
U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2017

File No. 000-52522

SURGE HOLDINGS, INC.

(Name of small business issuer in our charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

98-0550352
(IRS Employer
Identification No.)

10624 S Eastern Ave., Ste A-910, Henderson, NV 89052
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: (800) 760-9689

KSIX Media Holdings, Inc.
(former name if changed from last report)

Indicate by check mark whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 [X]

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

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

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [] Smaller reporting company [X]

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 85,057,035 shares of common stock outstanding as of December 13, 2017.

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission (“Commission”). While these statements reflect all normal recurring adjustments which are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the financial statements and footnotes thereto, contained in SURGE HOLDINGS, INC.’S (FORMERLY KNOWN AS KSIX MEDIA HOLDINGS, INC.) Form 10-K dated December 31, 2016.

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PART I - FINANCIAL INFORMATION
ITEM 1: FINANCIAL STATEMENTS

SURGE HOLDINGS, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS KSIX MEDIA HOLDINGS, INC.)
Consolidated Balance Sheets
(Unaudited)

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 66,181	\$ 63,709
Accounts receivable, less allowance for doubtful accounts of \$17,000 and \$17,000, respectively	113,972	126,428
Prepaid expenses	276,078	568,700
Total current assets	<u>456,231</u>	<u>758,837</u>
Property and Equipment, less accumulated depreciation of \$6,125 and \$4,675, respectively,	12,982	14,432
Intangible assets less accumulated amortization of \$236,121 and \$167,449, respectively	148,523	217,195
Goodwill	866,782	866,782
Deposits on investments	1,700,000	500,000
Total assets	<u>\$ 3,184,518</u>	<u>\$ 2,357,246</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	\$ 671,735	\$ 775,624
Credit card liability	336,726	336,726
Deferred revenue	18,900	165,000
Derivative liability	768,607	584,168
Advance from related party	389,502	356,502
Current portion of long-term debt - related party	80,625	53,750
Notes payable and current portion of long-term debt net of discount of \$85,741 and \$8,774, respectively	1,462,099	1,788,124
Total current liabilities	<u>3,728,194</u>	<u>4,059,894</u>
Long-term debt less current installments - related party	26,875	53,750
Long-term debt net of discount of none and \$87,379, respectively	25,313	58,651
Total liabilities	<u>3,780,382</u>	<u>4,172,295</u>
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock: \$0.001 par value; 100,000,000 shares authorized; 10,000,000 shares issued and outstanding	10,000	10,000
Common stock: \$0.001 par value; 100,000,000 shares authorized; 81,782,035 shares and 57,343,901 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	81,782	57,344
Additional paid in capital	7,327,861	4,145,589
Accumulated deficit	(8,015,507)	(6,027,982)
Total stockholders' deficit	<u>(595,864)</u>	<u>(1,815,049)</u>
Total liabilities and stockholders' deficit	<u>\$ 3,184,518</u>	<u>\$ 2,357,246</u>

See accompanying notes to consolidated financial statements

SURGE HOLDINGS, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS KSIX MEDIA HOLDINGS, INC.)
Consolidated Statements of Operations
(Unaudited)

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016 (Restated)	June 30, 2017	June 30, 2016 (Restated)
Revenue	\$ 373,482	\$ 1,007,039	\$ 823,882	\$ 2,394,586
Cost of revenue	156,926	779,908	308,351	1,829,607
Gross profit	<u>216,556</u>	<u>227,131</u>	<u>515,531</u>	<u>564,979</u>
Costs and expenses				
Depreciation and amortization	35,038	231,926	70,122	463,852
Selling, general and administrative	534,305	1,028,709	1,567,496	1,714,040
Total costs and expenses	<u>569,343</u>	<u>1,260,635</u>	<u>1,637,618</u>	<u>2,177,892</u>
Operating loss	(352,787)	(1,033,504)	(1,122,087)	(1,612,913)
Other expense (income):				
Interest expense	136,963	73,200	280,803	108,436
Other income	-	(5,844)	-	(5,844)
Change in fair value of derivative liability	537,349	-	587,548	-
Gain on debt settlement	<u>(7,151)</u>	<u>-</u>	<u>(2,913)</u>	<u>-</u>
Total other expense	667,161	67,356	865,438	102,592
Net loss	<u>\$ (1,019,948)</u>	<u>\$ (1,100,860)</u>	<u>\$ (1,987,525)</u>	<u>\$ (1,715,505)</u>
Net loss per common share, basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>
Weighted average common shares outstanding	<u>77,450,740</u>	<u>42,208,356</u>	<u>68,335,657</u>	<u>39,722,427</u>

See accompanying notes to consolidated financial statements.

SURGE HOLDINGS, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS KSIX MEDIA HOLDINGS, INC.)
Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
		(Restated)
Operating activities		
Net loss	\$ (1,987,525)	\$ (1,715,505)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization and depreciation	70,122	463,852
Common stock issued for services	1,006,182	1,025,029
Amortization of debt discount	80,331	2,860
(Gain) on debt settlement	(2,913)	-
Loss on change in fair value of derivative liability	587,548	-
Changes in operating assets and liabilities:		
Accounts receivable	12,457	56,207
Prepaid expenses	-	(2,000)
Deferred revenue	(146,100)	(352,540)
Credit card liability	-	72,892
Accounts payable and accrued expenses	174,633	155,597
Net cash used in operating activities	<u>(205,265)</u>	<u>(293,608)</u>
Financing activities		
Loan proceeds	200,000	500,000
Loan repayment	(265,263)	(442,680)
Common stock sold for cash	240,000	190,000
Advances from related party, net of repayment	33,000	40,000
Net cash provided by financing activities	<u>207,737</u>	<u>287,320</u>
Net increase (decrease) in cash and cash equivalents	2,472	(6,288)
Cash and cash equivalents, beginning of period	63,709	69,489
Cash and cash equivalents, end of period	<u>\$ 66,181</u>	<u>\$ 63,201</u>
Supplemental cash flow information		
Cash paid for interest and income taxes:		
Interest	\$ 118,542	\$ 23,665
Income taxes	-	-
Non-cash investing and financing activities:		
Common stock issued for loan costs	\$ -	\$ 300,000
Common stock issued for debt conversions	\$ 804,545	\$ -
Common stock issued for settlement of accrued expenses	\$ 248,605	\$ -
Common stock issued for services in prepaid expenses	\$ 29,856	\$ -
Common stock issued for deposit on acquisition	\$ 1,200,000	\$ -

See accompanying notes to consolidated financial statements

SURGE HOLDINGS, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS KSIX MEDIA HOLDINGS, INC.)
Notes to Consolidated Financial Statements
June 30, 2017
(Unaudited)

