
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: March 31, 2019

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.)

3124 Brother Blvd 104, Bartlett TN 38133
(Address of principal executive offices) (Zip Code)

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

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

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

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 Emerging Growth Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 89,734,615 shares of common stock outstanding as of May 15, 2019.

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 Form 10-K dated December 31, 2018 filed with the SEC on April 1, 2019.

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PART I - FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

SURGE HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	<u>March 31, 2019</u> (unaudited)	<u>December 31, 2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,416,635	\$ 444,612
Accounts receivable, less allowance for doubtful accounts of \$24,841 and \$17,000, respectively	765,391	206,679
Note receivable	190,000	190,000
Lifeline revenue due from USAC	487,487	850,966
Customer phone supply	679,985	1,356,701
Prepaid expenses	11,566	10,862
Total current assets	<u>3,551,064</u>	<u>3,059,820</u>
Property and Equipment, less accumulated depreciation of \$15,157 and \$13,782, respectively	29,614	30,990
Intangible assets less accumulated amortization of \$328,538	56,106	65,269
Goodwill	866,782	866,782
Investment in Centercom	200,474	-
Other long-term assets	61,457	61,457
Total assets	<u>\$ 4,765,497</u>	<u>\$ 4,084,318</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses - others	\$ 2,523,133	\$ 3,104,234
Accounts payable and accrued expenses - related party	367,733	149,901
Credit card liability	462,080	394,840
Loss contingency	-	70,000
Deferred revenue	150,000	50,000
Derivative liability	51,058	51,058
Line of credit	930,973	-
Advance from related party	-	389,502
Notes payable and current portion of long-term debt, net	<u>562,500</u>	<u>582,500</u>
Total current liabilities	5,047,477	4,792,035
Long-term debt less current portion – related party	1,054,000	680,000
Trade payables - long term	555,965	600,516
Total liabilities	<u>6,657,442</u>	<u>6,072,551</u>
Commitments and contingencies		
Stockholders' deficit:		
Series A preferred stock: \$0.001 par value; 100,000,000 shares authorized; 13,000,000 and 13,000,000 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	13,000	13,000
Series C convertible preferred stock; \$0.001 par value; 1,000,000 shares authorized; 721,598 and 643,366 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	722	643
Common stock: \$0.001 par value; 500,000,000 shares authorized; 90,613,819 shares and 88,046,391 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	90,614	88,047
Additional paid in capital	2,070,860	333,623
Accumulated deficit	(4,067,141)	(2,423,546)
Total stockholders' deficit	<u>(1,891,945)</u>	<u>(1,988,233)</u>
Total liabilities and stockholders' deficit	<u>\$ 4,765,497</u>	<u>\$ 4,084,318</u>

See accompanying notes to condensed consolidated financial statements

SURGE HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months ended March 31,	
	2019	2018
Revenue	\$ 3,938,773	\$ 3,430,898
Cost of revenue	<u>2,479,567</u>	<u>1,751,067</u>
Gross profit	<u>1,459,206</u>	<u>1,679,831</u>
Cost and expenses		
Depreciation and amortization	10,538	1,227
Selling, general and administrative	<u>2,560,780</u>	<u>1,270,084</u>
Total costs and expenses	<u>2,571,318</u>	<u>1,271,311</u>
Operating profit (loss)	<u>(1,112,112)</u>	<u>408,520</u>
Other income (expense):		
Interest expense	(45,949)	(7,517)
Gain on investment in Centercom	21,966	-
Loss on settlement of liabilities	<u>(507,500)</u>	<u>-</u>
Total other income (expense)	<u>(531,483)</u>	<u>(7,517)</u>
Net income (loss) before provision for income taxes	(1,643,595)	401,003
Provision for income taxes	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ (1,643,595)</u>	<u>\$ 401,003</u>
Net income (loss) per common share, basic and diluted	<u>\$ (0.02)</u>	<u>\$ 0.01</u>
Weighted average common shares outstanding – basic and diluted	<u>88,496,653</u>	<u>79,963,016</u>

See accompanying notes to condensed consolidated financial statements.

