liabilities settled in Common Stock	\$ 3,875,352	\$ -
Trade payables under a vendor settlement arrangement	\$ -	\$ 412,866

See accompanying notes to consolidated financial statements

**1 BASIS OF PRESENTATION AND BUSINESS**

**Basis of presentation**

The accompanying consolidated financial statements include the accounts of Surge Holdings, Inc. (“Surge”), formerly Ksix Media Holdings, Inc., incorporated in Nevada on August 18, 2006, and its wholly owned subsidiaries, Ksix Media, Inc. (“Media”), incorporated in Nevada on November 5, 2014, Ksix, LLC (“KSIX”), a Nevada limited liability company that was formed on September 14, 2011, Surge Blockchain, LLC (“Blockchain”), formerly Blvd. Media Group, LLC (“BLVD”), a Nevada limited liability company that was formed on January 29, 2009, DigitizeIQ, LLC (“DIQ”) an Illinois limited liability company that was formed on July 23, 2014 Surge Cryptocurrency Mining, Inc. (“Crypto”), formerly North American Exploration, Inc. (“NAE”), a Nevada corporation that was incorporated on August 18, 2006, Surge Logics Inc (“Logics”), an Nevada corporation that was formed on October 2, 2018 and True Wireless, Inc., an Oklahoma corporation (formerly True Wireless, LLC) (“TW”), (collectively the “Company” or “we”). All significant intercompany balances and transactions have been eliminated in consolidation.

**Recent Developments**

As reported on Form 8-K filed with the SEC on April 16, 2018, on April 11, 2018, the Company closed the merger transaction (the “Merger”) that was the subject of that certain Agreement and Plan of Reorganization (the “Merger Agreement”) with True Wireless, Inc., an Oklahoma corporation (“TW”) dated as of April 11, 2018. At closing, in accordance with the Merger Agreement, TW merged with and into TW Acquisition Corporation, a Nevada corporation (“Merger Sub”), a wholly-owned subsidiary of Surge Holdings, Inc. (the “Merger”), with TW being the surviving corporation. As a result of the Merger, TW became a wholly-owned subsidiary of the Company.

As a result of the controlling financial interest of the former members of TW, for financial statement reporting purposes, the merger between the Company and TW has been treated as a reverse acquisition with TW deemed the accounting acquirer and the Company deemed the accounting acquiree under the acquisition method of accounting in accordance with section 805-10-55 of the FASB Accounting Standards Codification. The reverse acquisition is deemed a capital transaction and the net assets of TW (the accounting acquirer) are carried forward to the Company (the legal acquirer and the reporting entity) at their carrying value before the acquisition. The acquisition process utilizes the capital structure of the Company and the assets and liabilities of TW which are recorded at their historical cost. The equity of the Company is the historical equity of TW retroactively restated to reflect the number of shares issued by the Company in the transaction. See Note 4.

**Business description**

The Company’s current focus is the provision of financial and telecommunications services to the financially underserved (i.e. persons who have little or no access credit) within the population. The Company provides a suite of services which are primarily marketed through small retail establishments which are utilized by members of its target market.

Historically, the Company’s principal business has been digital advertising and lead generation through two of its wholly owned subsidiaries—DIQ, which is a full-service digital advertising agency specializing in survey generation and landing page optimization specifically designed for mass tort action lawsuits and KSIX, which is an Internet marketing company and has an advertising network designed to create revenue streams for its affiliates and to provide advertisers with increased measurable audience. KSIX has an online advertising network that works directly with advertisers and other networks to promote advertiser campaigns and manage offer tracking, reporting and distribution.

Commencing in 2018, the Company's focus has significantly expanded to include the pursuit of the following business models:

### **Surge Telecom**

**True Wireless** is licensed to provide subsidized wireless service to qualifying low income customers in 5 states. Utilizing all 4 major USA wireless backbones, True Wireless provides discounted and free wireless service to over 60,000 veterans and other qualifying federal programs such as SNAP (EBT) and Medicaid.

**SurgePhone** offers discounted talk, text, and 4G LTE data wireless plans at prices that average 15% – 40% lower than competitors. (Unlimited plans start at just \$10/month) Available nationwide, SurgePhone also offers strategic discounts such as the Surge Heroes campaign that rewards teachers, first responders, active military and veterans with a free Android smartphone (surgeheroes.com).

**SafeHomePhone** is a nationwide home phone alternative. This product has a modem that connects to the PCS network and allows customers to plug in their traditional home phone without paying the local phone company or worrying about wiring. Customers can save 60% or more and keep their same number.

**The SurgePhone Volt 5XL's** slim, sturdy, affordable design fits comfortably in your hand and easily in your pocket. It's mesmerizing 5" LCD touchscreen display delivers an HD entertainment experience for your favorite videos and movies, while dual front and back cameras allow you to capture stunning photos. Plus, with an expandable micro SD memory slot, you can add even more storage for your best memories

**SurgePays Visa** is targeted for a Q4 2018-Q1 2019 launch. This card will perform the functions of a traditional credit card and also a checking account for the unbanked or credit challenged. The SurgePays card will offer safety, security and convenience of using the card anywhere that accepts Visa. Customers will be able to access their accounts from the connected app to remit money to friends and relatives while avoiding costly fees. In addition, customers will also be able to take a picture of their paycheck and load the cash to their cards (eliminating costly check cashing fees).

**Surge Money Order** will launch in the Midwest and southeast in Q1 2019. This is a natural add-on to our convenient store Fintech product suite and will ensure we box out any other stand-alone product competitors. Entering the \$20 Billion a year money order business will enable unbanked customers to send secure payments.

**SurgePays Portal** is a multi-purpose software interface for convenient stores, bodegas and other corner merchants providing goods and services to the underbanked community. The merchant or clerk is able to use the portal – similar to a website – with image driven navigation to add wireless minutes for any carrier, pay bills and also load debit cards etc. What makes SurgePays unique is that it also offers the merchant access to order wholesale goods through the portal with one touch ease. SurgePays is essentially an e-commerce store front that allows manufactures and distribution companies to have access to merchants while cutting out the middle man. The goal of the SurgePays Portal is to provide every Fintech and Telecom product available to convenient stores, corner markets, bodegas, and supermarkets while procuring other consumable products commonly sold in these same stores. From the Telecom and Fintech products such as SurgePhone Androids, SurgePhone Wireless Service, Wireless Top-ups, Bill Payments, Pinless LD, Money Remittance, Money Orders and Reloadable Visa debit load cards to distributing partner company's consumables such as energy drinks, CBD oils, dry foods, frozen foods, snacks, automotive parts and many more goods you will find next time you are in a convenient store and look around.

### **Surge Digital Assets**

**Surge Cryptocurrency** strategically mines Ethereum, Litecoin and cryptocurrencies. The Company's mining operation consists of 136 machines pooled together with other machines in a mining pool to maximize the processing power and yields. This operation does not require any Surge human capital and runs 24/7. The goal for this subsidiary is to hold Bitcoin, Litecoin, Ripple and Stellar as digital assets with the expectation of future appreciation. In December 2018, the Company entered into an asset purchase agreement by which the Company transferred the assets and liabilities to a third party. See Note 6.

**The Surge Utility Token** is part of our rewards program intended to incentivize customer loyalty while also encouraging each customer to purchase additional Surge services. For example, a wireless customer should also become a SurgePays Visa holder and/or other products in the Surge ecosystem as we expand. The Surge Tokens are issued on the Ethereum blockchain and are ERC-20 compliant. The tokens will be used for redeeming gifts and prizes from the Surge Rewards website. The launch target for the Surge Utility Token is Q4 2018.

**TokenSpinner** is the first smartphone app that Surge Holdings Inc. has developed with a launch date target of Q4 2018. The app provides a simple game of chance spin of the wheel to win a prize. The app has multiple Ad Network feeds that pay Surge per impression. Players of the game have an opportunity to earn additional spins by participating in other activities (where Surge is compensated) like watching videos or filling out surveys. The prizes will vary from gift cards, to electronics and of course Surge Tokens.

### **Surge Digital Media**

**Surge Logics** is a full-service digital advertising agency, specializing in lead generation, Pay Per Call, landing page optimization and managed ad spending. Our primary media buying platforms are Google AdWords, Facebook, Instagram and Bing. We have a call center that can handle Live Call Transfers, Customer Service Support, Lead Verification and Attorney Case Support.

**Lead generation** describes the marketing process of stimulating and capturing interest in a product or service for the purpose of developing sales pipeline.

**Pay-per-call** (PPCall, also called cost-per-call) is an advertising model in which the rate paid by the advertiser is determined by the number of telephone calls made by viewers of an ad. Pay Per Call providers charge per call, per impression or per conversion.

**Media buying** is the process of buying media placements for advertising (on TV, in publications, on the radio, digital signage, apps or on websites).

A **call center** or call center is a centralized office used for receiving or transmitting a large volume of requests by telephone.

### **Centercom Global, S.A. de C.V.**

On January 17, 2019, the Company announced the completion of an agreement to acquire a 40% equity ownership of Centercom Global, S.A. de C.V. ("Centercom"). Centercom is a dynamic operations center currently providing Surge sales support, customer service, IT infrastructure design, graphic media, database programming, software development, revenue assurance, lead generation, and other various operational support services for SURG. Centercom also provides call center support for various third-party clients. The Company's primary initiatives for Centercom are:

- Assisting in on-boarding SurgePays Portal into over 40,000 retail locations and subsequent ongoing white glove support
- Aggressively marketing new "Free Wireless Service" program to substantially grow customer base while enhancing customer service
- Launch SurgePays Reloadable Visa Card by end of 1<sup>st</sup> Quarter
- Support the Company's IT infrastructure including database management
- Upsell-related FinTech products to our existing customer base to increase revenue

**Basis of Presentation**

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

**Use of Estimates and Assumptions and Critical Accounting Estimates and Assumptions**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Risks and Uncertainties**

The Company operates in an industry that is subject to intense competition and change in consumer demand. The Company's operations are subject to significant risk and uncertainties including financial and operational risks including the potential risk of business failure.