1 BASIS OF PRESENTATION AND BUSINESS

Basis of presentation and consolidation

The accompanying unaudited consolidated financial statements include the accounts of Surge Holdings, Inc. (“Holdings”), 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 Payment Systems, LLC (Formerly known as Blvd. Media Group, LLC) (“BMG”), 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 and Surge Crypto Currency Mining, Inc. (Formerly known as North American Exploration, Inc.) (“NAE”), a Nevada corporation that was incorporated on August 18, 2006 (collectively the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-Q and Article 8 of Regulation S-X of the United States Securities and Exchange Commission (“SEC”). Accordingly, they do not contain all information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of the Company’s management, the accompanying unaudited consolidated financial statements contain all of the adjustments necessary (consisting only of normal recurring accruals) to present the financial position of the Company as of June 30, 2017 and the results of operations and cash flows for the periods presented. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the operating results for the full fiscal year or any future period. These unaudited consolidated financial statements should be read in conjunction with the financial statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on December 11, 2017.

Business description

The Company has two operating subsidiaries, KSIX and DIQ.

KSIX is an Internet marketing company. KSIX is an advertising network designed to create revenue streams for its affiliates and to provide advertisers with increased measurable audience. KSIX provides performance based marketing solutions to drive traffic and conversions within a Cost-Per-Lead (“CPL”) business model. KSIX has an online advertising network that works directly with advertisers and other networks to promote advertiser campaigns and manages offer tracking, reporting and distribution.

DIQ is a full service digital advertising agency specializing in survey generation and landing page optimization specifically designed for mass tort action lawsuits.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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:

Balance, December 31, 2016	\$ 584,168
Issued during the six months ended June 30, 2017	69,920
Converted	(473,029)
Change in fair value recognized in operations	587,548
Balance, June 30, 2017	<u>\$ 768,607</u>

The estimated fair value of the derivative instruments was valued using the Black-Scholes option pricing model, using the following assumptions as of June 30, 2017:

Estimated dividends	None
Expected volatility	210.49%
Risk free interest rate	2.67%
Expected term	.01-36 months

Recent accounting pronouncements

We have evaluated all recent accounting pronouncements as issued by the FASB in the form of Accounting Standards Updates (“ASU”) through the date these financial statements were available to be issued and find no recent accounting pronouncements that would have a material impact on the financial statements of the Company.

3 GOING CONCERN

The Company has not established sources of revenues sufficient to fund the development of its business, or to pay projected operating expenses and commitments for the next year. The Company has a working capital deficit of \$3,271,963, an accumulated deficit of \$8,015,507 at June 30, 2017, and incurred losses for the past two years. These factors, among others, create an uncertainty about our ability to continue as a going concern. The Company projects that it should be cash flow positive after the end of the 2nd quarter ended June 30, 2018 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. Additionally, the Company is negotiating the closing of the acquisition of True Wireless, LLC, (“TW”) an Oklahoma Limited Liability Company. Upon the completion of the potential acquisition of TW as a wholly owned subsidiary, the Company will become cash flow positive. The Company’s ability to continue as a going concern is dependent on the success of this plan.

The Company's financial statements have been presented on the basis that it continues as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business, and do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

4 CREDIT CARD LIABILITY

The Company previously utilized a credit card issued in the name of DIQ to pay for certain of its trade obligations. At June 30, 2017 and December 31, 2016, the Company's credit card liability was \$336,726 and \$336,726, respectively.

5 NOTES PAYABLE AND LONG-TERM DEBT – RELATED PARTY

As of June 30, 2017 and December 31, 2016, notes payable and long-term debt due to a related party consists of:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Note payable to director due in four equal annual installments of \$26,875 on April 28 of each year	107,500	107,500
Less debt discount	-	-
	<u>107,500</u>	<u>107,500</u>
Less current portion - related party	80,625	53,750
Long-term debt - related party	<u>\$ 26,875</u>	<u>\$ 53,750</u>

The payment due April 28, 2016 has not been made. Pursuant to the terms of the note, the note begins to accrue interest at 6% per annum and the past due portion is convertible into the Company's common stock at a conversion price equal to 70% of the current price of the common stock. The Company has determined that the conversion feature for the past due portion of the note constitutes a derivative which has been bifurcated from the note and recorded as a derivative liability, with a corresponding discount recorded to the note. Accrued interest was \$1,088 at December 31, 2016 and \$2,166 at June 30, 2017.

6 NOTES PAYABLE AND LONG-TERM DEBT

As of June 30, 2017, notes payable and long-term debt consists of:

	<u>Note Balance</u>	<u>Debt Discount</u>	<u>Carrying Value</u>
On October 26, 2011, the Company entered into a note payable in the amount of \$362,257, relating to a Unit redemption agreement bearing interest at 6% per annum and is payable in equal monthly installments of \$7,003, inclusive of interest, past due	\$ 68,973	\$ -	\$ 68,973
Convertible Promissory Note - Non-interest bearing; on January 19, 2016, the Company modified the terms of a secured note payable in the original amount of \$950,000 and made the \$700,000 balance convertible ¹	300,000	-	300,000
Note payable to former officer due in four equal annual installments of \$25,313 on April 28 of each year; past due in 2016; accruing interest at 6% per annum since April 28, 2016	101,250	-	101,250
Notes payable to seller of DigitizeIQ, LLC due as noted below ²	485,000	-	485,000
Senior Secured Credit Facility dated February 24, 2016; interest at 18% per annum; interest only for two months then 16 payments of \$28,306 monthly ³	261,043	-	261,043
Note payable to Calvary Fund I, LP, formerly Pinz Capital International, LP dated May 25, 2016 with interest at 18% ⁴	115,488	-	115,488
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 ⁵	27,500	-	27,500
Convertible promissory notes payable to Salksanna, LLC dated October 7, 2016 and December 21, 2016 with interest at 10% per annum; due March 13, 2018; convertible into common stock ⁶	95,405	51,492	43,913
Series of convertible promissory notes payable to an individual dated from May 4, 2017 through May 23, 2017 with interest at 10% per annum; due in seven months; convertible into common stock at \$0.10 per share	60,000	34,249	25,751
Working capital notes ⁷	58,494	-	58,494
	<u>1,573,153</u>	<u>85,741</u>	<u>1,487,412</u>
Less current portion notes payable and long-term debt	<u>1,547,840</u>	<u>85,741</u>	<u>1,462,099</u>
Long-term debt	<u>\$ 25,313</u>	<u>\$ -</u>	<u>\$ 25,313</u>

As of December 31, 2016, notes payable and long-term debt consists of:

