SURGE COMPONENTS INC
Form 10KSB
March 01, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
FORM 10-KSB

[X] ANNUAL REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended November 30, 2003

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from ________ to __________.

Commission file number: 0-14188

SURGE COMPONENTS, INC.

(Name of small business issuer in its charter)

New York	11-2602030
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

95 East Jefryn Boulevard, Deer Park, New York 11729

(Address of principal executive offices) (Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value $.001 per share; Redeemable Class A Common Stock Purchase Warrants
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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

State issuer's net revenues for its most recent fiscal year: $11,225,294.

The aggregate market value of the 8,743,326 shares of common stock held by non-affiliates (all shareholders other than officers, directors and 5% or greater shareholders) of the registrant was $450,361, as of February 23, 2004, based on the last sale price of the registrant's common stock on such date of $.06 per share, quoted on the over-the-counter "pink sheets" maintained by Pink Sheets LLC.

There were a total of 8,743,326 shares of the registrant's common stock outstanding as of February 23, 2004, the latest practicable date.

Transitional Small Business Disclosure Format: Yes [ ] No [X]

PART I

Throughout this Annual Report on Form 10-KSB, the terms "we," "us," "our", "our company" and "the company" refer to Surge Components, Inc. ("Surge" or the "Company") and, unless the context indicates otherwise, includes Surge's wholly-owned subsidiaries, Challenge/Surge, Inc. ("Challenge"), Superus Holdings, Inc. ("Superus"), Surge Components, Limited ("Surge Limited") and Surge Acquisition Corporation, as well as the majority-owned joint venture Surge/Lelon LLC.

Introductory Comment - Forward-Looking Statements.

Statements contained in this report include "forward-looking statements" within the meaning of such term in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause actual financial or operating results, performances or achievements expressed or implied by such forward-looking statements not to occur or be realized. Such forward-looking statements generally are based on our best estimates of future results, performances or achievements, based upon current conditions and the most recent results of the companies involved and their respective industries. Forward-looking statements may be identified by the use of forward-looking terminology such as "may," "will," "project," "expect," "believe," "estimate," "anticipate," "intends," "continue," "potential," "opportunity" or similar terms, variations of those terms or the negative of those terms or other variations of those terms or comparable words or expressions. Potential risks and uncertainties include, among other things, such factors as:

- our business strategies and future plans of operations;

- general economic conditions in the United States and elsewhere, as well as the economic conditions affecting the industries in which we operate;

- political and regulatory matters affecting the foreign countries in which we operate or purchase goods and materials including the current turmoil with Iraq;
o the market acceptance and amount of sales of our products and services;

- the extent that our distribution network and marketing programs achieve satisfactory response rates;

- the effect of the current surplus of electronic component parts in the broker distributor market on sales by our Challenge subsidiary;

- our historical losses;

- the competitive environment within the electronic components industry;

- our ability to raise additional capital, if and as needed;

- the cost-effectiveness of our product development activities;

- the effect of the delisting of our common stock, par value $.001 per share (the "Common Shares") from The NASDAQ Stock Market and the delisting of our Common Shares from The Boston Stock Exchange;

- the extent of any further investigations or proceedings with respect to certain potentially questionable payments made by Surge during its fiscal year ended November 30, 2000 ("Fiscal 2000") and its quarter ended February 28, 2001; and

- the other factors and information discussed in other sections of this report.

Shareholders and others reading this report should carefully consider such risks, uncertainties and other information, disclosures and discussions which contain cautionary statements identifying important factors that could cause actual results to differ materially from those provided in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1. Description of Business.

Business Development

Surge was incorporated under the laws of the State of New York on November 24, 1981. Surge, a supplier of electronic products and components, completed an initial public offering of its securities in 1984 and a second offering of its securities in August 1996. Challenge, a New York corporation formed in 1988 and a wholly-owned subsidiary of Surge, is a broker and distributor of electronic components. Superus, a Delaware corporation, was formed in March 2000 to ultimately become a Delaware parent holding company through the proposed merger of Surge with and into Superus (which did not occur). Superus is currently inactive and filed for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code. In June 2002, the Trustee assigned to the case filed a report certifying, among other things, that the case had been fully administered and that there were no assets available for distribution to creditors. In December 2003, the Bankruptcy Court issued an Order approving the Trustee's Report and closing the case.