The Company has experienced, and in the future expects to continue to experience, variability in sales and earnings. The factors expected to contribute to this variability include, among others, (i) the cyclical nature of the industry, (ii) general economic conditions in the various local markets in which the Company competes, including a potential general downturn in the economy, and (iii) the volatility of prices in connection with the Company's distribution of the product. These factors, among others, make it difficult to project the Company's operating results on a consistent basis.

**Concentration of Credit Risk**

Financial instruments that potentially expose the Company to credit risk consist of cash and cash equivalents, and accounts receivable. The Company is exposed to credit risk on its cash and cash equivalents in the event of default by the financial institutions to the extent account balances exceed the amount insured by the FDIC, which is \$250,000. Accounts receivables potentially subject the Company to concentrations of credit risk. Company closely monitors extensions of credit. Estimated credit losses have been recorded in the consolidated financial statements. Recent credit losses have been within management's expectations. No customer accounted for more than 10% of revenues in 2018 or 2017.

**Cash and Cash Equivalents**

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. The Company held no cash equivalents at December 31, 2018 and 2017.

The Company minimizes its credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits.

**Accounts receivable and allowance for doubtful accounts**

Accounts receivable are generally due thirty days from the invoice date. The Company has a policy of reserving for uncollectible accounts based on their best estimate of the amount of profitable credit losses in its existing accounts receivable. The Company extends credit to its customers based on an evaluation of their financial condition and other factors. The Company generally does not require collateral or other security to support accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains an allowance for potential bad debts if required.

The Company determines whether an allowance for doubtful accounts is required by evaluation of specific accounts where information indicates the customer may have an inability to meet financial obligations. In these cases, the Company uses assumptions and judgment, based on the best available facts and circumstances, to record a specific allowance for those customers against amounts due to reduce the receivable to the amount expected to be collected. These specific allowances are re-evaluated and adjusted as additional information is received. The amounts calculated are analyzed to determine the total amount of the allowance. The Company may also record a general allowance as necessary.

Direct write-offs are taken in the period when the Company has exhausted their efforts to collect overdue and unpaid receivables or otherwise evaluate other circumstances that indicate that the Company should abandon such efforts. For the years ended December 31, 2018 and 2017, the Company reported \$0 and \$0 of bad debt expense, respectively.



## Customer Phone Supply

Customer phone supply consists of cellular telephones provided to eligible customers in accordance with Federal Communications Commission rules outlined in the Communications Act of 1934, as amended. These telephones are amortized to Cost of Sales over a 12-month period from the date put into service. The amount amortized into Cost of Revenues was \$1,170,295 and \$1,473,956 for the years ended December 31, 2018 and 2017, respectively.

## Property and equipment

Property and equipment and software development costs are stated at cost, less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the life of the lease if it is shorter than the estimated useful life. Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Computer and office equipment is generally three to five years and office furniture is generally seven years.

## Fair value measurements

The Company adopted the provisions of ASC Topic 820, "Fair Value Measurements and Disclosures", which defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value and expands disclosure of fair value measurements.

The estimated fair value of certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments. The carrying amounts of our short and long term credit obligations approximate fair value because the effective yields on these obligations, which include contractual interest rates taken together with other features such as concurrent issuances of warrants and/or embedded conversion options, are comparable to rates of returns for instruments of similar credit risk.

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

- Level 1 — quoted prices in active markets for identical assets or liabilities.
- Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable.
- Level 3 — inputs that are unobservable (for example cash flow modeling inputs based on assumptions).

The derivative liability in connection with the conversion feature of the convertible debt, classified as a Level 3 liability, is the only financial liability measure at fair value on a recurring basis.

The change in the Level 3 financial instrument is as follows:

	<b>2018</b>
Balance, January 1, 2018	\$ -
Additions – Merger transaction	59,141
Additions & disposals - net	(12,188)
Change in fair value recognized in operations	4,105
Balance, December 31, 2018	<u>\$ 51,058</u>

The estimated fair value of the derivative instruments was valued using the Black-Scholes option pricing model, using the following assumptions as of December 31, 2018:

	2018
Estimated dividends	None
Expected volatility	113.72%
Risk free interest rate	3.13%
Expected term	.01-36 months

LTC cryptocurrency coins are valued at current quoted rates and are therefore a Level 1 input.

### Convertible Instruments

The Company evaluates and accounts for conversion options embedded in convertible instruments in accordance with ASC 815 "Derivatives and Hedging Activities". Applicable GAAP requires companies to bifurcate conversion options from their host instruments and account for them as freestanding derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not measured at fair value under other GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

### Business combinations

We allocate the fair value of purchase consideration to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill.

Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired users, acquired technology, and trade names from a market participant perspective, useful lives and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

### Deferred Revenues

The Company records deferred revenues when it receives payments or issues invoices in advance of transferring control of promised goods or services to a customer. The advance consideration received from a customer is deferred until the Company provides the customer that product or service. At December 31, 2018, the deferred revenues totaled \$50,000. There were no deferred revenues at December 31, 2017.

### Revenue recognition

The Company adopted ASC 606 effective January 1, 2018 using the modified retrospective method which would require a cumulative effect adjustment for initially applying the new revenue standard as an adjustment to the opening balance of retained earnings and the comparative information would not require to be restated and continue to be reported under the accounting standards in effect for those periods.

Based on the Company's analysis the Company did not identify a cumulative effect adjustment for initially applying the new revenue standards. The Company principally generates revenue through providing product, services and licensing revenue.

The adoption of ASC 606 represents a change in accounting principle that will more closely align revenue recognition with the delivery of the Company's services and will provide financial statement readers with enhanced disclosures. In accordance with ASC 606, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services. To achieve this core principle, the Company applies the following five steps:

#### 1) Identify the contract with a customer

A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the services to be transferred and identifies the payment terms related to these services, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

2) *Identify the performance obligations in the contract*

Performance obligations promised in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised services, the Company must apply judgment to determine whether promised services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised services are accounted for as a combined performance obligation.

3) *Determine the transaction price*

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring services to the customer. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. None of the Company's contracts as of December 31, 2018 contained a significant financing component.

4) *Allocate the transaction price to performance obligations in the contract*

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. However, if a series of distinct services that are substantially the same qualifies as a single performance obligation in a contract with variable consideration, the Company must determine if the variable consideration is attributable to the entire contract or to a specific part of the contract. For example, a bonus or penalty may be associated with one or more, but not all, distinct services promised in a series of distinct services that forms part of a single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct service that forms part of a single performance obligation. The Company determines standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

5) *Recognize revenue when or as the Company satisfies a performance obligation*

The Company satisfies performance obligations either over time or at a point in time. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised service to a customer.

**Advertising costs**

Advertising costs are expensed as incurred in accordance with ASC 720-35 "*Advertising Costs*". The Company incurred advertising costs of \$559,333 and \$427,151 for the years ended December 31, 2018 and 2017, respectively, which are included in selling, general and administrative expenses on the Company's consolidated financial statements.

**Share-based compensation**

The Company recognizes compensation expense for all equity-based payments in accordance with ASC 718 "*Compensation – Stock Compensation*." Under fair value recognition provisions, the Company recognizes equity-based compensation net of an estimated forfeiture rate and recognizes compensation cost only for those shares expected to vest over the requisite service period of the award.

Restricted stock awards are granted at the discretion of the Company. These awards are restricted as to the transfer of ownership and generally vest over the requisite service periods, typically over a four-year period (vesting on a straight-line basis). The fair value of a stock award is equal to the fair market value of a share of Company stock on the grant date.

The fair value of option awards is estimated on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model requires the development of assumptions that are input into the model. These assumptions are the expected stock volatility, the risk-free interest rate, the expected life of the option, the dividend yield on the underlying stock and the expected forfeiture rate. Expected volatility is calculated based on the historical volatility of the Company's Common stock over the expected option life and other appropriate factors. The expected option term is computed using the "simplified" method as permitted under the provisions of ASC 718-10-S99. The Company uses the simplified method to calculate expected term of share options and similar instruments as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. Risk-free interest rates are calculated based on continuously compounded risk-free rates for the appropriate term. The dividend yield is assumed to be zero as the Company has never paid or declared any cash dividends on the Common stock of the Company and does not intend to pay dividends on the Common stock in the foreseeable future. The expected forfeiture rate is estimated based on historical experience.

Determining the appropriate fair value model and calculating the fair value of equity-based payment awards requires the input of the subjective assumptions described above. The assumptions used in calculating the fair value of equity-based payment awards represent management's best estimates, which involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, the equity-based compensation could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and recognize expense only for those shares expected to vest. If the actual forfeiture rate is materially different from the Company's estimate, the equity-based compensation could be significantly different from what the Company has recorded in the current period.

#### **Earnings (loss) per common share**

Basic net income (loss) per common share is computed by dividing net loss attributable to stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents. At December 31, 2018 and 2017, there were 50,000 and zero potentially dilutive common stock equivalents, respectively. Basic and diluted earnings (loss) per share are the same for each of the periods presented since there was a loss for the year ended December 31, 2018 and the common stock equivalents are thus antidilutive.

#### **Income taxes**

We use the asset and liability method of accounting for income taxes in accordance with Accounting Standards Codification ("ASC") Topic 740, "Income Taxes". Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

Through December 23, 2014, KSIX and BLVD operated as limited liability companies and all income and losses were passed through to the owners. Through October 12, 2015, DIQ operated as a limited liability company and all income and losses were passed through to its owner. Subsequent to the acquisition dates, these limited liability companies were owned by Surge and became subject to income tax.