	<u>Note Balance</u>	<u>Debt Discount</u>	<u>Carrying Value</u>
On October 26, 2011, the Company entered into a note payable in the amount of \$362,257, relating to a Unit redemption agreement bearing interest at 6% per annum and is payable in equal monthly installments of \$7,003, inclusive of interest, past due	\$ 68,973	\$ -	\$ 68,973
Convertible Promissory Note - Non-interest bearing; on January 19, 2016, the Company modified the terms of a secured note payable in the original amount of \$950,000 and made the \$700,000 balance convertible ¹	590,000	-	590,000
Note payable to former officer due in four equal annual installments of \$25,313 on April 28 of each year; past due in 2016; accruing interest at 6% per annum since April 28, 2016	101,250	-	101,250
Notes payable to seller of DigitizeIQ, LLC due as noted below ²	485,000	-	485,000
Senior Secured Credit Facility dated February 24, 2016; interest at 18% per annum; interest only for two months then 16 payments of \$28,306 monthly ³	261,043	-	261,043
Note payable to Calvary Fund I, LP, formerly Pinz Capital International, LP dated May 25, 2016 with interest at 18% ⁴	130,000	-	130,000
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 ⁵	27,500	8,774	18,726
Convertible promissory notes payable to Salksanna, LLC dated October 7, 2016 and December 21, 2016 with interest at 10% per annum; due March 13, 2018; convertible into common stock ⁶	95,405	87,379	8,026
Working capital notes ⁷	183,757	-	183,757
	1,942,928	96,153	1,846,775
Less current portion	1,796,898	8,774	1,788,124
Long-term debt	<u>\$ 146,030</u>	<u>\$ 87,379</u>	<u>\$ 58,651</u>

¹ The **Convertible Promissory Note** was modified on January 19, 2016 to release the pledge of the holder's former membership units in Ksix and BMG, to make the note convertible into the Company's common stock and to require an extra payment of \$100,000 due within 90 days. The terms of the Convertible Note provided in the event the Note was not paid prior to the Maturity Date (January 1, 2017) or that payments are not made to the holder by the due date (\$10,000 on the 1st and 15th of each month), the holder shall have the right thereafter, exercisable in whole or in part, to convert the outstanding principal or payment then due into shares of the common stock of the Company. The Convertible Promissory Note provided the note conversion price was determined by taking the lowest closing price of the Company's common stock in the previous ten trading days and then applying a 45% discount. On March 23, 2016, the parties entered into an Addendum to the Convertible Promissory Note to allow an immediate conversion of the \$20,000 payments due in April 2016 at the 45% discount rate; to modify the conversion discount rate from 45% of the lowest price of the previous ten trading days prior to conversion to 35% of the average price of the previous ten trading days prior to conversion for any future conversions; and to require an additional payment of \$30,000 within sixty days. The Company evaluated the embedded conversion feature for derivative treatment and the debt discount is fully amortized at December 31, 2016.

The original note and the convertible promissory note provided for semi-monthly payments of \$10,000 due on the 1st and 15th of the month, with any unpaid balance due on January 1, 2017. If the Company paid the unpaid balance on December 31, 2016, they were allowed a discount of \$200,000 from the remaining balance. In addition, the modification and addendum, provided for two additional payments during 2016. Within 90 days of January 19, 2016, the Company was required to make an additional payment of \$100,000 and within 60 days of March 23, 2016, the Company was required to make an additional payment of \$30,000. As of June 30, 2017 the total balance is past due. During the three months ended June 30, 2017, \$290,000 of the principal balance together with \$21,929 in accrued interest was converted into common stock.

² **Notes due seller of DigitizeIQ, LLC includes a series of notes as follows:**

- A non-interest bearing Promissory Note made payable to the Seller in the amount of \$250,000, which was due on November 12, 2015; (Paid February 26, 2016).
- 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 March 31, 2017 - \$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 (Unpaid).

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.

³ **Senior Secured Credit Facility Agreement** - On February 24, 2016, the Company executed a Senior Secured Credit Facility Agreement (“Senior Credit Facility”) in the maximum amount of \$5,000,000 together with a Convertible Promissory Note (“Convertible Note”) in the amount of \$750,000 with TCA Global Credit Master Fund, LP (“TCA”). The initial loan advance was \$400,000 and requires monthly interest only payments for two months and then sixteen monthly payments of \$28,306, including interest at 18% per annum. The obligation is secured by substantially all assets of the Company and its subsidiaries. The payment due August 29, 2016 was acquired by Salksanna LLC on September 13, 2016 (See ⁶ below). The payment due September 29, 2016 was acquired by Salksanna, LLC on October 7, 2016 and the payment due October 29, 2016 was acquired by Salksanna, LLC on December 21, 2016. (See ⁶ below).

The Senior Credit Facility includes a provision for advisory fees in the amount of \$300,000 which was paid when the Company issued 1,782,000 shares of its common stock to TCA (the “Advisory Shares”) on or about March 24, 2016. If TCA is unable to collect the \$300,000 from sales of the Advisory Shares within twelve months, the Company is obligated to issue additional shares to TCA until TCA is able to collect the full \$300,000. Should TCA still be unable to collect the full \$300,000, and after at least one year, TCA can require the Company to redeem any remaining shares for an amount equal to \$300,000 less the sales proceeds that TCA has collected. In the event TCA sells the Advisory Shares for more than \$300,000, the excess proceeds, together with unsold common shares will be returned to the Company. As long as there is no default under the terms of the Senior Credit Facility, TCA is limited to weekly sales of the Advisory Shares equal to no more than 20% of the average weekly volume of the Company’s common stock on its principal trading market. The stock was valued at the trading price on the date of the agreement and the resulting \$300,000 was included as a direct reduction from the carrying amount of the debt liability and was fully amortized at December 31, 2016.

The Convertible Note is convertible into the Common Stock of the Company upon the event of: (1) a default under any of the loan documents between the Company and TCA; or (2) mutual agreement between the Company and TCA, at which time TCA may convert all or a portion of the outstanding principal, accrued and unpaid interest into shares of the Common Stock of the Company calculated by the conversion amount divided by 85% of the lowest of the daily weighted average price of the Company’s Common Stock during five business days immediately prior to the date of the request of conversion (the “Conversion”). Pursuant to the terms of the Convertible Note, TCA is limited to beneficial ownership of not more than 4.99% of the issued and outstanding Common Stock of the Company after taking into effect the Common Stock to be issued pursuant to the Conversion.