In May 2002, Surge and an officer of Surge became sole owners of Surge Components, Limited ("Surge Limited"), a Hong Kong corporation. Under current Hong Kong law, Surge Limited is required to have at least two shareholders. Surge owns 999 shares of the outstanding common stock and an officer of Surge owns one share of the outstanding common stock. The officer of Surge has assigned his rights regarding his one share to Surge. Surge Limited started doing business in July 2002. The Company has opened this office and hired direct sales people in order to effectively handle the transfer business from United States customers purchasing and manufacturing in Asia after they do the design in America. This office has strengthened its global capabilities and service to its customer base.

Surge's and Challenge's principal executive offices are located at 95 East Jefryn Boulevard, Deer Park, New York 11729; and the telephone number is (631) 595-1818.

Business of Our Company

Surge is a supplier of electronic products and components. These products include capacitors, which are electrical energy storage devices, and discrete components, such as semiconductor rectifiers, transistors and diodes, which are single function low power semiconductor products that are packaged alone as compared to integrated circuits such as microprocessors. Surge's products are typically utilized in the electronic circuitry of diverse products, including, but not limited to, automobiles, cellular telephones, computers, consumer electronics, garage door openers, household appliances, power supplies and security equipment. Surge's products are sold to both original equipment manufacturers, commonly referred to as OEMs, who incorporate them into their products, and to distributors of Surge's product lines, who resell these products within their customer base.

Surge's products are manufactured predominantly in Asia by approximately sixteen independent manufacturers. Surge does not have any binding long-term supply, distribution or franchise agreements with its manufacturers. Surge acts as the exclusive sales agent utilizing independent sales representative organizations in North America to sell and market the products for many of its manufacturers pursuant to oral agreements. In addition, in December 2000, Surge launched a joint-venture limited liability company with Lelon Electronics Corporation ("Lelon"), a Taiwan corporation, whereby the joint venture acts as sales and marketing agent in North America for all Lelon products utilizing Surge's existing organization and resources. The joint venture commenced operations in August 2002. The Company established this joint venture to become the direct sales and marketing office for Lelon, as opposed to previous operations as a master distributor for Lelon products. The Company expects that this change will give greater comfort to the customers, now that they are dealing with the manufacturer and not the middle man. Therefore, because of the additional customer confidence and closer cooperation and support from Lelon, the Company expects that this will result in additional business for the Company.

Challenge engages in the electronic components and products broker distribution business. Challenge purchases name brand electronic components and products, typically from domestic manufacturers and authorized distributors, to fill specific customer orders. Challenge purchases these components and products in the open market on the best available terms and generally keeps inventories of these products. Challenge's revenues are principally derived from the sale of these products. In 1999, Challenge began a division to sell audible components. This division has shown steady growth every year. We have recently added additional products that include battery snaps and coin cell holders, which we hope will add up to significant sales going forward. We are continuing to add distributors and representatives every month, which will allow Challenge to sell in territories in which it is currently weak. Challenge`s other division is the broker division which is slowly improving. There seems to be more shortages in the electronics market, and lead times for components are stretching out, which may enable us to secure more orders going forward.

We have achieved consolidated net sales during the last three years of approximately $11,225,000 in our fiscal year ended November 30, 2003 ("Fiscal 2003"), $10,917,000 in our fiscal year ended November 30, 2002 ("Fiscal 2002") and $15,723,000 in Fiscal 2001. The net sales for Fiscal 2003 for Surge without Challenge, its principal subsidiary, decreased by approximately $321,019, or 4% when compared to Fiscal 2002. The decrease in sales reflects the significant price competition in the electronic component market and decreased demand of certain key customers' products. The net sales for Challenge increased to $4,075,000 in Fiscal 2003 from $3,722,000 in Fiscal 2002. Challenge continues to experience depressed sales in its broker division due to a slowdown in manufacturing among computer, telecommunications and phone manufacturers. This slowdown adversely affected Challenge's sales for 2003. Any future improvements in sales (and possible profitability) are expected to be based on future demand and supply for Challenge's product mix. Sales of speakers, fans and buzzers by Challenge's audible products division has increased steadily since its introduction through the addition of sales representatives and promotions. Currently, the majority of Challenge's sales are comprised from the audible products division.