Through April 1, 2018, TW operated as a limited liability company and all income and losses were passed through to the owners. In order to facilitate the merger discussed above, TW converted from a limited liability company to a C-Corp.

ASC Topic 740-10-30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740-10-40 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

### **Contingencies**

Certain conditions may exist as of the date financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. Company management and its legal counsel assess such contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings. The Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a liability has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or if probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable would be disclosed.

### **Related Parties**

The Company follows subtopic ASC 850-10 for the identification of related parties and disclosure of related party transactions.

Pursuant to Section 850-10-20, the related parties include: (a) affiliates of the Company ("Affiliate" means, with respect to any specified person, any other person that, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such person, as such terms are used in and construed under Rule 405 under the Securities Act); (b) entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity; (c) trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; (d) principal owners of the Company; (e) management of the Company; (f) other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and (g) other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

### **Reclassifications**

Certain prior period amounts have been reclassified to conform to the current year's presentation.

### **Recent accounting pronouncements**

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, "*Leases*" (Topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the update is permitted, and entities may also elect the optional transition method provided under ASU 2018-11, *Leases, Topic 842: Targeted Improvement*, issued in July 2018, allowing for application of the standard at the adoption date, with recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company does not expect the new standard will have a material effect on the consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, "*Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*," which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This standard is required to be adopted in the first quarter of 2018. The Company adopted the standard during the year ended December 31, 2018 and the adoption did not have a material effect on its consolidated financial statements and disclosures.

In July 2017, the FASB issued ASU 2017-11, “*Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*”. Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently evaluating this guidance and the impact of this update on its consolidated financial statements.

In December 2017, the Securities and Exchange Commission (“SEC”) released Staff Accounting Bulletin No. 118 (the “*Bulletin*”), which provides accounting guidance regarding accounting for income taxes for the reporting period that includes the enactment of the Tax Act. The Bulletin provides guidance in those situations where the accounting for certain income tax effects of the Tax Act will be incomplete by the time financial statements are issued for the reporting period that includes the enactment date. For those elements of the Tax Act that cannot be reasonably estimated, no effect will be recorded.

The SEC has provided in the Bulletin that in situations where the accounting is incomplete for certain effects of the Tax Act, a measurement period which begins in the reporting period that includes the enactment of the Tax Act and ends when the entity has obtained, prepared and analyzed the information is needed in order to complete the accounting requirements. The measurement period shall not exceed one year from enactment.

In June 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. Under the new standard, companies will no longer be required to value non-employee awards differently from employee awards. Companies will value all equity classified awards at their grant-date under ASC 718 and forgo revaluing the award after the grant date. ASU 2018-07 is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within that reporting period. Early adoption is permitted, but no earlier than the Company’s adoption date of Topic 606, *Revenue from Contracts with Customers* (as described above under “Revenue Recognition”). The Company does not believe the new standard will have a significant impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*”. This update is to improve the effectiveness of disclosures in the notes to the financial statements by facilitating clear communication of the information required by U.S. GAAP that is most important to users of each entity’s financial statements. The amendments in this update apply to all entities that are required, under existing U.S. GAAP, to make disclosures about recurring or nonrecurring fair value measurements. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently evaluating this guidance and the impact of this update on its consolidated financial statements.

Management does not believe that any recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying consolidated financial statements.

### 3 LIQUIDITY

The Company had a loss from operations of approximately \$1.5 million for the year ended December 31, 2018. As of December 31, 2018, we had cash and working capital deficit of approximately \$445,000 and \$1,732,000, respectively. Management made a decision to achieve certain goals in order to ramp up revenue in 2019 and beyond that negatively affected revenue in 2018. By implementing this process, six key achievements were successfully reached in 2018. One, we have developed and rolled out our SurgePhone wireless and SurgePays Debit card. Two, we have completed work on our second generation SurgePays Fintech software, which has now been released. Three, we have organized our human resources to support the significant growth which is a major goal for fiscal year 2019. Four, we have put in place important cost controls, including our relations with our Operations Center to support our growth in a cost-effective manner. Five, we have had ongoing productive negotiations with trade organizations to support the rapid scaling and roll-out of our products and services. Six, we have significantly restructured our balance sheet to be an effective platform for growth.

These factors, among others, were addressed by management in determining whether the Company could continue as a going concern. The Company projects that it should be cash flow positive by the end of fiscal year 2019 from ongoing operations by the combination of increased cash flow from its current subsidiaries, as well as restructuring our current debt burden. The Company has executed an agreement with a FINRA licensed broker, as well as several institutional investors, to bring in equity investments to pay down existing debt obligations, cover short term shortfalls, and complete proposed acquisitions. While the Company believes in the viability of management's strategy to generate sufficient revenue, control costs and the ability to raise additional funds if necessary, there can be no assurances to that effect. While management believes it is more likely than not the Company has the ability to continue as a going concern, this is dependent upon the ability to further implement the business plan, generate sufficient revenues and to control operating expenses.

Additionally, if necessary, management believes that both related parties (management and members of the Board of Directors of the Company) and potential external sources of debt and/or equity financing will be obtained based on management's history of being able to raise capital from both internal and external sources coupled with current favorable market conditions. Therefore, the accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern.

### 4 MERGER AGREEMENT

As discussed in Note 1, the Company closed the merger transaction (the "Merger") that was the subject of that certain Agreement and Plan of Reorganization (the "Merger Agreement") with True Wireless, Inc., an Oklahoma corporation ("TW") dated as of April 11, 2018. At closing, in accordance with the Merger Agreement, TW merged with and into TW Acquisition Corporation, a Nevada corporation ("Merger Sub"), a wholly-owned subsidiary of Surge Holdings, Inc. (the "Merger"), with TW being the surviving corporation. As a result of the Merger, TW became a wholly-owned subsidiary of the Company.

Pursuant to the terms of the Merger Agreement, TW, Inc. merged into Acquisition Sub in a transaction where TW, Inc. was the surviving company and become a wholly-owned subsidiary of the Company. The transaction was structured as a tax-free reverse triangular merger. In addition to the 12,000,000 shares of Company Common Stock and \$500,000 cash which has been previously paid to the shareholders of TW, at the closing of the merger transaction, the shareholders of TW received the following as additional merger consideration:

- 152,555,416 shares of newly-issued Company Common Stock, which will give the shareholders of TW, on a proforma basis, a 69.5% interest in the Company's total Common Shares.
- An additional number of shares of Company Common Stock, if any, necessary to vest 69.5% of the aggregate issued and outstanding Common Stock in the shareholders of TW at the Closing.
- A Promissory Note in the original face amount of \$3,000,000, bearing interest at 3% per annum maturing on December 31, 2018.
- 3,000,000 shares of newly-issued Company Series A Preferred Stock

Following the closing of the merger transaction the Company's investment in TW consisted of the following:

	<u>Shares</u>	<u>Amount</u>
<b>Consideration paid prior to Closing:</b>		
Cash paid		\$ 500,000
Common stock issued	12,000,000	1,200,000
Total consideration paid	<u>12,000,000</u>	<u>\$ 1,700,000</u>
<b>Consideration paid at Closing:</b>		
Common stock to be issued at closing <sup>(1)</sup>	152,555,416	\$ 60,683,006
Series A Preferred Stock to be issued at closing	3,000,000	120,000
Note payable due December 31, 2018		3,000,000
Total consideration to be paid		<u>\$ 63,803,006</u>
Total consideration		<u>\$ 65,503,006</u>

(1) The Common Shares issued at closing of the Merger Transaction were valued at approximately \$0.40 per share.

Following the closing of the transaction, TW's financial statements as of the Closing will be consolidated with the Consolidated Financial Statements of the Company.

The following presents the unaudited pro-forma combined results of operations of the Company with the TW Business as if the entities were combined on January 1, 2017.

	<b>Year Ended</b> <b>December 31, 2018</b>	<b>Year Ended</b> <b>December 31, 2017</b>
Revenues, net	\$ 15,684,032	\$ 14,889,852
Net income (loss)	\$ (1,541,078)	\$ 787,568
Net income (loss) per share	\$ (0.02)	\$ 0.01
Weighted average number of shares outstanding	81,566,892	76,183,385

The unaudited pro-forma results of operations are presented for information purposes only. The unaudited pro-forma results of operations are not intended to present actual results that would have been attained had the acquisitions been completed as of January 1, 2017 or to project potential operating results as of any future date or for any future periods.

The Company consolidated TW as of the closing date of the agreement, and the results of operations of the Company include that of TW.

## 5 PROPERTY AND EQUIPMENT

Property and equipment stated at cost, less accumulated depreciation, consisted of the following:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Computer Equipment	\$ 15,263	\$ 93,865
Furniture and Fixtures	7,996	34,916
Leasehold Improvements	25,513	24,196
	48,772	152,977
Less: Accumulated Depreciation	(13,782)	(127,015)
	<u>\$ 30,990</u>	<u>\$ 25,962</u>

Depreciation expense was \$112,990 and \$6,939 for the years ended December 31, 2018 and 2017, respectively.

## 6 CRYPTOCURRENCY ASSET SALE

In December 2018, the Company executed an agreement with a related party for the sale of Cryptocurrency assets for proceeds of \$891,192. In exchange for the purchased assets with a net book value of \$523,743, the related party would assume the liabilities of the entity consisting of accounts payable of \$40,235 and outstanding debt and accrued interest of \$808,600. The Company recognized a gain on sale totaling \$273,453.

## 7 CREDIT CARD LIABILITY

The Company previously utilized a credit card issued in the name of DIQ to pay for certain of its trade obligations. During the year ended December 31, 2018, the Company utilized a credit card issued in the name of Surge Holdings, Inc. to pay certain trade obligations totaling \$55,185. At December 31, 2018 and 2017, the Company's total credit card liability was \$394,840 and \$0, respectively.