The TCA note was restructured effective August 29, 2016, September 29, 2016 and October 29, 2016 to accommodate the payment of the amounts due on those dates by Salksanna, LLC and the issue by the Company of convertible notes payable to Salksanna for the amounts of those payments. (See ⁶ below.) The restructured note to TCA added \$25,146 to each payment for the loan fee originally paid with common stock. When the fee is paid in full, the 1,782,000 shares will be returned to the Company. The payments due TCA on November 29, 2016 and December 29, 2016 are currently unpaid and this default resulted in the note becoming convertible into common stock of the Company.

The Company evaluated the resulting embedded conversion feature for derivative treatment and recorded an initial derivative liability and debt discount of \$198,524. The debt discount was fully amortized at December 31, 2016.

The Company is also responsible for other transaction, due diligence and legal fees of \$42,500 if it draws the remaining \$350,000 initially committed.

The proceeds from the loan were used to pay a \$250,000 note to the seller of DIQ and for working capital.

⁴ **Calvary Fund I, LP (formerly Pinz Capital International, L.P.) Note** – The Calvary note payable was due in installments of \$25,000 plus accrued interest on November 25, 2016; \$18,750 plus accrued interest on December 25, 2016; \$14,063 plus accrued interest on January 25, 2017 and a final payment of the unpaid balance plus accrued interest on May 25, 2017. The agreement provides for limitations on additional indebtedness. If an event of default, as defined in the agreement, occurs and if not cured within ten days, the note becomes convertible into the Company's common stock at a rate equal to 65% of the average VWAP over the previous 5 trading days. If the event of default is for non-payment of any installment due, the amount convertible is limited to the amount of the unpaid installment. Pinz Capital is controlled by a director of the Company. Calvary Fund I, LP acquired the note from Pinz Capital in December 2016.

The payments due November 25, 2016 and December 25, 2016 were not made. As a result, the Company was penalized \$30,000, which was added to the note balance and due to other past due obligations, it was determined the total balance was in default and due, making the note convertible. Accordingly, a debt discount was recorded on November 25, 2016 for \$52,889. The debt discount was fully amortized at December 31, 2016.

⁵ **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 at June 30, 2017.

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.

⁶ The Company issued three convertible notes to Salksanna, LLC in exchange for payments made by Salksanna to TCA. The first note in the amount of \$53,452 was converted into 1,953,399 shares of the Company's common stock. The second note in the original amount of \$53,452 was partially converted with \$11,500 in principal and \$44 in accrued interest converted into 383,525 shares of the Company's common stock. The conversion of the notes resulted in a loss on debt extinguishment of \$107,104 in 2016.

At June 30, 2017, the remaining notes with a principal balance of \$95,405 have a debt discount of \$51,572.

⁷ In November 2016, the Company entered into four working capital notes in the original amount of \$245,000 which require daily payments aggregating \$2,956. The Company entered into two additional notes in the total amount of \$140,000 during the six months ended June 30, 2017 and made total repayment of \$265,262 during the six months ended June 30, 2017 on these notes.

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.

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

Estimated dividends	None
Expected volatility	207.20% to 238.94%
Risk free interest rate	2.61% to 2.89%
Expected term	.01 to 36 months

7 STOCKHOLDER'S EQUITY

COMMON STOCK

2017 Transactions

Effective January 1, 2017, the Company issued 160,000 shares of its common stock pursuant to a public relations agreement. The common stock was valued at \$44,784 based on the closing price of the common stock at that time, which is being amortized over the service period of nine months.

In the three months ended March 31, 2017, the Company issued 410,675 shares of its common stock in exchange for \$14,513 in principal and \$7,987 in accrued interest on a convertible note obligation.

In the three months ended March 31, 2017, the Company issued 550,000 shares of its common stock and 275,000 3-year \$0.50 warrants in exchange for \$55,000 in cash.

In the three months ended March 31, 2017, the Company issued 1,850,000 shares for legal and consulting fees of \$248,605 which were included in accrued expenses at December 31, 2016.

On March 24, 2017, the Company issued 600,000 shares of its common stock pursuant to a modified consulting agreement related to the acquisition of TW, with Anthony P. Nuzzo, a director of the Company. The shares were valued at \$252,000 and this amount was included in selling, general and administrative expense during the three months ended March 31, 2017.

On March 24, 2017, the Company issued 600,000 shares of its common stock pursuant to a modification of a consulting agreement related to the acquisition of TW. The shares were valued at \$252,000 and this amount was included in selling, general and administrative expense during the three months ended March 31, 2017.

On March 24, 2017, the Company issued 12,000,000 shares of its common stock to Brian Cox pursuant to a Master Agreement for the Exchange of Common Stock, Management and Control as a part of the planned acquisition of True Wireless, LLC. These shares were valued at the fair market value of \$1,200,000.

In May 2017, the Company accepted a notice to convert \$290,000 in principal of a convertible note payable into 6,257,459 shares of its common stock and recorded a gain from debt settlement of \$7,151.

On May 15, 2017, the Company issued 160,000 shares of its common stock pursuant to a public relations agreement. The common stock was valued at \$44,784 based on the closing price of the common stock at the time of the initial contract, which is being amortized over the service period of nine months.

During the three months ended June 30, 2017, the Company entered into five Unit subscription agreements for total consideration of \$185,000. Units representing 1,850,000 common shares and 925,000 3-year \$0.50 warrants were issued.

UNIT SUBSCRIPTION AGREEMENT – WARRANTS

During the six months ended June 30, 2017, the Company entered into Unit subscription agreements with seven unrelated companies and individuals. Each Unit was priced at \$0.10 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 \$240,000, Units representing 2,400,000 common shares and 1,200,000 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.

8 RELATED PARTY TRANSACTIONS

The Company's 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. The activity is summarized as follows:

	<u>Six Months Ended</u> <u>June 30, 2016</u>	<u>Year ended</u> <u>December 31, 2016</u>
Balance at beginning of period	\$ 356,502	\$ 318,002
New advances, net of repayment	33,000	38,500
Balance at end of period	<u>\$ 389,502</u>	<u>\$ 356,502</u>

See Note 5 for long-term debt due to a director.

See Note 7 for common stock issued to related parties.

During the six months ended June 30, 2017, the Company had sales to TW in the amount of \$23,539 and the Company had a receivable from TW of \$37,758.

9 COMMITMENTS AND CONTINGENCIES

True Wireless, LLC

Master Agreement for the Exchange of Common Stock, Management, and Control

On or about December 7, 2016, the Company, entered into a Master Agreement for the Exchange of Common Stock, Management, and Control (the "Exchange Agreement") with True Wireless, LLC, an Oklahoma Limited Liability Company ("TW") and the members of TW (the "Members"). Hereinafter, the Company, TW, and its Members may be referred to as a "Party" individually or collectively as the "Parties".