SURGE HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Deficit
(Unaudited)

Three Months ended March 31, 2019

	<u>Preferred Stock</u>		<u>Series C Preferred</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2018	13,000,000	\$ 3,000	643,366	\$ 643	88,046,391	\$ 88,047	\$ 333,623	\$ (2,423,546)	\$ (1,988,233)
Issuance of common stock and warrants for services rendered	-	-	-	-	21,000	21	99,352	-	99,373
Issuance of common stock for settlement of accounts payable	-	-	-	-	875,000	875	506,625	-	507,500
Sale of common stock and warrants	-	-	-	-	1,671,428	1,671	563,329	-	565,000
Issuance of Series C Preferred Stock for investment in Centercom	-	-	72,000	72	-	-	178,436	-	178,508
Issuance of Series C Preferred Stock for conversion of related party advances	-	-	6,232	7	-	-	389,495	-	389,502
Net loss	-	-	-	-	-	-	-	(1,643,595)	(1,643,595)
Balance, March 31, 2019	<u>13,000,000</u>	<u>\$ 13,000</u>	<u>721,598</u>	<u>\$ 722</u>	<u>90,613,819</u>	<u>\$ 90,614</u>	<u>\$ 2,070,860</u>	<u>\$ (4,067,141)</u>	<u>\$ (1,891,945)</u>

Three Months ended March 31, 2018

	<u>Preferred Stock</u>		<u>Series C Preferred</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2017	3,000,000	\$ 3,000	-	\$ -	152,555,416	\$ 152,555	\$ (155,555)	\$ (617,240)	\$ (617,240)
Recapitalization	10,000,000	10,000	-	-	79,888,784	79,889	(3,687,835)	(265,228)	(3,863,174)
Net income	-	-	-	-	-	-	-	401,003	401,003
Balance, March 31, 2018	<u>13,000,000</u>	<u>\$ 13,000</u>	<u>594,966</u>	<u>\$ 595</u>	<u>87,513,372</u>	<u>\$ 87,514</u>	<u>\$ (2,878,701)</u>	<u>\$ (481,465)</u>	<u>\$ (4,079,411)</u>

See accompanying notes to condensed consolidated financial statements.

SURGE HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Three Months Ended March 31,	
	2019	2018
Operating activities		
Net income (loss)	\$ (1,643,595)	\$ 401,003
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization and depreciation	10,539	1,227
Stock-based compensation	99,373	-
Loss on settlement of liabilities	507,500	-
Gain on equity investment in Centercom	(21,966)	-
Changes in operating assets and liabilities:		
Accounts receivable	(558,712)	(4,821)
Lifeline revenue due from USAC	363,479	68,115
Customer phone supply	676,716	97,508
Prepaid expenses	(704)	-
Credit card liability	67,240	-
Loss contingency	30,000	-
Accounts payable and accrued expenses	(407,820)	(570,231)
Net cash used in operating activities	(877,950)	(7,199)
Financing activities		
Issuance of common stock	565,000	-
Due from related party - net	-	19,000
Note payable	(20,000)	-
Line of credit - advances	1,130,973	-
Line of credit - repayments	(200,000)	-
Loan proceeds under related party financing arrangement	674,000	133,500
Loan repayments under related party financing arrangement	(300,000)	(477,741)
Net cash provided by (used in) financing activities	1,849,973	(325,241)
Net increase (decrease) in cash and cash equivalents	972,023	(332,440)
Cash and cash equivalents, beginning of period	444,612	1,274,160
Cash and cash equivalents, end of period	\$ 1,416,635	\$ 941,720
Supplemental cash flow information		
Cash paid for interest and income taxes:		
Interest	\$ 16,953	\$ 574
Income taxes	\$ -	\$ -
Non-cash investing and financing activities:		
Exchange of related party advances for Series C Preferred Stock	\$ 389,502	\$ -
Exchange of investment in CenterCom for Series C Preferred Stock	\$ 178,508	\$ -

See accompanying notes to condensed consolidated financial statements

SURGE HOLDINGS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2019

1 BUSINESS

The accompanying condensed 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.

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 1st Quarter
- Support the Company’s IT infrastructure including database management
- Upsell-related FinTech products to our existing customer base to increase revenue

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 1st Quarter
- Support the Company’s IT infrastructure including database management
- Upsell-related FinTech products to our existing customer base to increase revenue

Due to the fact that a director, officer, and minority owner of the Company has a controlling interest in CenterCom Global, the Company recorded its investment in Centercom of \$178,508, which is the Company’s 40% ownership of Centercom’s net book value upon close of the completion of the transaction, as “Investment in Centercom” in long term assets on the accompanying condensed consolidated balance sheets. The Company recorded its equity interest in Centercom’s results of operations as “Gain on investment in Centercom” in other income (expense) on the accompanying condensed consolidated statements of income. The Company periodically reviews its investment in Centercom for impairment. Management has determined that no impairment was required as of March 31, 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed 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 condensed 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 March 31, 2019 and the results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the operating results for the full fiscal year or any future period. These unaudited condensed 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, 2018 filed with the SEC on April 1, 2019.