The electronic components industry has been characterized by intense price cutting, which could materially adversely affect our future operating results. Due to our limited financial resources, anticipated expenses and the highly competitive environment in which we operate, there can be no assurance that we will obtain revenue growth, sustain our current levels of revenue in the future or that our future operations will become profitable. We expect to continue to incur operating losses at least for the better part of our fiscal year ending November 30, 2004 ("Fiscal 2004").

In the past few years, we expanded our operations through the opening of additional sales/stocking offices, the expansion of our headquarters office and warehouse facility and the increase of our inventories. In April 2001, we relocated Surge's and Challenge's office and warehouse facilities to a new location in the same local area as our facility and increased the total square footage for their facility from approximately 7,500 square feet to approximately 23,000 square feet. In order for us to grow, we will depend on, among other things, the restored growth of the electronics and semiconductor industries, our ability to withstand intense price competition, our ability to obtain new clients, our ability to retain sales and other personnel in order to expand our marketing capabilities, our ability to secure adequate sources of products, which are in demand on commercially reasonable terms, our success in managing growth, including monitoring an expanded level of operations and controlling costs, and the availability of adequate financing.

Industry Background

The United States electronics distribution industry is composed of manufacturers, national and international distributors, as well as regional and local distributors. Electronics distributors market numerous products, including active components (such as transistors, microprocessors, integrated circuits and semiconductors), passive components (such as capacitors and resistors), and electro mechanical, interconnect (such as connectors and wire) and computer products. Surge focuses its efforts on the distribution of capacitors and discrete components, a small subset of the electronic components market.

The electronics industry has been characterized by intense price cutting and rapid technological changes and development, which could materially adversely affect our future operating results. In addition, the industry has been affected historically by general economic downturns, which have had an adverse economic effect upon manufacturers and end-users of our products, as well as distributors. Furthermore, the life-cycle of existing electronic products and the timing of new product development and introduction can affect the demand for electronic components, including our products. Accordingly, any downturn in the electronics industry in general could adversely affect our business and results of operations.

There are forces of change affecting the wholesale distribution industry, including the electronics industry. Those forces of change, as described in the 1998 Arthur Andersen report entitled "Facing the Forces of Change" (published by Distribution Research and Education Foundation, Washington, D.C.), include electronic commerce, supply chain integration, strategic alliances and globalization. We are addressing these dynamics as part of our strategy for the next several years.

The industry is also experiencing a strong move by U.S. manufacturers to design products in the United States, but then shift manufacturing and purchasing to Asia to benefit from this low cost labor region using their own factory or a subcontractor. Surge responded to this trend by setting up a Hong Kong corporation, Surge Components, Limited, and hiring sales staff to better position the Company in the Asian markets.

Products

Surge supplies a wide variety of electronic components (some of which bear our private "Surge" label) which can be broadly divided into two categories--capacitors and discrete components. For Fiscal 2003 and Fiscal 2002, capacitors accounted for approximately 94% and 93% of Surge's sales, respectively. Discrete components accounted for Surge's remaining sales in Fiscal 2003 and Fiscal 2002. Capacitors and discrete components can be categorized based on various factors, including function, construction, fabrication and capacity. The principal products sold by Surge under the Surge name or by Challenge are set forth below.

Capacitors

A capacitor is an electrical energy storage device used in the electronics industry for varied applications, principally as elements of resonant circuits, coupling and bypass applications, blockage of DC current, frequency determining and timing elements, filters and delay-line components, and voltage transient suppression (circuit protection devices). All products are available in traditional leaded as well as surface mount (chip) packages.
Our product line of capacitors includes:

o Aluminum Electrolytic Capacitors. These capacitors, which are Surge's principal product, are storage devices used in power applications to store and release energy as the electronic circuitry demands. They are commonly used in power supplies and can be found in a wide range of consumer electronics products. Our supplier has one of the largest facilities for these products in Taiwan. This facility is fully certified for the International Quality Standard ISO 9001 and 9000, which means that it meets the strictest requirements established by the automotive industry and adopted throughout the world to ensure that the facility's manufacturing processes, equipment and associated quality control systems will satisfy specific customer requirements. This system is also intended and designed to facilitate clear and thorough record keeping of all quality control and testing information and to ensure clear communication from one department to another about the information (i.e., quality control, production or engineering). This certification permits us to monitor quality control/manufacturing process information and to respond to any customer questions.

o Ceramic Capacitors. These capacitors are the least expensive, and are widely used in the electronics industry. They are commonly used to bypass or filter semiconductors in resonant circuits and are found predominantly in a wide range of low cost products including computer, telecom, appliances, games and toys.

o Mylar Film Capacitors. These capacitors are frequently used for noise suppression and filtering. They are commonly used in telecommunication and computer products. Surge's supplier in Korea has a facility fully certified for the International Quality Standard ISO 9002.