TW's primary business operation is a full-service telecommunications company specializing in the Lifeline program as set forth by the Telecommunications Act of 1996, and regulated by the FCC which provides subsidized mobile phone services for low income individuals ("Lifeline Services"). TW currently has an FCC license to offer Lifeline Services in the following states: Oklahoma, Rhode Island, Maryland, Texas, and Arkansas.

Kevin Brian Cox (“Cox”), is the sole owner of all of TW’s issued and outstanding membership interests, either directly or indirectly through EWP Communications, LLC, a Tennessee limited liability company, the beneficial owner of which is Cox.

Pursuant to the agreement, the Company will issued 12 million shares of restricted common stock and make cash payment of \$6 million and a one-year promissory note for \$6 million upon closing. The acquisition has not closed as of the date of the consolidated financial statements issued.

On December 7, 2016, the company made cash payment of \$500,000 to Brian Cox, the owner of TW, as a deposit on acquisition. On March 24, 2017, the Company issued 12 million restricted shares of common stock to Brian Cox and recorded \$1,200,000 as a deposit on acquisition.

First Addendum to Master Agreement for the Exchange of Equity, Management, and Control

On March 30, 2017, the Parties executed a First Addendum to the Exchange Agreement extending the time for all material deadlines contemplated for the transactions related to the acquisition of TW to May 1, 2017.

Additionally, pursuant to the terms of the Exchange Agreement, the Company executed and entered into a “Management and Marketing Agreement” (“Management Agreement”) with TW.

Pursuant to the Management Agreement, the Company would act as the manager of TW until such time as the Exchange Agreement and the transactions contemplated thereunder are approved by the FCC. Following such approval (which has not occurred as of the date of this Report), the Parties will hold a final closing of the Exchange Agreement will occur and TW would become a wholly-owned subsidiary of the Company. Notwithstanding the agreement, the Company has provided no services to Cox and neither Cox nor TW has made any payments to the Company on account of the Management Agreement. Accordingly, on December 27, 2017, the parties agreed to terminate the Management Agreement, treating it as a nullity as if it was never entered into by the parties.

Company Investment in TW

At the date of this filing, the Company’s investment in TW consists of the following:

	<u>Shares</u>	<u>Amount</u>
Cash paid		\$ 500,000
Common stock issued	\$ 12,000,000	1,200,000
	<u>\$ 12,000,000</u>	<u>\$ 1,700,000</u>
Consideration to be paid:		
Cash at closing		\$ 1,500,000
Common stock to be issued at closing	102,000,000	51,000,000
Note payable due December 31, 2018		\$ 1,500,000
Total contingent consideration	<u>\$ 102,000,000</u>	<u>\$ 54,000,000</u>
Total consideration		<u><u>\$ 55,700,000</u></u>

10 SUBSEQUENT EVENTS

The Company has evaluated events occurring subsequent to June 30, 2017 and through the date these financial statements were available to be issued.

Common stock

On October 10, 2017, the Company effectuated an increase in its authorized shares to a total of 600,000,000 shares comprising 500,000,000 shares of Common Stock par value \$0.001 and 100,000,000 shares of Preferred Stock par value \$0.001.

During the three months ended September 30, 2017, the Company entered into two Unit subscription agreements as described in Note 7 for total consideration of \$130,000. Units representing 800,000 common shares and 400,000 3-year \$0.50 warrants were issued.

During the month ended October 31, 2017, the Company entered into eight Unit subscription agreements as described in Note 7 for total consideration of \$495,000. Units representing 2,475,000 common shares and 1,237,500 3-year \$0.50 warrants were issued.

Acquisition of TW

Amended Master Agreement for the Exchange of Common Stock, Management, and Control

On July 18, 2017, the Parties entered into an Amended Master Agreement for the Exchange of Common Stock, Management, and Control (the "Amended Exchange Agreement") which amended and restated the Exchange Agreement and First Amendment thereto. The Amended Exchange Agreement reset certain of the milestones and timetables detailed in the Exchange Agreement. The material terms of the Amended Exchange Agreement are as follows:

TERMS

- The Management Agreement would commence on July 18, 2017, concurrent with the execution of the Amended Exchange Agreement (the "Management Closing");
- All other terms and conditions with respect to the Transaction set forth in this Amended Exchange Agreement required to be completed by the Parties would occur only after all required governmental and regulatory approvals of the Transaction have been delivered. At that time, the Parties agreed to complete the Company's acquisition of TW (the "Equity Closing"). The Parties agreed to expedite preparation of all financial information and audits to be completed at the earliest feasible time.
- The Equity Closing is subject to the completion of due diligence by all Parties to the Amended Exchange Agreement;
- The Transaction (including the Equity Closing) is subject to delivery by the Parties of all documents required under the Amended Exchange Agreement;
- The Company and TW agreed to take all necessary corporate actions to authorize the Management and Equity Closings; and
- It was intended that the transaction underlying the Amended Exchange Agreement would qualify for United States federal income tax purposes as a re-organization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended. However, both Parties recognized that in the event the transaction underlying this Agreement does not qualify for United States federal income tax purposes as a reorganization within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended, each party is separately responsible for any tax consequences and indemnifies and holds harmless the other party from and against any and all claims, demands, actions, suits, proceedings, assessments, judgments, damages, costs, losses and expenses, resulting from the that Parties failure to pay their tax liability for this transaction.

CLOSINGS

THE MANAGEMENT CLOSING

The Management Closing occurred on July 18, 2017 pursuant to the following material terms or actions which were approved by the Parties:

- The Company agreed, upon execution of the Amended Exchange Agreement, to deliver (a) \$1.5 Million Promissory Note issued by the Company in favor of Cox (this Note was later cancelled by the mutual agreement of the parties); and (b) undertake to authorize an additional number of shares of common stock as required to fulfill the terms and conditions of the transactions between the parties;
- Upon the Equity Closing (which has not yet occurred), the Company agreed to issue to Cox and/or his assigns, approximately 114 million shares of Company Common Stock and Warrants to purchase 45 million Company Common Shares for a period of five years at a purchase price of \$0.50 per share (subject to adjustment) which can be exercised on a “cashless” basis. As of the date of this Report, 12 million shares of Company Common Stock have been issued to Cox and assigns and an additional 102 Million shares of Company Common Stock will be delivered (as directed by Cox) at the Equity Closing;
- It was agreed that 75% of Carter Matzinger’s (“Matzinger”) Series “A” Preferred Stock (“Series A Preferred Stock”) containing specified majority common stock voting rights of the Company would be transferred by Matzinger to Cox upon execution of the Amended Exchange Agreement. This agreement was subsequently amended to provide for the transfer of 100% of the Series A Preferred Stock by Matzinger to Cox;
- It was agreed that, at the Post Equity Closing, Matzinger would submit for cancellation and retirement all of his (or his assigns) shares of Company Common Stock in excess of 14 million shares. As a result thereof, Matzinger would hold no more than 14 million shares of Company Common Stock following the Equity Closing.