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 2019 or 2018.

Method of Accounting

Investments held in stock of entities other than subsidiaries, namely corporate joint ventures and other non-controlled entities usually are accounted for by one of three methods: (i) the fair value method (addressed in Topic 320), (ii) the equity method (addressed in Topic 323), or (iii) the cost method (addressed in Subtopic 325-20). Pursuant to Paragraph 323-10-05-5, the equity method tends to be most appropriate if an investment enables the investor to influence the operating or financial policies of the investee.

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 March 31, 2019 and December 31, 2018.

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.

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).

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 March 31, 2019 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.

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 Subchapter C Corporation.

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.

The Company is no longer subject to tax examinations by tax authorities for years prior to 2016.

Reclassifications

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

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 LIQUIDITY

The Company had a loss from operations of approximately \$1.1 million for the three months ended March 31, 2019. As of March 31, 2019, we had cash and working capital deficit of approximately \$1.4 million and \$1.5 million, 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, which were 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>
Consideration paid prior to Closing:		
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>
Consideration paid at Closing:		
Common stock to be issued at closing ⁽¹⁾	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 had a closing price of approximately \$0.40 per share on the date of the transaction.

Following the closing of the transaction, TW's financial statements as of the Closing were 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, 2018.

	Three Months Ended	
	March 31, 2018	
Revenues, net	\$	3,870,775
Net income	\$	136,005
Net income per share	\$	0.00)
Weighted average number of shares outstanding		79,963,016

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, 2018 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:

	March 31, 2019		December 31, 2018	
Computer Equipment	\$	11,263	\$	11,263
Furniture and Fixtures		7,996		7,996
Leasehold Improvements		25,513		25,513
		44,771		44,771
Less: Accumulated Depreciation		(15,157)		(13,782)
	\$	29,614	\$	30,990

Depreciation expense was \$1,375 and \$1,227 for the three months ended March 31, 2019 and 2018, 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 three months ended March 31, 2019, the Company utilized a credit card issued in the name of Surge Holdings, Inc. to pay certain trade obligations totaling \$55,185. At March 31, 2019 and December 31, 2018, the Company's total credit card liability was \$462,080 and \$394,840, respectively.

8 NOTES PAYABLE – RELATED PARTY

In December 2018, the Company executed a promissory note payable agreement with SMDMM Funding, LLC, an entity that is owned by the Company's chief executive officer. The promissory note was for a principal sum up to \$1.0 million at an annual interest rate of 6%, due on December 27, 2021. As of March 31, 2019, the Company drew advances on the note totaling \$1,434,000. 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. During the three months ended March 31, 2019, the Company made principal and accrued interest payments of \$300,000 and \$10,286, respectively. The outstanding principal balance under the promissory note due to SMDMM was \$1,054,000 and \$680,000 at March 31, 2019 and December 31, 2018, respectively. Accrued interest owed to SMDMM was \$15,670 and \$10,718 at March 31, 2019 and December 31, 2018, respectively.

9 NOTES PAYABLE AND LONG-TERM DEBT

As of March 31, 2019 and December 31, 2018, notes payable and long-term debt consists of:

	<u>March 31, 2019</u>	<u>December 31, 2018</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	\$ 50,000	\$ 70,000
Notes payable to seller of DigitizeIQ, LLC due as noted below ¹	485,000	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 ²	27,500	27,500
	<u>\$ 562,500</u>	<u>\$ 582,500</u>

¹ 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 March 31, 2019 and 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 March 31, 2019.

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.

² 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.

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.

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 owner of the majority of the Company's voting shares. 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. During the three months ended March 31, 2019, total advances and repayments under the LOC were \$1,130,973 and \$200,000, respectively. As of March 31, 2019 and December 31, 2018, the outstanding balance on the LOC was \$930,973 and \$0, respectively.

11 STOCKHOLDERS' EQUITY

Preferred Stock

Series "A" Preferred Stock

As of March 31, 2019 and December 31, 2018, there were 13,000,000 shares of Series A issued and outstanding.

Series "C" Convertible Preferred Stock

As discussed above in Note 1, on January 17, 2019, the Company announced the completion of an agreement to acquire a 40% equity ownership of Centercom. Upon execution of the agreement, the Company issued 72,000 shares of Preferred C stock (convertible into 18,000,000 shares of common stock) to a director, officer and minority owner of the Company who has a controlling interest in Centercom. The Company recorded its investment in Centercom of \$178,508, which is the Company's 40% ownership of Centercom's net book value upon close of the completion of the transaction, as "Investment in Centercom" in long term assets on the accompanying condensed consolidated balance sheets.