Discrete Components. Discrete components, such as semiconductor rectifiers, transistors and diodes, are packaged individually to perform a single or limited function, in contrast to integrated circuits, such as microprocessors and other "chips", which contain from only a few diodes to as many as several million diodes and other elements in a single package, and are usually designed to perform complex tasks. Surge almost exclusively distributes discrete, low power semiconductor components rather than integrated circuits.

Our product line of discrete components includes:

Rectifiers. Low power semiconductor rectifiers are devices that convert alternating current, or AC power, into one directional current, or DC power, by permitting current to flow in one direction only. They tend to be found in most electrical apparatuses, especially those drawing power from an AC wall outlet.

Surge offers a wide variety of rectifiers, including:

- Schottky barrier rectifiers;

- super-fast rectifiers;

- ultra-fast/high efficiency rectifiers;

- fast recovery rectifiers, the time within which the current recovers from spikes of voltage or current;

- fast recovery glass passivated rectifiers, a chip coated with a glass material to protect the component from thermal stress in a circuit;

- silicon rectifiers, which utilize silicon rectifying cells designed to withstand large currents and high voltages;

- soft recovery/fast switching rectifiers;

- high voltage rectifiers;

- bridge rectifiers, which connect multiple circuits in parallel;

- self packaged surface mount rectifiers, chip style without leads and used in miniaturization; and

- auto rectifiers.

All products are available in traditional leaded as well as surface mount (chip) packages. Surge's main rectifier supplier has QS 9000 automotive certification, giving us an opportunity to market our products to the automotive industry.

Transistors. Transistors send a signal to the circuit for transmission of waves. They are commonly used in applications involving the processing or amplification of electric current and electric signals, including data, television, sound and power. All products are available in traditional leaded as well as surface mount (chip) packages. Surge sells many types of ISO 9002 transistors, including:

- small signal transistors, designed for lower levels of current; and

- power transistors, designed for large currents to safely dissipate large amounts of power.

Diodes. Diodes are two-lead or surface mount components that allow electric current to flow in only one direction. They are used in a variety of electronic applications, including signal processing and direction of current.

All products are available in traditional leaded as well as surface mount (chip) packages. Diodes sold include:

- zener diodes;

- high speed switching diodes; and

- rectifiers, the most popular type of diode.

Circuit Protection Devices. Our circuit protection devices include transient voltage suppressors and metal oxide varistors, which protect circuits against switching, lightning surges and other uncontrolled power surges and/or interruptions in circuits. Transient voltage suppressors, which offer a higher level of protection for the circuit, are required in telecommunication products and are typically higher priced products than the metal oxide varistors, which are more economically priced and are used in consumer products. All products are available in traditional leaded as well as surface mount (chip) packages.

Audible Components. These include audible transducers and Piezo buzzers and speakers which produce an audible sound for, and are used in back-up power supplies for computers, alarms, appliances, smoke detectors, automobiles, telephones and other products which produce sounds. Challenge has initiated marketing relationships with certain Asian manufacturers of audible components to sell these products worldwide. All products are available in traditional leaded as well as surface mount (chip) packages.

New Products. We periodically introduce new products, which are intended to complement our existing product lines. These products are ones that are commonly used in the same circuit designs as other of our products and will further provide a one-stop-shop for the customer. Some of these products are common items used in all applications and others are niche items with a focus towards a particular application. We are currently marketing surface mount rectifiers, which are used in miniature or compact products such as cellular telephones and pagers. These new products include fuses, printed circuit boards and switches. All products are available in traditional leaded as well as surface mount (chip) versions.