## 8 NOTES PAYABLE – RELATED PARTY

As of December 31, 2018 and 2017, notes payable due to a related party consists of:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Note payable to SMDMM Funding LLC; interest at 8% per annum; due on demand <sup>1</sup>	\$ -	\$ 344,241
Promissory note payable – to SMDMM Funding LLC; interest at 6% per annum <sup>2</sup>	680,000	-
	680,000	344,241
Current portion of long-term debt – related party	-	344,241
Long-term debt less current portion – related party	<u>\$ 680,000</u>	<u>\$ -</u>



SMDMM Funding, LLC is owned by the Company's chief executive officer. Accrued interest owed to SMDMM Funding, LLC was \$10,718 and \$1,711 at December 31, 2018 and 2017, respectively.

- 1 During the year ended December 31, 2018, an additional \$133,500 was advanced to the Company. The Company repaid the outstanding balance and accrued interest of \$477,74 and \$574, respectively, prior to year-end.
- 2 In December 2018, the Company executed a promissory note payable agreement with SMDMM for a principal sum up to \$1.0 million at an annual interest rate of 6%, due on December 27, 2021. The Company drew advances on the note totaling \$760,000. As part of the Cryptocurrency transaction discussed in Note 6 above, \$80,000 of the outstanding balance under the promissory note was assumed by the purchaser.

As part of the Cryptocurrency transaction discussed in Note 5 above, a total of \$808,600 of outstanding balance under related party debt was assumed by the purchaser.

## 9 NOTES PAYABLE AND LONG-TERM DEBT

As of December 31, 2018 and 2017, notes payable and long-term debt consists of:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Note payable to former officer due in four equal annual installments of \$25,313 on April 28 of each year; past due in 2016 and 2017; accruing interest at 6% per annum since April 28, 2016 on the past due portion	\$ 70,000	\$ -
Notes payable to seller of DigitizeIQ, LLC due as noted below <sup>1</sup>	485,000	-
Convertible note payable to River North Equity LLC dated July 13, 2016 with interest at 10% per annum; due April 13, 2017; convertible into common stock <sup>2</sup>	27,500	-
Unsecured demand notes to an unaffiliated third-party company bearing interest at 6.49% <sup>3</sup>	-	435,000
	<u>\$ 582,500</u>	<u>\$ 435,000</u>

<sup>1</sup> Notes due seller of DigitizeIQ, LLC includes a series of notes as follows:

- A second non-interest-bearing Promissory Note made payable to the Seller in the amount of \$250,000, which was due on January 12, 2016; (Balance at December 31, 2018 - \$235,000)
- A third non-interest-bearing Promissory Note made payable to the Seller in the amount of \$250,000, which was due on March 12, 2016 and remains unpaid as of December 31, 2018.

The Company is renegotiating the terms of the notes. The notes bear interest at 5% per annum when in default (after the due date). The notes were non-interest bearing until due. Accordingly, a debt discount at 5% per annum was calculated for the notes and was amortized to interest expense until the due date of the notes.

<sup>2</sup> Convertible note payable to River North Equity, LLC ("RNE") - The Company evaluated the embedded conversion for derivative treatment and recorded an initial derivative liability and debt discount of \$23,190. The debt discount is fully amortized.

The Company has entered into a number of agreements with RNE wherein RNE has agreed to invest up to \$3,000,000 in the common stock of the Company. These agreements require an effective Registration Statement to be on file by the Company and would allow the Company to require RNE to purchase the Company's common stock at 90% of the lowest trading price of the Company's common stock during the previous five trading days. The Company has not yet filed a Registration Statement with the SEC.

3 **Unsecured Demand Note** – In August 2018, the Company reached a settlement with the debt holder and issued 2,175,000 common shares in full settlement of the outstanding debt.

In December 2018, the Company issued 433,981 shares of its common stock in settlement of debt and accrued interest of \$107,500 and \$8,190, respectively. In addition, the Company wrote-off the derivative liability of \$34,556 related to the note. The fair value of the shares on day of issuance was \$164,913 and the Company recorded a loss on extinguishment of debt of \$14,667.

#### **Derivative liability**

The Company has determined that the conversion feature embedded in the notes referred to above that contain a potential variable conversion amount constitutes a derivative which has been bifurcated from the note and recorded as a derivative liability, with a corresponding discount recorded to the associated debt. The excess of the derivative value over the face amount of the note, if any, is recorded immediately to interest expense at inception. As noted above, the Company reached an agreement with a debt holder to convert outstanding debt and interest into shares of common stock. As a result, the Company wrote-off the existing derivative liability of \$34,556.

The estimated fair value of the derivative instruments was valued using the Black-Scholes option pricing model, using the following assumptions during the year ended December 31, 2018:

Estimated dividends	None
Expected volatility	113.72%
Risk free interest rate	3.13%
Expected term	.01-36 months

#### **10 LINE OF CREDIT**

On January 25, 2018 the Company obtained a \$500,000 line of credit (LOC) with a Bank. The LOC bears interest at 5% per annum and is secured by essentially all of the Company's assets. The note is personally guaranteed by the majority owner of the Company. On December 21, 2018, the Company and the bank agreed to increase the LOC to \$1,000,000 at an interest rate of 6% per annum. of December 31, 2018, the outstanding balance on the LOC was \$0.

#### **11 STOCKHOLDERS' EQUITY**

##### ***Preferred Stock***

##### **Series "A" Preferred Stock**

The Company, pursuant to the consent of the Board of Directors filed a Certificate of Designation with the Nevada Secretary of State which designated 10,000,000 shares of the Company's authorized preferred stock as Series "A" Preferred Stock, par value \$0.001. The Series "A" Preferred Stock has the following attributes:

- Ranks senior only to any other class or series of designated and outstanding preferred shares of the Company;
- Bears no dividend;
- Has no liquidation preference, other than the ability to convert to common stock of the Company;
- The Company does not have any rights of redemption;
- Voting rights equal to ten shares of common stock for each share of Series "A" Preferred Stock;
- Entitled to same notice of meeting provisions as common stock holders;

- Protective provisions require approval of 75% of the Series “A” Preferred Shares outstanding to modify the provisions or increase the authorized Series “A” Preferred Shares; and
- Each one Series “A” Preferred Shares can be converted into ten common share at the option of the holder.

On April 11, 2018, the Company issued 3,000,000 shares of Series A Preferred Stock as consideration for the True Wireless, Inc. merger. As discussed in Note 1, the equity of the Company is the historical equity of TW retroactively restated to reflect the number of shares issued by the Company in the transaction. These preferred shares were recorded as a retroactive 2017 transaction as incentive to complete the merger.

Upon close of the merger, the Company recorded 10,000,000 shares of Series A Preferred Stock as a part of the recapitalization transaction for services previously rendered by the Company’s former Chief Executive Officer and Chairman of the Board of Directors.

As of December 31, 2018 and 2017, there were 13,000,000 and 3,000,000 shares of Series A issued and outstanding, respectively.

#### **Series “C” Convertible Preferred Stock**

On June 22, 2018, the Board of Directors approved a Certificate of Designation for Company Series C Convertible Preferred stock, which was filed with the Secretary of State of the State of Nevada on that date. The Certificate of Designations approved the creation of a new series of preferred stock consisting of 1,000,000 shares of Series C Convertible Preferred Stock par value \$0.001 (“Series C Preferred Stock”) with an original issue price of \$100.00 per share.

The Series “C” Preferred Stock has the following attributes:

- Ranks junior only to any other class or series of designated and outstanding preferred shares of the Company;
- Bears a dividend per share of Series C Preferred Stock equal to the per share amount (as converted), and in the same form as, the dividend payable to the holders of the Common Stock;
- With respect to such liquidation, dissolution or winding up, the holders of Series C Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of Junior Securities but after distribution of such assets among, or payment thereof to holders of any Senior Preferred Stock, an amount equal to the Series C Original Issue Price for each share of Series C Preferred Stock plus an amount equal to all declared but unpaid dividends on Series C Preferred Stock;
- The Company does not have any rights of redemption;
- Voting rights equal to 250 shares of common stock for each share of Series “C” Preferred Stock;
- Entitled to same notice of meeting provisions as common stock holders;
- Protective provisions require approval of 75% of the Series “C” Preferred Shares outstanding to modify the provisions or increase the authorized Series “C” Preferred Shares; and
- Each one Series “C” Preferred Shares can be converted into ten common share at the option of the holder.

As noted above, each share of Series C Preferred Stock is convertible into 250 shares of Company Common Stock (the same conversion rate utilized in the exchange transaction), but is only convertible on the first to occur of the following events:

- (i) The Volume Weighted Average Price (“VWAP”) of the Company’s Common Stock during any then consecutive trading days is at least \$2.00 per share; or
- (ii) June 30, 2019.

On June 29, 2018, each of Kevin Brian Cox (“Cox”), the Company’s Chief Executive Officer, and Thirteen Nevada LLC (“13”) entered into separate Exchange Agreements with the Company whereby the Shareholders agreed to exchange an aggregate of 148,741,531 shares of previously issued Company Common Stock for an aggregate of 594,966 shares of newly-issued Company Series C Convertible Preferred Stock. The calculation of weighted average shares was retroactively restated in order to properly account for the above noted share exchange.

During the year ended December 31, 2018, the Company issued 48,400 shares of Series C Preferred in exchange for the conversion of a note payable of \$3,000,000 and accrued interest of \$24,952.

As of December 31, 2018 and 2017, there were 643,366 and 0 shares of Series C issued and outstanding, respectively.

### **Common Stock**

On March 8, 2018, the Company granted a consultant 48,000 restricted shares for services rendered.

On April 11, 2018, the Company issued 152,555,416 shares of Common Stock as consideration for the True Wireless, Inc. merger. As discussed in Note 1, the equity of the Company is the historical equity of TW retroactively restated to reflect the number of shares issued by the Company in the transaction. These common shares were recorded as a retroactive 2017 transaction as incentive to complete the merger.