EQUITY CLOSING.

Conditioned upon the Parties, having completed all material requirements of the Amended Exchange Agreement, including all delivery of all Exhibits and Collateral Agreements contemplated thereby, and the receipt of any required third party approvals, the Parties agreed to proceed with the Equity Closing, as follows:

At the Equity Closing, the Company agreed to Issue to the Members:

- \$1,500,000 cash
- \$1,500,000 Promissory Note due December 31, 2018
- Any additional Cox Stock required to be issued pursuant to the Anti-Dilution Provision.

TW and the Members agreed to issue to the Company:

- All outstanding Membership Interests in TW together with all documentation to reflect the intent of the Parties such that TW would become a wholly owned subsidiary of the Company.

Management and Marketing Agreement

On or about July 18, 2017, the Company executed and entered into a “Management and Marketing Agreement” (“Management Agreement”) with Cox. Pursuant to the Management Agreement, the Company is obligated to provide certain management services to Cox as detailed in the Management Agreement. Notwithstanding the agreement, the Company has provided no services to Cox and neither Cox nor TW has made any payments to the Company on account of the Management Agreement. Accordingly, on December 27, 2017, the parties agreed to terminate the Management Agreement, treating it as a nullity as if it was never entered into by the parties.

Salksanna, LLC Settlement

On December 5, 2017, the Company and certain of its subsidiaries entered into a Settlement Agreement with Salksanna, LLC relating to two separate promissory notes dated September 29, 2016 and October 29, 2016 (the “Salksanna Notes”), each in the original principal amount of \$53,542.33 and a counterclaim filed by the Company with respect to the enforcement of the obligations evidenced by the Salksanna Notes. Under the terms of the Settlement Agreement, the Company paid Salksanna \$110,000 cash in full satisfaction of all amounts due pursuant to the Salksanna Notes and all amounts claimed by the Company under its counterclaim. The parties also agreed to file a joint stipulation with prejudice of all litigation related to the Salksanna Notes and executed a mutual general release with respect to the matter.

TCA Global Credit Master Fund, L.P. Settlement

On December 7, 2017, the Company and certain corporate and individual guarantors entered into a Settlement Agreement with TCA Global Credit Master Fund, L.P. (“TCA”) with respect to a convertible promissory note in the original face amount of \$750,000 (the TCA Note”). This matter was also the subject of litigation filed in Broward County, Florida. Under the terms of the Settlement Agreement, the Company paid TCA \$375,000 cash to settle all obligations between the parties. In addition, TCA agreed to the cancellation of 1,782,000 shares of Company Common Stock which it had held, dismissal with prejudice of the pending litigation and release of all security interests and guarantees it held related to the TCA Note. The parties also entered into a mutual general release with respect to the matter.

Change of Name

On December 20, 2017, the Company filed a Certificate of Amendment with the Nevada Secretary of State whereby the Company’s name was changed to “Surge Holdings, Inc.” effective as of that date.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This statement contains forward-looking statements within the meaning of the Securities Act. Discussions containing such forward-looking statements may be found throughout this statement. Actual events or results may differ materially from those discussed in the forward-looking statements as a result of various factors, including the matters set forth in this statement. The accompanying consolidated financial statements as of June 30, 2017 and June 30, 2016 and for the three and six months then ended includes the accounts of Holdings and its wholly owned subsidiaries during the period owned by Holdings.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 2017 AND 2016

Revenues during the three months ended June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Revenue	\$ 373,482	\$ 1,007,039
Cost of revenue	156,926	779,908
Gross profit	<u>\$ 216,556</u>	<u>\$ 227,131</u>

KSIX provides performance based marketing solutions to drive traffic and conversions within a Cost-Per-Lead ("CPL") business model. KSIX works directly with advertisers and other networks to promote advertiser campaigns through their affiliates. KSIX revenues decreased \$203,604 (63%) from \$323,266 to \$119,662 during the three months ended June 30, 2017 as compared to the prior year period. Lack of funding has continued to cause revenues to decline.

DIQ's revenues from survey generation and landing page optimization amounted to \$253,820 in the three months ended June 30, 2017 as compared to \$683,773 during the three months ended June 30, 2016. The decline in revenue is primarily a result of a major customer discontinuing their business in 2016 and the Company finding new customers. Lack of funding has also contributed to the decline in revenues.

Despite the decline in business, the gross profit percentage has improved to 58% in the 2017 period from 22.6% in the 2016 period. The Company experienced losses from customer turnover in the 2016 period which resulted in a substantially reduced gross profit.

Costs and expenses during the three months ended June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Depreciation and amortization	\$ 35,038	\$ 231,926
Selling, general and administrative	534,305	1,028,709
Total	<u>\$ 569,343</u>	<u>\$ 1,260,635</u>

Depreciation and amortization decreased \$196,888 (84.9%) from \$231,926 in the 2016 quarter to \$35,038 in the 2017 quarter. The decrease is primarily the result of impairing intangible assets in 2016 that are no longer being amortized in 2017 and the decline in DIQ amortization of approximately \$100,000 due to completion of its appraisal in the fourth quarter of 2016 which resulted in lower amortization expense.

Selling, general and administrative expense during the three months ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Contractors and consultants	\$ 240,967	\$ 743,440
Compensation	105,481	124,312
Professional services	34,750	38,825
Officer compensation	59,996	36,768
Other	64,286	61,022
Advertising and marketing	28,825	24,342
Total	<u>\$ 534,305</u>	<u>\$ 1,028,709</u>

Total selling, general and administrative expense decreased \$494,404 (48.1%) from \$1,028,709 in the 2016 period to \$534,305 in the 2017 period. The detail changes are discussed below:

- Contractors and consultants decreased from \$743,440 in the 2016 period to \$240,967 in the 2017 period. The 2016 period included a number of consultants that were paid with common stock and based on the valuations of the stock have resulted in a higher expense that might have been the case had the Company been able to pay cash. The 2016 period included \$622,987 of this cost.
- Compensation decreased \$18,831 (15.1%) from the 2016 amount of \$124,312 to the 2017 amount of \$105,481.
- Professional services decreased from \$38,825 in the 2016 period to \$34,750 in the 2017 period.
- Other costs increased \$3,264 from \$61,022 in the 2016 period to \$64,286 in the 2017 period.
- Advertising and marketing costs increased \$4,483 (18.4%) from \$24,342 in the 2016 period to \$28,825 in the 2017 period. This is primarily a result of an increase in DIQ costs.