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 C stock.

As of March 31, 2019 and December 31, 2018, there were 721,598 and 643,366 shares of Series C issued and outstanding, respectively.

Common Stock

On February 14, 2019, the Company granted a consultant 21,000 restricted shares for services rendered.

On March 27, 2019, the Company reached a settlement with a consultant to issue 875,000 shares for services rendered. Upon execution of the settlement, the Company recorded a loss on settlement of \$507,500.

During the three months ended March 31, 2019, the Company sold an aggregate of 1,671,428 shares of common stock and 621,430 warrants, with each warrant exercisable for one share of Common Stock at an exercise price of \$0.75, resulting in gross proceeds to the Company of \$565,000.

During the three months ended March 31, 2019, the Company recorded total stock-based compensation expense of \$65,700 in relation to shares issued for services.

As of March 31, 2019 and December 31, 2018, there were 90,613,819 and 88,046,391 shares of Common Stock issued and outstanding, respectively.

Stock Warrants

On February 15, 2019, the Company executed a consulting agreement with a third party for professional services. Upon execution of the agreement, the Company agreed to issue 100,000 warrants to purchase the Company's common stock with an exercise price of \$3.00 per share, a term of 3 years, and immediate vesting. In addition, the consultant is eligible to receive 150,000 warrants upon achievement of certain milestones as discussed in the agreement.

The 250,000 warrants to be issued upon execution have an aggregated fair value of approximately \$30,782 that was calculated using the Black-Scholes option-pricing model based on the assumptions below.

	March 31, 2019
Risk-free interest rate	2.50%
Expected life of grants	3 years
Expected volatility of underlying stock	168.71%
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 three months ended March 31, 2019, the Company recorded total stock-based compensation expense related to the warrants of approximately \$33,673. The unrecognized compensation expense at March 31, 2019 was approximately \$0.

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 noted, Mr. Matzinger elected to exchange outstanding non-interest-bearing debt totaling \$389,502 owed by the Company into 6,232 shares of Preferred C stock. As of March 31, 2019 and December 31, 2018, the outstanding balance due was \$0 and \$389,502, respectively.

For the three months ended March 31, 2019 and 2018, outsourced management services fees of \$255,000 was paid to Axia Management, LLC ("Axia") as compensation for services provided. These costs are included in Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations. Axia is owned by the majority owner of the Company.

At March 31, 2019 and December 31, 2018, the Company had trade payables to Axia of \$137,603 and \$66,535, respectively.

For the three months ended March 31, 2019 and 2018, the Company purchased telecom services and access to wireless networks from 321 Communications in the amount of \$146,690 and \$366,588, respectively. These costs are included in Cost of revenue in the Condensed Consolidated Statements of Operations. The owner of the majority of the Company's voting shares is a minority owner of 321 Communications.

At March 31, 2019 and December 31, 2018, the Company had trade payables to 321 Communications of \$44,421 and \$52,161, 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 three months ended March 31, 2019 and 2018 were \$581,073 and \$450,000, respectively, and are included in Cost of revenue in the Condensed Consolidated Statements of Operations. A director, officer, and minority owner of the Company has a controlling interest in CenterCom Global. As discussed in Note 1, on January 17, 2019 the Company announced the completion of an agreement to acquire a 40% equity ownership of Centercom for \$178,508, the Company's ownership percentage of the net book value of Centercom upon completion of the transaction.

At March 31, 2019 and December 31, 2018, the Company had trade payables to CenterCom Global of \$185,709 and \$175,000, 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%.

As of March 31, 2019, all payments were made as required in the settlement agreement.