On April 25, 2018, the Company issued an aggregate of 480,000 shares of Common Stock to two consultants valued at \$0.27 per share.

In July 2018, the Company issued an aggregate of 1,156,587 shares of Common Stock valued at \$0.20 per share to nine parties in settlement of certain disputes between TW and Benson Communications, S.A. de C.V. The settlement had been previously reached on September 29, 2017.

As noted above in Note 8, in August 2018, Company reached a settlement with the debt holder and issued 2,175,000 in full settlement of the outstanding debt totaling \$435,000.

During the year ended December 31, 2018, the Company recorded total stock-based compensation expense of approximately \$146,000 in relation to shares issued for services.

As of December 31, 2018 and 2017, there were 88,046,391 and 152,555,416 shares of Common Stock issued and outstanding, respectively.

### **Stock Warrants**

On March 8, 2018, the Company granted its Chief Financial Officer 50,000 warrants to purchase the Company’s common stock with an exercise price of \$0.41 per share, a term of 5 years, and a vesting period of 1 year. The warrants have an aggregated fair value of approximately \$14,700 that was calculated using the Black-Scholes option-pricing model based on the assumptions below.

	<b>December 31, 2018</b>
Risk-free interest rate	2.03%
Expected life of grants	1.5 years
Expected volatility of underlying stock	173.02%
Dividends	0%

The estimated warrant life was determined based on the “simplified method,” giving consideration to the overall vesting period and the contractual terms of the award.

During the years ended December 31, 2018, the Company recorded total stock-based compensation expense related to the warrants of approximately \$11,800. The unrecognized compensation expense at December 31, 2018 was approximately \$2,900.

#### ***Unit Subscription Agreement - Warrants***

During January 2018, the Company entered into Unit subscription agreements with seven unrelated companies and individuals. Each Unit was priced at \$0.20 and contained: (a) one share of common stock restricted in accordance with Rule 144; and (b) one-half Warrant to purchase an additional share of common stock restricted in accordance with Rule 144 for \$0.50 for a period of three years after the close of the offering. For total consideration of \$460,000, Units representing 2,300,000 common shares and 1,150,000 3-year \$0.50 warrants were issued. The warrants were classified as equity since they have a fixed exercise price and do not have a provision for modification.

## **12 RELATED PARTY TRANSACTIONS**

The Company’s former chief executive officer has advanced the Company various amounts on a non-interest-bearing basis, which is being used for working capital. The advance has no fixed maturity. As of December 31, 2018 and 2017, the outstanding balance due was \$389,502 and \$0, respectively.

For the years ended December 31, 2018 and 2017, outsourced management services fees of \$1,020,000 was paid to Axia Management, LLC (“Axia”) as compensation for services provided. These costs are included in Selling, general and administrative expenses in the Statement of Operations. Axia is owned by the majority owner of the Company.

At December 31, 2018 and 2017, the Company had trade payables to Axia of \$66,535 and \$55,400, respectively.

For the years ended December 31, 2018 and 2017, the Company purchased telecom services and access to wireless networks from 321 Communications in the amount of \$1,016,393 and \$1,639,655, respectively. These costs are included in Cost of revenue in the Statement of Operations. The majority owner of the Company is a minority owner of 321 Communications.

At December 31, 2018 and 2017, the Company had trade payables to 321 Communications of \$52,161 and \$132,404, respectively.

The Company contracted with CENTERCOM GLOBAL, S.A. DE C.V. (“CenterCom Global”) to provide customer service call center services, manage the sales process to include handling incoming orders, the collection and verification of all documents to comply with FCC regulations, monthly audit of all subscribers to file the USAC 497 form, yearly audit of all subscribers that have been active over one year to file the USAC 555 form (Recertification), information technology professionals to maintain company websites, sales portals and server maintenance. Billings for these services in the years ended December 31, 2018 and 2017 were \$2,129,546 and \$976,678, respectively, and are included in Cost of revenue in the Statement of Operations. A director, officer, and minority owner of the Company has a controlling interest in CenterCom Global.

At December 31, 2018 and 2017, the Company had trade payables to CenterCom Global of \$175,000 and \$150,000, respectively.

See Note 5 for long-term debt due to related parties.

## 13 COMMITMENTS AND CONTINGENCIES

On November 1, 2013, The Federal Communications Commission (“FCC”) issued a Notice of Apparent Liability for Forfeiture to the Company for requesting and/or receiving support for ineligible subscriber lines between the months of October 2012 and May 2013 and proposed a monetary forfeiture of \$5,501,285. The Company has annual compliance audits with FCC approved audit firms that have found no compliance deficiencies. Management believes the proposed monetary forfeiture is without merit and if anything should result from this notice, the amount would not materially affect the financial position of the Company.

In October 2018, the Company signed an agreement with Pastime Foods (“Pastime”) in order to expand the Company’s distribution network for its SurgePays portal. The agreement will initiate distribution and sales to over 15,000 convenience and retail locations with a long-term target of greater than 40,000 locations. According to the agreement, Pastime commits to selling more than an average required minimum of \$1,500 of monthly sales revenue per location. The Company will fund the initial placement costs and expenses with a total initial advance of \$190,000 as well as fees of \$10,000. Any advances will be offset by the sharing of distribution revenues for shipments paid by retailers directly to Pastime and the Company. The sharing percentage will be 100% of the net distribution profit until the advances have been covered. As of December 31, 2018, the outstanding receivable due to the Company pursuant to the agreement is \$190,000 and is shown as Note Receivable on the consolidated balance sheet.

In November 2018, the Company entered into a settlement agreement with West Publishing Corporation (“West”) to remedy an outstanding civil action filed by West. Pursuant to the agreement, the Company will pay West the principal amount of \$125,000 plus interest accruing at the annual rate of 7%. The Company will make monthly principal payments as follows:

January 7, 2019	\$	20,000
February 7, 2019		25,000
March 7, 2019		25,000
	\$	<u>70,000</u>

In November and December 2018, the Company made two payments totaling \$55,000 as required in the settlement agreement.

## 14 INCOME TAXES

### *Deferred Tax Assets*

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Reform Bill”) was signed into law. Prior to the enactment of the Tax Reform Bill, the Company measured its deferred tax assets at the federal rate of 34%. The Tax Reform Bill reduced the federal tax rate to 21% resulting in the re-measurement of the deferred tax asset as of December 31, 2017. Beginning January 1, 2018, the lower tax rate of 21% will be used to calculate the amount of any federal income tax due on taxable income earned during 2018.

For the periods from inception through the date of conversion to a C corporation in April 2018, the Company reported its income under True Wireless LLC, a limited liability company. As a result, the Company’s income for federal and state income tax purposes were reportable on the tax returns of the individual partners. Accordingly, no recognition has been made for federal or state income taxes in the accompanying financial statements of the Company through the date of conversion.

At December 31, 2018, the Company has available for U.S. federal income tax purposes a net operating loss (“NOL”) carry-forwards of approximately \$1.5 million that may be used to offset future taxable income through the fiscal year ending December 31, 2038. If not used, these NOLs may be subject to limitation under Internal Revenue Code Section 382 should there be a greater than 50% ownership change as determined under the regulations. The Company plans on undertaking a detailed analysis of any historical and/or current Section 382 ownership changes that may limit the utilization of the net operating loss carryovers. No tax benefit has been reported with respect to these net operating loss carry-forwards in the accompanying consolidated financial statements since the Company believes that the realization of its net deferred tax asset of approximately \$290,000 was not considered more likely than not and accordingly, the potential tax benefits of the net loss carry-forwards are fully offset by a valuation allowance of \$290,000.

Deferred tax assets consist primarily of the tax effect of NOL carry-forwards. The Company has provided a full valuation allowance on the deferred tax assets because of the uncertainty regarding its realizability. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon future generation for taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. After consideration of all the information available, Management believes that significant uncertainty exists with respect to future realization of the deferred tax assets and has therefore established a full valuation allowance. The valuation allowance increased by approximately \$290,000 for the year ended December 31, 2018.

The Company evaluated the provisions of ASC 740 related to the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. ASC 740 prescribes a comprehensive model for how a company should recognize, present, and disclose uncertain positions that the Company has taken or expects to take in its tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the net benefit recognized and measured pursuant to the interpretation are referred to as “unrecognized benefits.” A liability is recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for unrecognized tax benefit because it represents an enterprise’s potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provisions of ASC 740.

If applicable, interest costs related to the unrecognized tax benefits are required to be calculated and would be classified as “Other expenses – Interest expense” in the statement of operations. Penalties would be recognized as a component of “General and administrative.”

No material interest or penalties on unpaid tax were recorded during the year ended December 31, 2018. As of December 31, 2018 and 2017, no liability for unrecognized tax benefits was required to be reported. The Company does not expect any significant changes in its unrecognized tax benefits in the next year.

Components of deferred tax assets are as follows:

	December 31, 2018
Net deferred tax assets – Non-current:	
Expected income tax benefit from NOL carry-forwards	\$ 291,359
Less valuation allowance	(291,359)
Deferred tax assets, net of valuation allowance	<u>\$ -</u>

*Income Tax Provision in the Consolidated Statements of Operations*

A reconciliation of the federal statutory income tax rate and the effective income tax rate as a percentage of income before income taxes is as follows:

	For the Year Ended December 31, 2018
Federal statutory income tax rate	21.0%
Change in valuation allowance on net operating loss carry-forwards	<u>(21.0)%</u>
Effective income tax rate	<u>0.0%</u>

**15 SEGMENT INFORMATION**

Operating segments are defined as components of an enterprise about which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer.