Inventory

In order to adequately service our customers' needs, we believe that it is necessary to maintain large inventories, which makes us more susceptible to price and technology changes. At any given time, we attempt to maintain a three-to-four month inventory on certain products in high demand for distributors and at least one month for other products. Our inventory currently contains more than 100 million component units consisting of more than 3,000 different part numbers. Although the number of components and products will continue to increase, we plan to generally maintain a three-to-four month inventory. Our products range in sales price from less than one cent for a commercial diode to more than $2.00 for high power capacitors and semiconductors. As of November 30, 2003, Surge and Challenge maintained an inventory valued at $1,052,448 and $753,063, respectively. The balance of the inventory, $6,567 is held by Surge Components Limited and Surge Lelon LLP. Our inventories for Surge and Challenge at November 30, 2002 were valued at $1,163,268 and $957,930, respectively.

As a result of our strategic inventory purchasing policies, under which we obtain preferential pricing, we generally waive rights to manufacturers' inventory protection agreements (including price protection and inventory return rights), and thereby bear the risk of increases in the prices charged by our manufacturers and decreases in the prices of products held in our inventory or covered by purchase commitments. If prices of components, which we hold in inventory decline, or if new technology is developed that displaces products that we sell, our business could be materially adversely affected.

Challenge is in the broker distribution business and fills orders from customers that need electronic components and products that are not readily available from their suppliers. Throughout Fiscal 2003, there was an excess of electronics products in the United States markets. The excess of electronics products resulted in decreased business among broker distributors. Challenge has obtained and is seeking to obtain additional product rights to certain brand name product lines and to establish direct relationships with those manufacturers for the audible products and fans.

Although Challenge cannot be certain, it believes that the broker distribution business will continue to change and that many of such businesses will have difficulties surviving if they have insufficient resources to compete with the factory-direct distributors. In furtherance of this belief, in late 1999 Challenge began to develop a new product division of speakers, fans and buzzers manufactured in Asia sold under the Challenge name, and as a result Challenge's net sales increased from approximately $3,722,000 in Fiscal 2002 to $4,075,000 in Fiscal 2003.

Product Availability

Surge obtains substantially all of its products from manufacturers in Asia, while Challenge historically purchases its products both domestically and from Asia. However, in Fiscal 2003 and Fiscal 2002, Challenge purchased approximately 69% and 74%, respectively, of its products overseas as a result of Challenge's introduction of new product lines. Of the total goods purchased by Surge and Challenge in Fiscal 2003, those foreign manufactured products were supplied from manufacturers in Taiwan (41%), Hong Kong (22%), elsewhere in Asia (20%) and overseas outside of Asia (1%). Surge purchases its products from approximately sixteen different manufacturers, for many of which we act as exclusive sales agent in North America based on an oral agreement.

In December 2000, Surge launched a joint-venture limited liability company with Lelon, a Taiwan corporation, whereby the joint venture acts as sales and marketing agent in North America for all Lelon products. Lelon, in business since 1976 and publicly traded in Taiwan, is a world-class manufacturer of aluminum electrolytic capacitors and has been supplying products to Surge for over ten years on a master-distributor basis. The joint venture operates under the name Surge/Lelon, LLC and markets and sells the full range of product offerings in North America that are currently manufactured under the Lelon name. As a result of the synergies created by Surge/Lelon, we have increased the addressable market and breadth of our product offerings, and also share in revenue from all North American sales with Lelon and also from all North American joint-venture sales. Surge/Lelon is operating from our existing location in Deer Park, NY, and is headed by Ira Levy, Surge's President.

Most of the facilities that manufacture products for Surge have obtained or have applied for the International Quality Standard ISO 9002 certification. We predominantly purchase our products in United States currency in order to minimize the risk of currency fluctuations. In most cases, Surge utilizes two or more alternative sources of supply for each of its products with one primary and one complementary supplier for each product. In all cases but Lelon, the products are manufactured to our order with the "Surge" logo and label. Surge is continually building relationships with suppliers and from time to time adds new suppliers when needed. Surge's relationships with many of its suppliers date back to the commencement of our import operations in 1983.

We have established payment terms with our manufacturers of between 30 and 60 day open account terms.

We do not have any written long-term supply, distribution or franchise agreements with any of our manufacturers, other than Surge/Lelon. We act as the exclusive sales agent in North America for many of our manufacturers, pursuant to oral agreements. While we believe that we have established close working relationships with our principal manufacturers, our success depends, in large part, on maintaining these relationships and developing new supplier relationships for our existing and future product lines. Because of the lack of long- term contracts, we may not be able to maintain these relationships.