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 three months ended March 31, 2019 and 2018 and as of March 31, 2019 and December 31, 2018, are as follows:

	<u>Surge</u>	<u>TW</u>	<u>Total</u>
Three Months ended March 31, 2019			
Revenue	\$ 1,141,751	\$ 2,797,022	\$ 3,938,773
Cost of revenue	(739,408)	(1,740,159)	(2,479,567)
Gross margin	402,343	1,056,863	1,459,206
Costs and expenses	(1,547,194)	(1,024,124)	(2,571,318)
Operating income (loss)	(1,144,851)	32,739	(1,112,112)
Three Months ended March 31, 2018			
Revenue	\$ -	\$ 3,430,898	\$ 3,430,898
Cost of revenue	-	(1,751,067)	(1,751,067)
Gross margin	-	1,679,831	1,679,831
Costs and expenses	-	(1,271,311)	(1,271,311)
Operating income	-	408,520	408,520
March 31, 2019			
Total assets	\$ 1,043,233	\$ 3,722,264	\$ 4,765,497
Total liabilities	2,714,289	3,943,153	6,657,442
December 31, 2018			
Total assets	\$ 947,550	\$ 3,136,768	\$ 4,084,318
Total liabilities	2,694,258	3,378,293	6,072,551

16 SUBSEQUENT EVENTS

Subsequent to March 31, 2019, the Company sold 5,264,285 shares of common stock at an offering price of \$0.35 per share resulting in gross proceeds of \$1.8 million.

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 condensed consolidated financial statements as of March 31, 2019 and 2018 and for the three months then ended includes the accounts of Holdings and its wholly owned subsidiaries during the period owned by Holdings.

COMPARISON OF THREE MONTHS ENDED MARCH 31, 2019 AND 2018

Revenues during the three months ended March 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Revenue	\$ 3,938,773	\$ 3,430,898
Cost of revenue	2,479,567	1,751,067
Gross profit	<u>\$ 1,459,206</u>	<u>\$ 1,679,831</u>

Revenue increased \$507,875 (14.8%) primarily as a result of the merger between Surge Holdings, Inc. and True Wireless, Inc. while gross profit decreased \$220,625 (13.2%) primarily as a result of reduced revenues in True Wireless, Inc.

Costs and expenses during the three months ended March 31, 2019 and 2018 consisted of the following:

	<u>2018</u>	<u>2017</u>
Depreciation and amortization	\$ 10,538	\$ 1,227
Selling, general and administration	2,560,780	1,270,084
Total	<u>\$ 2,571,318</u>	<u>\$ 1,271,311</u>

Depreciation and amortization increased \$9,311 primarily as a result of the merger between Surge Holdings, Inc. and True Wireless, Inc.

Selling, general and administrative costs (S, G & A) increased \$1,290,696 (101.7%) 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 \$1,537,033 of the expenses that are not included in the 2018 expenses.

Selling, general and administrative expenses during the three months ended March 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Telecom operations center	\$ 494,916	\$ 450,000
Contractors and consultants	445,936	72,072
Compensation	365,807	60,780
Webhosting/internet	153,978	95,488
Professional services	418,468	396,907
Advertising and marketing	375,861	23,330
Other	305,812	171,507
Total	<u>\$ 2,560,778</u>	<u>\$ 1,270,084</u>

Total selling, general and administrative expense (S,G & A) increased \$1,290,696 from \$1,270,084 in 2018 to \$2,560,780 in 2019. The detail changes are discussed below:

- * Telecom operations center expenses increased from \$450,000 in 2018 to \$494,916 in 2019 primarily as a result of the contracting vendor providing services for Surge Blockchain, LLC.
- * Contractors and consultants increased to \$445,936 in 2019 from \$72,072 in 2018. The 2019 period includes \$375,113 in expenses of the Surge companies that are not included in the 2018 expenses.
- * Compensation increased from \$60,780 in 2018 to \$365,807 in 2019 primarily as a result of the merger between Surge Holdings, Inc. and True Wireless, Inc.
- * Webhosting/internet costs increased to \$153,978 in 2019 from \$95,488 in 2018.
- * Professional services increased from \$396,907 in 2018 to \$418,468 in 2019.
- * Other costs increased to \$305,814 in 2019 from \$171,507 in 2018. The 2019 period includes \$168,378 in expenses of the Surge companies that are not included in the 2018 expenses.
- * Advertising and marketing costs increased to \$375,861 in 2019 from \$23,330 in 2018 primarily due to the Company implementing new advertising and marketing campaigns.

Other income (expense) during the three months ended March 31, 2019 and 2018 consisted of the following:

	<u>2018</u>	<u>2017</u>
Interest expense	\$ (45,949)	\$ (7,517)
Gain on equity investment in Centercom	21,966	-
Loss on settlement of liabilities	(507,500)	-
	<u>\$ (531,483)</u>	<u>\$ (7,517)</u>

Interest expense increased to \$45,949 in 2019 from \$7,517 in 2018 primarily due to consolidating the debt in Surge Holdings, Inc. after the merger between Surge Holdings, Inc. and True Wireless, Inc.

The gain on equity investment in Centercom of \$21,966 in 2019 is due to the 40% acquisition of Centercom in January 2019.