The Company evaluated performance of its operating segments based on revenue and operating profit (loss). Segment information for the years ended December 31, 2018 and 2017 and as of December 31, 2018 and 2017, are as follows:

	Surge	TW	Total
<b>Year ended December 31, 2018</b>			
Revenue	\$ 2,445,468	\$ 12,798,687	\$ 15,244,155
Cost of revenue	<u>(1,864,727)</u>	<u>(6,705,513)</u>	<u>(8,570,240)</u>
Gross margin	580,741	6,093,174	6,673,915
Costs and expenses	<u>(2,558,156)</u>	<u>(5,651,228)</u>	<u>(8,209,384)</u>
Operating income (loss)	(1,977,415)	441,946	(1,535,469)
<b>Year ended December 31, 2017</b>			
Revenue	\$ -	\$ 13,459,980	\$ 13,459,980
Cost of revenue	-	<u>(8,096,076)</u>	<u>(8,096,076)</u>
Gross margin	-	5,363,904	5,363,904
Costs and expenses	-	<u>(5,159,619)</u>	<u>(5,159,619)</u>
Operating income	-	204,285	204,285
<b>December 31, 2018</b>			
Total assets	\$ 947,550	\$ 3,136,768	\$ 4,084,318
Total liabilities	2,694,258	3,378,293	6,072,551
<b>December 31, 2017</b>			
Total assets	\$ -	\$ 1,176,094	\$ 1,176,094
Total liabilities	-	3,076,838	3,076,838

**16 SUBSEQUENT EVENTS**

Effective February 15, 2019, the Company's Board of Directors appointed Anthony P. Nuzzo, Jr. as President of the Company replacing Kevin Brian Cox. Mr. Cox will continue to serve the Company as its Chief Executive Officer and Chairman of the Board. Mr. Nuzzo will continue to also serve as the Company's Chief Operating Officer.

On February 15, 2019, Carter Matzinger elected to exchange outstanding non-interest bearing debt totaling \$389,502 owed by the Company into 6,232 shares of Preferred Stock.

## **ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

On April 30, 2018, the Board of Directors of Surge Holdings, Inc. (“Surge” or “Company”) decided to engage Rodefer Moss & Co. PLLC, Nashville, TN, as independent principal accountant and auditor to report on the Company’s financial statements for the fiscal year ended December 31, 2018, including performing the required quarterly reviews.

In conjunction with the new engagement, the Company has dismissed its former accountant, Paritz & Co., P.A., Hackensack, NJ (“Paritz”), as the Company’s independent registered accounting firm effective April 30, 2018. Paritz has served the Company well since 2010. Under Item 304 of Regulation S-K, the reason for the auditor change is dismissal, not resignation nor declining to stand for re-election.

During the Company’s two most recent fiscal years, the financial statements for which period were audited by Paritz, and in the subsequent interim period when Paritz was the auditor of record, (i) there were no disagreements with Paritz on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to Paritz’s satisfaction, would have caused Paritz to make reference in connection with its opinion to the subject matter of the disagreement, and (ii) there were no “reportable events,” as that term is described in Item 304(a)(1)(v) of Regulation S-K. Paritz audited the financial statements for the year ended December 31, 2017 and 2016, which had been prepared assuming that the Company would continue as a going concern and included an explanatory paragraph regarding the Company’s ability to continue as a going concern. Other than the going concern explanatory paragraph, the report of Paritz on the Company’s financial statements as of and for the period ended December 31, 2017 and 2016 did not contain an adverse opinion or a disclaimer of an opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

On April 30, 2018, the Company approved the engagement of Rodefer Moss & Co. PLLC (“Rodefer”) as the Company’s new independent registered public accounting firm for the fiscal year ending December 31, 2018. During the two most recent fiscal years and the subsequent interim period through the date of the dismissal of Paritz, the Company did not consult with Rodefer regarding any matters described in Item 304(a)(2)(i) or (ii) of Regulation S-K.

### **ITEM 9A: CONTROLS AND PROCEDURES**

#### **Evaluation of disclosure controls and procedures**

Under the PCAOB standards, a control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention by those responsible for oversight of the company’s financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, 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 (Exchange Act). Our management has determined that, as of December 31, 2018, the Company’s disclosure controls and procedures are not effective due to a lack of segregation of duties.

#### **Management’s report on internal control over financial reporting**

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. The Company’s internal control over financial reporting is designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with the United States’ generally accepted accounting principles (US GAAP), including those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.



Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as set forth in its Internal Control - Integrated Framework. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management has concluded that our internal control over financial reporting was not effective as of December 31, 2018 due to a lack of segregation of duties.

There were no significant changes in internal controls or in other factors that could significantly affect these controls during the year ended December 31, 2018.

**ITEM 9B: OTHER INFORMATION**

**Centercom Global, S.A. de C.V.**

On January 17, 2019, the Company announced the completion of an agreement to acquire a 40% equity ownership of Centercom Global, S.A. de C.V. (“Centercom”). Centercom is a dynamic operations center currently providing Surge sales support, customer service, IT infrastructure design, graphic media, database programming, software development, revenue assurance, lead generation, and other various operational support services for SURG. Centercom also provides call center support for various third-party clients. The Company’s primary initiatives for Centercom are:

- Assisting in on-boarding SurgePays Portal into over 40,000 retail locations and subsequent ongoing white glove support
- Aggressively marketing new “Free Wireless Service” program to substantially grow customer base while enhancing customer service
- Launch SurgePays Reloadable Visa Card by end of 1<sup>st</sup> Quarter
- Support the Company’s IT infrastructure including database management
- Upsell-related FinTech products to our existing customer base to increase revenue

**PART III**

**ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Listed below are our directors and executive officers.

Set forth below is certain biographical information concerning our current executive officers and directors. We currently have two executive officers as described below.

<b>Directors and Executive Officers</b>	<b>Position/Title</b>	<b>Age</b>
Kevin Brian Cox	Chief Executive Officer and Director	42
Carter Matzinger	Director	44
Anthony P. Nuzzo, Jr.	President, Chief Operating Officer and Director	49
David C. Ansani	Secretary, Chief Administrative Officer and Director	53
Brian M. Speck	Chief Financial Officer	44

The following information sets forth the backgrounds and business experience of the directors and executive officers.

**Kevin Brian Cox – Chief Executive Officer and a Director** – Mr. Cox has been Chief Executive Officer and a Director since July 2017. He also served as President of the Company from July 2017 to February 2019. He been the majority owner and CEO of True Wireless since January 2011. True Wireless has been a leader and innovator in the wireless industry with a focus on providing reduced cost cellular service to low income individuals. Mr. Cox got his start in telecom in 2004 when he founded his first telephone company (CLEC). Through organic growth and acquisition, he ran 3 CLECs providing service to 200,000 residential subscribers and became the largest prepaid home phone company in the country before selling in 2009. Mr. Cox is a minority partner, investor and or stakeholder in several other technology companies including telecom, wireless and network transactions. Mr. Cox has a proven track record of not only success but winning. Many aspects of his leadership style are contributed to what he learned on the football field while earning Team Captain and All-Conference honors at Murray State University while majoring in Economics.

**Carter Matzinger - Director** - Mr. Matzinger has been a director of the Company since April 2015 and served as President of the Company from 2015 to 2017. He has over 18 years of diverse experience including working with many Fortune 500 companies including: The Limited, CompuServe, Goodyear Tire, and Amoco. For the past nine years, Mr. Matzinger has worked in the field of online marketing and has specialized in building large affiliate networks. He works closely with online advertisers and advertising networks to expand the reach of profitability of the Company. His experience in search engine optimization, list management, and pay-per-click advertising provides a vast network of relationships and industry expertise. Mr. Matzinger is the co-founder and President of Blvd Media Group, LLC (now Surge Blockchain, LLC), and KSIX LLC. Mr. Matzinger is a graduate of the University of Utah in 1997 B.A. in Business Administration.

**Anthony P. Nuzzo Jr. – President, Chief Operating Officer and Director** – Mr. Nuzzo has been the Chief Operating Officer and a director of the Company since July 2016. In February 2019, he was appointed President of the Company. In 1991 Mr. Nuzzo formed Nuzzo Enterprises, Inc. d/b/a Jackson Hewitt Tax Service, a tax franchise, and successfully expanded the company to include twenty-two locations spread over six counties in Chicago, IL and the Syracuse, NY area. In June 2003, Mr. Nuzzo became one of five co-founders and Managing Members to successfully launch Leading Edge Recovery Solutions, LLC. In 2008 ranked 21st in the U.S. within the Financial Services Industry by the Inc. 500 Fastest Growing Private Companies Annual Publication received the honor of Inc. 500 Fastest Growing Private Companies Annual Publication being Ranked 346 overall by Inc. In 2009, Mr. Nuzzo left for a new challenge and purchased Glass Mountain Capital, LLC. Mr. Nuzzo set out to create an Accounts Receivable Management company that focused on helping the consumer while achieving goals set by the clients. In 2013 under the leadership of Mr. Nuzzo Glass Mountain Capital, LLC was ranked 198 in the U.S. within the Financial Services Industry by the Inc. 500 Fastest Growing Private Companies Annual Publication received the honor of Inc. 500 Fastest Growing Private Companies Annual Publication being overall by Inc. Magazine annual publishing of the Top 500 Fastest Growing Private Companies in the U.S. REVENUE: \$6.9 Million. In early 2017, Mr. Nuzzo successfully launched a near shore BPO, CenterCom Global, BPO in Central America. CenterCom will give all clients a near shore option that will drive down costs and build efficiencies.

**David C. Ansani – Secretary, Chief Administrative Officer and Director** – Mr. Ansani has been a director of the Company since August 2017. He was also appointed Secretary of the Company in February 2019. From 2010 to the present date, he has been and is Chief Compliance Officer/Human Resources Officer/In-House Counsel for Glass Mountain Capital, LLC, a start-up financial services company specializing in the recovery of distressed assets. In this capacity, he reviews and evaluates compliance issues and concerns within the organization. The position ensures that management and employees are in compliance with applicable laws, rules and regulations of regulatory agencies (FDICPA, TCPA, GLB, CFPB, etc.); that company policies and procedures are being followed; and that behavior in the organization meets the company's standards of conduct.