Other expense during the three months ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Interest expense	\$ 136,963	\$ 73,200
Change in fair value of derivative liability	537,349	-
Other income	-	(5,844)
Gain on debt settlement	(7,151)	-
Total	<u>\$ 667,161</u>	<u>\$ 67,356</u>

Interest expense was much lower in the 2016 period than the same period in 2017. A large portion of the increase in 2017 expense is the amortization of debt discount, which amounted to \$54,669. There was zero in 2016.

The Company has determined that the conversion feature embedded in the majority of its notes payable contain a potential variable conversion amount which 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. At the end of each reporting period these derivatives are revalued with the change in value recorded in change in value of derivatives. This did not arise until after the first quarter of 2016.

The Company has issued its common stock in exchange for a portion of its convertible notes payable, which resulted in a gain during the 2017 period.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2017 AND 2016

Revenues during the six months ended June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Revenue	\$ 823,882	\$ 2,394,586
Cost of revenue	308,351	1,829,607
Gross profit	<u>\$ 515,531</u>	<u>\$ 564,979</u>

KSIX provides performance based marketing solutions to drive traffic and conversions within a Cost-Per-Lead (“CPL”) business model. KSIX works directly with advertisers and other networks to promote advertiser campaigns through their affiliates. KSIX revenues decreased \$382,918 (58.5%) from \$655,086 to \$272,168 during the six months ended June 30, 2017 as compared to the prior year period. Lack of funding has continued to cause revenues to decline.

DIQ’s revenues from survey generation and landing page optimization amounted to \$551,714 in the six months ended June 30, 2017 as compared to \$1,735,603 during the six months ended June 30, 2016. The decline in revenue is primarily a result of a major customer discontinuing their business in 2016 and the Company finding new customers. Lack of funding has also contributed to the decline in revenues.

Despite the decline in business, the gross profit percentage has improved to 62.6% in the 2017 period from 23.6% in the 2016 period. The Company experienced losses from customer turnover in the 2016 period which resulted in a substantially reduced gross profit.

Costs and expenses during the six months ended June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Depreciation and amortization	\$ 70,122	\$ 463,852
Selling, general and administrative	1,567,496	1,714,040
Total	<u>\$ 1,637,618</u>	<u>\$ 2,177,892</u>

Depreciation and amortization decreased \$393,730 (84.9%) from \$463,852 in the 2016 quarter to \$70,122 in the 2017 period. The decrease is primarily the result of impairing intangible assets in 2016 that are no longer being amortized in 2017 and the decline in DIQ amortization of approximately \$200,000 due to completion of its appraisal in the fourth quarter of 2016 which resulted in lower amortization expense.

Selling, general and administrative expense during the six months ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Contractors and consultants	\$ 981,255	\$ 850,660
Compensation	220,423	260,277
Professional services	66,519	185,473
Officer compensation	119,992	263,536
Other	106,072	116,270
Advertising and marketing	73,235	37,824
Total	<u>\$ 1,567,496</u>	<u>\$ 1,714,040</u>

Total selling, general and administrative expense decreased \$146,544 (8.5%) from \$1,714,040 in the 2016 period to \$1,567,496 in the 2017 period. The detail changes are discussed below:

- Contractors and consultants increased from \$850,660 in the 2016 period to \$981,255 in the 2017 period (\$130,595)(15.3%). The majority of the consulting fees have been paid with common stock. The increase in 2017 is primarily related to consulting fees paid associated with the pending acquisition of TW.

- Compensation decreased \$39,854 (15.3%) from the 2016 amount of \$260,277 to the 2017 amount of \$220,423.
- Professional services decreased from \$185,473 in the 2016 period to \$66,519 in the 2017 period. This decrease is primarily from issuing common stock to an attorney in the 2016 period.
- Officer compensation decreased from \$263,536 in the 2016 period to \$119,992 in the 2017 period. The 2016 period included \$190,000 of value assigned to the preferred stock issued to the Company's CEO at the time.
- Other costs decreased \$10,198.
- Advertising and marketing costs increased \$35,411 (93.6%) from \$37,824 in the 2016 period to \$73,235 in the 2017 period. This is primarily a result of an increase in DIQ costs.

Other expense during the six months ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Interest expense	\$ 280,803	\$ 108,436
Change in fair value of derivative liability	587,548	-
Other income	-	(5,844)
Gain on debt settlement	(2,913)	-
Total	<u>\$ 865,438</u>	<u>\$ 102,592</u>

Interest expense was much lower in the 2016 period than the same period in 2017. A large portion of the increase in 2017 expense is the amortization of debt discount, which amounted to \$80,331. There was \$2,860 in 2016.

The Company has determined that the conversion feature embedded in the majority of its notes payable contain a potential variable conversion amount which 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. At the end of each reporting period these derivatives are revalued with the change in value recorded in change in value of derivatives. This did not arise until after the first quarter of 2016.

The Company has issued its common stock in exchange for a portion of its convertible notes payable, which resulted in a gain during the 2017 period.

LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN

At June 30, 2017 and December 31, 2016, our current assets were \$456,231 and \$758,837, respectively, and our current liabilities were \$3,728,194 and \$4,059,894, respectively, which resulted in a working capital deficit of \$3,271,963 and \$3,301,057, respectively.

Total assets at June 30, 2017 and December 31, 2016 amounted to \$3,184,518 and \$2,357,246, respectively. At June 30, 2017, total assets consisted of current assets of \$456,231, net property and equipment of \$12,982, net intangible assets of \$148,523, goodwill of \$866,782 and deposits on investments in the amount of \$1,700,000, as compared to current assets of \$758,837, net property and equipment of \$14,432, net intangible assets of \$217,195, goodwill of \$866,782 and deposits on investments in the amount of \$500,000 at December 31, 2016.

At June 30, 2017, our total liabilities of \$3,780,382 decreased \$391,913 from \$4,172,295 at December 31, 2016.

At June 30, 2017, our stockholders' deficit was (\$595,864) as compared to stockholders' deficit of (\$1,815,049) at December 31, 2016. The principal reason for the increase in stockholders' equity was common stock issued pursuant to the agreements to acquire TW.

The following table sets forth the major sources and uses of cash for the six months ended June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Net cash used in operating activities	\$ (205,265)	\$ (293,608)
Net cash used in investing activities	-	-
Net cash provided by financing activities	207,737	287,320
Net increase (decrease) in cash and cash equivalents	<u>\$ 2,472</u>	<u>\$ (6,288)</u>

At June 30, 2017, the Company had the following material commitments and contingencies.