During the three months ended March 31, 2019, the Company settled outstanding liabilities through the issuance of 875,000 shares of common stock and recorded a loss on settlement of \$507,00.

LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN

At March 31, 2019 and December 31, 2018, our current assets were \$3,551,064 and \$3,059,820, respectively, and our current liabilities were \$5,047,477 and \$4,792,035, respectively, which resulted in a working capital deficit of \$1,496,413 and \$1,732,215, respectively.

Total assets at March 31, 2019 and December 31, 2018 amounted to \$4,765,497 and \$4,084,318, respectively. At March 31, 2019, assets consisted of current assets of \$3,551,064, net property and equipment of \$29,614, net intangible assets of \$56,106, goodwill of \$866,782, equity investment in Centercom of \$200,474 and other long-term assets of \$61,457, as compared to 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 at December 31, 2018.

At March 31, 2019, our total liabilities of \$6,657,442 increased \$584,891 from \$6,072,551 at December 31, 2018.

At March 31, 2019, our total stockholders' deficit was \$1,891,945 as compared to total stockholders' deficit of \$1,988,233 at December 31, 2018. The principal reason for the decrease in stockholders' deficit was the impact of the net loss of \$1,643,595 offset by the equity issuances during the quarter.

The following table sets forth the major sources and uses of cash for the three months March 31, 2019 and 2018.

	<u>2018</u>	<u>2017</u>
Net cash used in operating activities	\$ (877,950)	\$ (7,199)
Net cash provided by investing activities	-	-
Net cash provided by (used in) financing activities	1,849,973	(325,241)
Net increase (decrease) in cash and cash equivalents	<u>\$ 972,023</u>	<u>\$ (332,440)</u>

At March 31, 2019, 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.

Liquidity – The Company had a loss from operations of approximately \$1.1 million for the three months ended March 31, 2019. As of March 31, 2019, we had cash and working capital deficit of approximately \$1.4 million and \$1.5 million, 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 Condensed Consolidated Financial Statements. During the three months ending March 31, 2019, we were not required to make any material estimates and assumptions that affect the reported amounts and related disclosures of assets, liabilities, revenue and expenses. However, if we complete an acquisition, we will be required to make estimates and assumptions typical of other companies. For example, we will be required to make critical accounting estimates related to valuation and accounting for business combinations. 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 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 March 31, 2019. Our management has determined that, as of March 31, 2019, 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 March 31, 2019, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 1: 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 1A: RISK FACTORS

Not applicable.

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

During the three months ended March 31, 2019, the Company sold 1,688,224 shares of its common stock for \$565,000 in cash.

All of the foregoing shares were issued 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.

Not applicable

ITEM 5: OTHER INFORMATION.

None

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*
Exhibit 31.2	Certification pursuant to 18 U.S.C. Section 1350 Section 302 of the Sarbanes-Oxley Act of 2002 - 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*
Exhibit 32.2	Certification pursuant to 18 U.S.C. Section 1350 Section 906 of the Sarbanes-Oxley Act of 2002 - 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.

Date: May 15, 2019

SURGE HOLDINGS, INC.

By: /s/ Kevin Brian Cox
Chief Executive Officer

SURGE HOLDINGS, INC. FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2019
CERTIFICATION OF CHIEF EXECUTIVE 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, 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.

May 15, 2019

/s/ Kevin Brian Cox
Kevin Brian Cox
Chief Executive Officer
(Principal Executive Officer)

SURGE HOLDINGS, INC. FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2019
CERTIFICATION OF 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, Brian Speck, 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.

May 15, 2019

/s/ Brian Speck

Brian Speck
Chief Financial Officer
(Principal Financial and Accounting Officer)

SURGE HOLDINGS, INC. FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2019
CERTIFICATION OF CHIEF EXECUTIVE 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 of Surge Holdings, Inc.
2. Attached to this certification is Form 10-Q for the quarter ended March 31, 2019, 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.

May 15, 2019

/s/ Kevin Brian Cox
Kevin Brian Cox
Chief Executive Officer
(Principal Executive Officer)

SURGE HOLDINGS, INC. FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2019
CERTIFICATION OF 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, Brian Speck, certify that

1. I am the Chief Financial Officer of Surge Holdings, Inc.
2. Attached to this certification is Form 10-Q for the quarter ended March 31, 2019, 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.

May 15, 2019

/s/ Brian Speck

Brian Speck
Chief Financial Officer
(Principal Financial and Accounting Officer)