**Brian M. Speck – Chief Financial Officer** – Mr. Speck has been Chief Financial Officer of the Company since March 2018. Since late 2013, he has been Director of Financial Reporting for Brio Financial Group, which will also support the Company's ongoing financial reporting. In his capacity at Brio, he consults various private and public companies in financial reporting, internal control development and evaluation, budgeting and forecasting. Prior to joining Brio, from 2011 to 2013, he was an audit supervisor at Wiss & Company. In that capacity, he was involved in their accounting and tax practice with industry focuses in manufacturing, wholesalers, construction contractors, and professional service firms. Mr. Speck has a Master of Science in Accounting from Kean University.

None of the above directors and executive officers has been involved in any legal proceedings as listed in Regulation S-K, Section 401(f), except as disclosed above and there is no family relationship among the director and executive officers.

**AUDIT COMMITTEE.** The Company intends to establish an audit committee, which will consist of independent directors. The audit committee's duties would be to recommend to the Company's board of directors the engagement of independent auditors to audit the Company's financial statements and to review its accounting and auditing principles. The audit committee would review the scope, timing and fees for the annual audit and the results of audit examinations performed by the internal auditors and independent public accountants, including their recommendations to improve the system of accounting and internal controls. The audit committee would at all times be composed exclusively of directors who are, in the opinion of the Company's board of directors, free from any relationship which would interfere with the exercise of independent judgment as a committee member and who possess an understanding of financial statements and generally accepted accounting principles.

**COMPENSATION COMMITTEE.** Our board of directors does not have a standing compensation committee responsible for determining executive and director compensation. Instead, the entire board of directors fulfills this function, and each member of the Board participates in the determination. Given the small size of the Company and its Board and the Company's limited resources, locating, obtaining and retaining additional independent directors is extremely difficult. In the absence of independent directors, the Board does not believe that creating a separate compensation committee would result in any improvement in the compensation determination process. Accordingly, the board of directors has concluded that the Company and its stockholders would be best served by having the entire board of directors' act in place of a compensation committee. When acting in this capacity, the Board does not have a charter.

In considering and determining executive and director compensation, our board of directors' reviews compensation that is paid by other similar public companies to its officers and takes that into consideration in determining the compensation to be paid to the Company's officers. The board of directors also determines and approves any non-cash compensation to any employee. The Company does not engage any compensation consultants to assist in determining or recommending the compensation to the Company's officers or employees.

#### **Compliance with Section 16(a) Of the Exchange Act**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers, directors and persons who own more than ten percent of the Company's common stock to file initial reports of ownership and changes in ownership with the SEC. Additionally, SEC regulations require that the Company identify any individuals for whom one of the referenced reports was not filed on a timely basis during the most recent fiscal year or prior fiscal years. To the Company's knowledge, based solely on a review of reports furnished to it, none of the Company's officers, directors and ten percent holders have made the required filings.

#### **Code of Ethics**

Our Board of Directors has not adopted a Code of Business Conduct and Ethics.

**ITEM 11: EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table shows the compensation for the Company's Chief Executive Officer and all other executive officers of the Company and any employee of the Company whose cash compensation exceeds \$100,000 for the years ended December 31, 2018 and 2017.

Name and Principal Position <sup>4</sup>	Annual Compensation				Long-Term Compensation <sup>3</sup>			
	Year	Salary (\$) <sup>1</sup>	Bonus (\$) <sup>2</sup>	Other Annual Compensation (\$) <sup>5</sup>	Restricted	Securities	LTIP	All Other
					Stock	Underlying		
					Awards	Options		
					(\$)	(\$)		
Carter Matzinger <sup>4</sup>	2018	\$ 120,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Former CEO, CFO and Director	2017	\$ 120,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Kevin Brian Cox	2018	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
CEO, Former CFO and Director	2017	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

**Footnotes to Executive Compensation:**

<sup>1</sup> Management base salaries can be increased by our Board of Directors based on the attainment of financial and other performance guidelines set by the management of the Company.

<sup>2</sup> Salaries listed do not include annual bonuses to be paid based on profitability and performance. These bonuses will be set, from time to time, by a disinterested majority of our Board of Directors. No bonuses will be set until such time as the aforementioned occurs.

<sup>3</sup> The Company plans on developing an "Employee Stock Option Plan" ("ESOP") for both management and strategic consultants. However, the Company does anticipate executing long-term employment contracts with both, along with other members of the future management team, during the 2019 calendar year. It is anticipated these management agreements will contain compensation terms that could include a combination of cash salary, annual bonuses, insurance and related benefits, matching IRA contributions, restricted stock awards based upon longevity and management incentive stock options. At the current time, the Company does not know the final structure of the ESOP or the proposed long-term management employment contracts.

<sup>4</sup> As of the Company's last fiscal year and the date of the filing of this current report, there are officially no other executive officers of the Company besides Mr. Matzinger as is required to be disclosed under Item 402(m)(2)(ii) and (iii), and the instructions to Item 402(m)(2) as set forth under regulation S-K. Additionally, there are no other employees who could even be considered to be an executive officer who make in excess of \$100,000 USD per year.

**Outstanding Equity Awards at Fiscal Year-End**

**Option Awards**

Name	Number of Securities Underlying Unexercised Options		Option Exercise Price	Option Expiration Date
	Exercisable	Unexercisable		
None.				

**Option Exercises and Stock Vested**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
	None.			

**Compensation Policy**

Our Company's executive compensation plan is based on attracting and retaining qualified professionals which possess the skills and leadership necessary to enable our Company to achieve earnings and profitability growth to satisfy our stockholders. We must, therefore, create incentives for these executives to achieve both Company and individual performance objectives through the use of performance-based compensation programs. No one component is considered by itself, but all forms of the compensation package are considered in total. Wherever possible, objective measurements will be utilized to quantify performance, but many subjective factors still come into play when determining performance.

**Compensation Components**

As a growth stage Company with a plan of action of both vertical and horizontal industry acquisitions (and potential retention of management of acquired businesses), the main elements of compensation packages for executives shall consist of a base salary, stock options under the proposed plan discussed above under this section, and bonuses (cash and/or equity) based upon performance standards to be negotiated.

**Base Salary**

As the Company continues to grow, both through acquisition or through revenue growth from existing business interests, and financial conditions improve, these base salaries, bonuses, and incentive compensation will be reviewed for possible adjustments. Base salary adjustments will be based on both individual and Company performance and will include both objective and subjective criteria specific to each executive's role and responsibility to the Company.

**Compensation of Directors**

At the time of this filing, directors receive no remuneration for their services as directors of the Company, nor does the Company reimburse directors for expenses incurred in their service to the Board of Directors of the Company. The Company plans to put in place an industry standard director compensation package during the fiscal year 2019.

**ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following information table sets forth certain information regarding the Common Stock owned on April 1, 2019 by: (i) each person who is known by the Company to own beneficially more than 5% of its outstanding Common Stock; (ii) each director and officer; and (iii) all officers and directors as a group:

<b>Title of Class</b>	<b>Name and Address of Beneficial Owner<sup>1</sup></b>	<b>Title of Beneficial Owner</b>	<b>Amount of Beneficial Ownership</b>	<b>% of Class<sup>2</sup></b>
Common	<b>Carter Matzinger</b> 10624 S. Eastern, Suite A-910 Henderson, NV 89052	Director	1,025,0007	1.17%
Series C Preferred			6,2326	0.01%
Common	<b>Anthony P. Nuzzo Jr.<sup>3</sup></b> 1930 Thoreau Drive, Suite 100 Schaumburg, IL 60173	President, Chief Operating Officer and Director	4,025,000	4.61%
Series C Preferred			72,0006	9.98%
Common	<b>Kevin Brian Cox<sup>4</sup></b> 3124 Brother Blvd. #104 Bartlett, TN 38133	Chairman, Director, President and Chief Executive Officer	18,885,238	21.62%
Series A Preferred			13,000,0005	100%
Series C Preferred			643,3646	89.16%
Common	<b>David C. Ansani</b> 1930 Thoreau Drive Suite 100 Schaumburg, IL 60173	Director	7,000	*
Common	All Directors & Officers as a Group (4 persons)		23,942,238	27.41%
Common	Edwin F. Winfield 1771 East Flamingo Road, Suite 206A Las Vegas, NV 89119	5% Holder	6,126,1347	7.01%

\* Less than one (1) percent

Notes:

(1) The person named in this table has sole voting and investment power with respect to all shares of common stock reflected as beneficially owned.

(2) based on 87,355,586 of common stock outstanding as of March 26, 2019; there are no underlying options and 50,000 warrants to purchase shares of Common Stock, or other securities convertible into the Common Stock of the Company, that currently are exercisable or convertible or that will become exercisable or convertible within sixty (60) days of this filing.

(3) Includes 1,600,000 shares owned by Anthony P. Nuzzo Jr. and 2,425,000 shares owned by BCAN Holdings, LLC, a Nevada limited liability company, of which Mr. Nuzzo is managing member.

(4) Includes 11,000,000 shares owned by Kevin Brian Cox, 4,813,885 shares owned by EWP Communications, LLC, a Tennessee liability company, of which Mr. Cox is a beneficial owner, and 2,425,000 shares owned by BCAN Holdings, LLC, a Nevada limited liability company, of which Mr. Cox is a beneficial owner.

(5) Each share of Series A Preferred Stock is entitled to vote ten (10) shares of Common Stock for each one (1) share of Series A Preferred Stock held and each 10 shares of Series A Preferred Stock is convertible into one share of Common Stock.