Notes payable and long-term debt - \$1,594,912 - See Note 5 and Note 6 to the Consolidated Financial Statements.

Advances from related party - \$389,502 balance owed on non-interest bearing basis. See Note 8 to the Consolidated Financial Statements.

Cash requirements and capital expenditures – The Company has not had any capital expenditures during the six months ended June 30, 2017, which required cash. 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.

Evaluation of the amounts and certainty of cash flows –The Company is still learning the business of DIQ and has experienced operating losses during the initial operation. During 2017, profitability of the DIQ operations has improved, although the volume of business has substantially decline from the earlier periods. There can be no assurance that the Company will be able to replace the lost business and be able to fund operations in the future.

Going Concern – The Company has not established sources of revenues sufficient to fund the development of its business, or to pay projected operating expenses and commitments for the next year. The Company has a working capital deficit of \$3,271,963, an accumulated deficit of \$8,015,507 at June 30, 2017, and incurred losses for the past two years. These factors, among others, create an uncertainty about our ability to continue as a going concern. The Company projects that it should be cash flow positive by the 3rd quarter ended September 30, 2018 from ongoing operations by the combination of increased cash flow from its current subsidiaries, as well as lowering our current debt burden and completing the acquisition of TW. Currently, the Company is negotiating with several institutional investors for equity investment which will be used to pay down existing debt obligations and cover any operational shortfalls in the short term. The Company's ability to continue as a going concern is dependent on the success of this plan.

The Company's financial statements have been presented on the basis that it continues as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business, and do not include any adjustments that might be necessary if the Company is unable to 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. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Significant accounting estimates reflected in the Company's consolidated financial statements include: the valuation of the fair value of derivative liabilities, the estimated useful lives and impairment of property, equipment, and intangible assets and the valuation of deferred tax assets.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4: 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), as of June 30, 2017. Our management has determined that, as of June 30, 2017, the Company's disclosure controls and procedures are not effective due to a lack of segregation of duties, lack of an audit committee, and lack of documented controls. The Company has undergone a complete change of management and is in process of developing the necessary controls and procedures.

Changes in internal control over financial reporting

The Company's principal executive officer and principal financial officer determined that the Company's disclosure controls and procedures were not effective due to a lack of segregation of duties, lack of an audit committee and lack of documented controls. There have been no other significant changes in internal controls or in other factors that could significantly affect these controls during the quarter ended June 30, 2017, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

None

ITEM 1A: RISK FACTORS

Not applicable.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On May 3, 2017, the Company issued 1,923,077 shares in exchange for \$60,000 in principal and \$3,867 in accrued interest.

On May 10, 2017, the Company issued 652,173 shares in exchange for \$30,000 in principal and \$1,980 in accrued interest.

On May 15, 2017, the Company issued 1,508,296 shares in exchange for \$100,000 in principal and \$6,709 in accrued interest.

On May 15, 2017, the Company issued 2,173,913 shares in exchange for \$100,000 in principal and \$7,555 in accrued interest.

On May 15, 2017, the Company issued 160,000 shares of its common stock pursuant to a PR agreement. The common stock was valued at \$44,784 based on the closing price of the common stock at the time of the initial contract.

Between May 22, 2017 and June 22, 2017, the Company issued 1,850,000 shares of its common stock together with warrants to acquire 925,000 shares at \$0.50 per share in exchange for \$185,000 in cash.

In May 2017, the Company accepted a notice to convert \$290,000 in principal of a convertible note payable into 6,257,459 shares of its common stock and recorded a gain from debt settlement of \$7,151.

During the three months ended June 30, 2017, the Company entered into five additional Unit subscription agreements as described above for total consideration of \$185,000. Units representing 1,850,000 common shares and 925,000 3-year \$0.50 warrants were issued.

During the three months ended September 30, 2017, the Company entered into two Unit subscription agreements as described above for total consideration of \$130,000. Units representing 800,000 common shares and 400,000 3-year \$0.50 warrants were issued.

During the month ended October 31, 2017, the Company entered into eight Unit subscription agreements as described in Note 8 for total consideration of \$495,000. Units representing 2,475,000 common shares and 1,237,500 3-year \$0.50 warrants were issued.

The shares were sold pursuant to an exemption from registration under Section 4(2) promulgated under the Securities Act of 1933, as amended.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4: MINE SAFETY DISCLOSURES.

None

ITEM 5: OTHER INFORMATION.

On December 20, 2017, the Company filed a Certificate of Amendment with the Nevada Secretary of State whereby the Company's name was changed to "Surge Holdings, Inc." effective as of that date.

ITEM 6: EXHIBITS

- Exhibit 31.1 [Certification pursuant to 18 U.S.C. Section 1350 Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer and Chief Financial Officer*](#)
- Exhibit 32.1 [Certification pursuant to 18 U.S.C. Section 1350 Section 906 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer and Chief Financial Officer*](#)
- 101.INS XBRL Instance Document**
- 101.SCH XBRL Taxonomy Extension Schema Document**
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document**
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document**
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document**
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document**

*Filed herewith.

**In accordance with Regulation S-T, the XBRL-formatted interactive data files that comprise Exhibit 101 in this Quarterly Report on Form 10-Q shall be deemed "furnished" and not "filed".

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SURGE HOLDINGS, INC.

Date: January 3, 2018

By: /s/ Kevin Brian Cox
Chief Executive Officer and
Chief Financial Officer

SURGE HOLDINGS, INC. FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2017
CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin Brian Cox, Chief Executive Officer and Chief Financial Officer, certify that:

1. I have reviewed this report on Form 10-Q of Surge Holdings, Inc. (the registrant);
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 quarterly 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. I am 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 my supervision, to ensure that material information relating to the registrant, is made known to me by others, 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 my 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 controls over financial reporting that occurred during the registrant's current 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, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

January 3, 2018

/s/ Kevin Brian Cox

Kevin Brian Cox
Chief Executive Officer and
Chief Financial Officer

SURGE HOLDINGS, INC. FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2017
CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin Brian Cox, certify that

1. I am the Chief Executive Officer and Chief Financial Officer of Surge Holdings, Inc.
2. Attached to this certification is Form 10-Q for the quarter ended June 30, 2017, a periodic report (the “periodic report”) filed by the issuer with the Securities Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (the “Exchange Act”), which contains condensed financial statements.
3. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - The periodic report containing the condensed financial statements fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act, and
 - The information in the periodic report fairly presents, in all material respects, the consolidated financial condition and results of operations of the issuer for the periods presented.

January 3, 2018

/s/ Kevin Brian Cox

Kevin Brian Cox
Chief Executive Officer and
Chief Financial Officer