(6) Each share of Series C Preferred Stock is convertible into 250 shares of Common Stock. Series C Preferred Stock is entitled to vote on an as-converted basis.

(6) Includes 1,025,000 shares owned by Thirteen Nevada, LLC, a Nevada limited liability company, of which Mr. Matzinger is a beneficial owner.

(7) Includes 4,626,134 shares owned by Edwin F. Winfield and 1,500,000 shares owned by Vegas Media Group, Inc., a Nevada corporation, of which Mr. Winfield is a beneficial owner.

The Company has not yet formalized stock option plans for its officers, employees, directors and consultants.

## **ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

### **Certain Relationships and Related Party Transactions**

The Company's former chief executive officer has advanced the Company various amounts on a non-interest-bearing basis, which is being used for working capital. The advance has no fixed maturity. As of December 31, 2018 and 2017, the outstanding balance due was \$389,502 and \$0, respectively.

For the years ended December 31, 2018 and 2017, outsourced management services fees of \$1,020,000 was paid to Axia Management, LLC ("Axia") as compensation for services provided and were commensurate with the level of effort required to provide these services. These costs are included in Selling, general and administrative expenses in the Statement of Operations. Axia is owned by the majority owner of the Company.

At December 31, 2018 and 2017, the Company had trade payables to Axia of \$66,535 and \$55,400, respectively.

For the years ended December 31, 2018 and 2017, the Company purchased telecom services and access to wireless networks from 321 Communications in the amount of \$1,016,393 and \$1,639,655, respectively. These costs are included in Cost of revenue in the Statement of Operations. The majority owner of the Company is a minority owner of 321 Communications.

At December 31, 2018 and 2017, the Company had trade payables to 321 Communications of \$52,161 and \$132,404, respectively.

The Company contracted with CENTERCOM GLOBAL, S.A. DE C.V. ("CenterCom Global") to provide customer service call center services, manage the sales process to include handling incoming orders, the collection and verification of all documents to comply with FCC regulations, monthly audit of all subscribers to file the USAC 497 form, yearly audit of all subscribers that have been active over one year to file the USAC 555 form (Recertification), information technology professionals to maintain company websites, sales portals and server maintenance. Billings for these services in the years ended December 31, 2018 and 2017 were \$2,129,546 and \$976,678, respectively, and are included in Cost of revenue in the Statement of Operations. A director, officer, and minority owner of the Company has a controlling interest in CenterCom Global. At December 31, 2018 and 2017, the Company had trade payables to CenterCom Global of \$175,000 and \$150,000, respectively.

### **Review, Approval and Ratification of Related Party Transactions**

The board of directors has responsibility for establishing and maintaining guidelines relating to any related party transactions between us and any of our officers or directors. We do not currently have any written guidelines for the board of directors which will set forth the requirements for review and approval of any related party transactions, but we plan to adopt such guidelines once we add additional independent board members.

## Director Independence

Our common stock is currently quoted on the OTCQB. Since the OTCQB does not have rules for director independence, we use the definition of independence established by the NYSE MKT (formerly the American Stock Exchange). Under applicable NYSE MKT rules, a director will only qualify as an “independent director” if, in the opinion of our Board, that person does not have a relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

We periodically review the independence of each director. Pursuant to this review, our directors and officers, on an annual basis, are required to complete and forward to the Corporate Secretary a detailed questionnaire to determine if there are any transactions or relationships between any of the directors or officers (including immediate family and affiliates) and us. If any transactions or relationships exist, we then consider whether such transactions or relationships are inconsistent with a determination that the director is independent. As this time, we have one independent director, Manuel Flores.

## Conflicts Relating to Officers and Directors

To date, we do not believe that there are any conflicts of interest involving our officers or directors, unless disclosed above. With respect to transactions involving real or apparent conflicts of interest, we have not adopted any formal policies or procedures. In the absence of any formal policies and procedures regarding conflicts, we intend to follow these guidelines: (i) the fact of the relationship or interest giving rise to the potential conflict be disclosed or known to the directors who authorize or approve the transaction prior to such authorization or approval, (ii) the transaction be approved by a majority of our disinterested outside directors, and (iii) the transaction be fair and reasonable to us at the time it is authorized or approved by our directors.

## ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES

For the fiscal year ended December 31, 2018, we retained Rodefer Moss & Co, PLLC (“RM”) as our principal accountants. For the fiscal year ended December 31, 2017, we retained Paritz & Company, P.A. (“Paritz”) as our principal accountants. We understand the need for our principal accountants to maintain objectivity and independence in their audit of our financial statements. To minimize relationships that could appear to impair the objectivity of our principal accountants, our board has restricted the non-audit services that our principal accountants may provide to us primarily to audit related services. We are only to obtain non-audit services from our principal accountants when the services offered by our principal accountants are more effective or economical than services available from other service providers, and, to the extent possible, only after competitive bidding. The board has adopted policies and procedures for pre-approving work performed by our principal accountants. After careful consideration, the board has determined that payment of the audit fees is in conformance with the independent status of our principal independent accountants.

**Audit Fees** – The aggregate fees billed for professional services rendered by RM was approximately \$95,000 for the audit of the Company’s annual financial statements and the quarterly reviews for the fiscal year ended December 31, 2018. The aggregate fees billed for professional services rendered by Paritz was approximately \$39,000 for the audit of the Company’s annual financial statements and the quarterly reviews for the fiscal year ended December 31, 2017.

**Audit-Related Fees** – None.

**Tax Fees** – None.

**All Other Fees** – Other than the services described above, no other fees were billed for services rendered by the principal accountant.

**Audit Committee Policies and Procedures** – Not applicable.

If greater than 50 percent, disclose the percentage of hours expended on the principal accountant’s engagement to audit the registrant’s financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant’s full-time, permanent employees – Not applicable.



**PART IV**

**ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, SIGNATURES**

(a) The following documents are filed as part of this report:

1 Financial Statements – The following financial statements of Surge Holdings, Inc. are contained in Item 8 of this Form 10-K:

- [Reports of Independent Registered Public Accountant](#)
- [Consolidated Balance Sheets at December 31, 2018 and 2017](#)
- [Consolidated Statements of Operations for the years ended December 31, 2018 and 2017](#)
- [Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2018 and 2017](#)
- [Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017](#)
- [Notes to Consolidated Financial Statements](#)

2 Financial Statement Schedules were omitted, as they are not required or are not applicable, or the required information is included in the Consolidated Financial Statements.

3 Exhibits – The following exhibits are filed with this report or are incorporated herein by reference to a prior filing, in accordance with Rule 12b-32 under the Securities Exchange Act of 1934.

<b>Exhibit No.</b>	<b>Description</b>
31.1	<a href="#">Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934</a>
31.2	<a href="#">Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934</a>
32.1	<a href="#">Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350</a>
32.2	<a href="#">Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350</a>
101.INS	XBRL Instance Document <sup>4</sup>
101.SCH	XBRL Taxonomy Extension Schema Document <sup>4</sup>
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document <sup>4</sup>
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document <sup>4</sup>
101.LAB	XBRL Taxonomy Extension Label Linkbase Document <sup>4</sup>
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document <sup>4</sup>

**SIGNATURES**

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

Surge, Inc.

April 1, 2019

/s/ Kevin Brian Cox  
Kevin Brian Cox  
Chief Executive Officer, Principal Executive Officer and a Director

April 1, 2019

/s/ Brian M. Speck  
Brian M. Speck  
Chief Financial Officer, Principal Financial Officer and Principal Accounting Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

April 1, 2019

/s/ Kevin Brian Cox  
Chief Executive Officer, Principal Executive Officer and a Director

April 1, 2019

/s/ David C. Ansani  
David C. Ansani  
Secretary, Chief Administrative Officer and a Director

April 1, 2019

/s/ Carter Matzinger  
Carter Matzinger  
Director

April 1, 2019

/s/ Anthony P. Nuzzo  
Anthony P. Nuzzo  
President, Chief Operating Officer and a Director



CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

I, Kevin Brian Cox, certify that:

1. I have reviewed this Form 10-K for the year ended December 31, 2018 of Surge Holdings, 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 to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control 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 procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures 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 on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my 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):
  - e. 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
  - f. 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.

Date: April 1, 2019

*/s/ Kevin Brian Cox*

Kevin Brian Cox  
Principal Executive Officer

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CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

I, Brian M. Speck, certify that:

1. I have reviewed this Form 10-K for the year ended December 31, 2018 of Surge Holdings, 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 to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control 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 procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures 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 on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my 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):
  - e. 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
  - f. 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.

Date: April 1, 2019

*/s/ Brian M. Speck*

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Brian M. Speck  
Principal Financial Officer  
Principal Accounting Officer

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

The undersigned, Kevin Brian Cox, the Chief Executive Officer of SURGE HOLDINGS, INC. (the "Company"), DOES HEREBY CERTIFY that:

1. The Company's Quarterly Report on Form 10-K for the year ended December 31, 2018 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

IN WITNESS WHEREOF, each of the undersigned has executed this statement this 1st day of April, 2019.

*/s/ Kevin Brian Cox*

\_\_\_\_\_  
Kevin Brian Cox  
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to SURGE HOLDINGS, INC. and will be retained by SURGE HOLDINGS, INC. and furnished to the Securities and Exchange Commission or its staff upon request.

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

The undersigned, Brian M. Speck, the Chief Financial Officer of SURGE HOLDINGS, INC. (the "Company"), DOES HEREBY CERTIFY that:

1. The Company's Quarterly Report on Form 10-K for the year ended December 31, 2018 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

IN WITNESS WHEREOF, each of the undersigned has executed this statement this 1st day of April, 2019.

*/s/ Brian M. Speck*

\_\_\_\_\_  
Brian M. Speck  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to SURGE HOLDINGS, INC. and will be retained by SURGE HOLDINGS, INC. and furnished to the Securities and Exchange Commission or its staff upon request.

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