For Fiscal 2003 and Fiscal 2002, one of Surge's vendors, DB Products, accounted for 9.5% and 11% of Surge's consolidated purchases for Fiscal 2003 and Fiscal 2002, respectively and Lelon accounted for 33% and 36%, for Fiscal 2003 and Fiscal 2002, respectively, of Surge's consolidated purchases.

We do not regard any one supplier as essential to our operations, since equivalent replacements for most of the products are either readily available from one or more of our other suppliers or are available from various other sources at competitive prices. Nevertheless, the loss of, or a significant disruption in the relationship with any of our major suppliers could have a material adverse effect on our business and results of operations until a suitable replacement could be obtained.

The components business has, from time to time, experienced periods of extreme shortages in product supply, generally as the result of demand exceeding available supply. When these shortages occur, suppliers tend to either increase prices or reduce the number of units sold to customers. We believe that because of our inventory and our relationships with our manufacturers, we have been able to mitigate the effect of any of these shortages in components. However, should there be shortages in the future, such shortages could have both a beneficial or an adverse effect upon our business. Conversely, due to poor market demand, there could be an excess of components in the market, causing stronger competition and an erosion of prices.

Marketing and Sales

Surge's sales efforts are directed towards OEM customers in numerous industries where our products have wide application. Surge currently employs twelve sales and marketing personnel, including two of its executive officers, who are responsible for certain key customer relationships. Our executive officers also devote a significant amount of time to developing and maintaining continuing relations with our key customers.

We use independent sales representatives or organizations, which often specialize in specific products and areas and have specific knowledge of and contacts in particular markets. As of November 30, 2003, we had representation agreements with approximately 41 sales representative organizations. Sales representative organizations, which are generally paid a 5% commission on net sales, are generally responsible in their respective geographic markets for identifying customers and soliciting customer orders. Pursuant to arrangements with our independent sales representatives, they are permitted to represent other electronics manufacturers, but are generally prohibited from carrying a line of products competitive with our products. These arrangements can be terminated on written notice by either party or if breached by either party. These organizations normally employ between one and twelve sales representatives. The individual sales representatives employed by the sales organizations generally possess an expertise which enhances the scope of our marketing and sales efforts. This permits us to avoid the significant costs associated with creating a direct marketing network. We have had relationships with certain sales organizations since 1988 and continue to engage new sales organizations as needed. We believe that additional sales organizations and representatives are available to us, if required.

We engage independent sales representative organizations in various regions throughout the world for marketing to OEM customers and distributors. Sales by the independent sales representative organization Win-Cor Electronics Sales Corp. in the New York metropolitan area represented 12% of Surge's sales in Fiscal 2003 and 15% in Fiscal 2002.

We have initiated a formal national distribution program to attract more distributors to promote our products. We have a National Distribution Manager to develop and manage this program. We expect this market segment to contribute significantly to our sales growth over time.

Many OEMs require their suppliers to have a local presence and Surge's network of independent sales representatives are responsive to these needs. In this regard, in order to service the growing importance of the electronics community, Surge has a quality support/engineering location and a sales location in California. Surge also opened a contracted warehouse space in Phoenix, Arizona to stock products for customers in the western region. Surge pays for this space on a monthly basis. Surge also has a marketing office in Taiwan that provides marketing and customer service for the Asian market. The cost and related expenses of this office have been minimal since Surge is utilizing the same office space used by one of its supplier management groups. Surge formed a Hong Kong corporation, Surge Components, Limited and hired a regional sales manager to service the Hong Kong/Greater China region customers.

We utilize the services of the Progressive Marketing Corp. of Melville, New York, an unaffiliated marketing/public relations organization ("Progressive"), which publicizes our achievements and helps us develop greater name recognition and positioning within the electronics industry. Progressive places announcements in trade journals concerning our new product introductions, hiring of key personnel, new sales organizations and representatives.

Other marketing efforts include generation and distribution of our product catalogs and brochures and attendance at trade shows. We have produced an exhibit for display at electronics trade shows throughout the year. Our products have been exhibited at the electronic distribution show in Las Vegas, Nevada and we will continue our commitment and focus on the distribution segment of the industry by our visibility at the Electronic Distributor Trade Show.

Customers

Our products are sold to distributors and OEMs in such diverse industries as the automotive, computer, communications, cellular telephones, consumer electronics, garage door openers, security equipment and household appliances industries. We request our distributors to provide point of sales reporting, which enables us to gain knowledge of the breakdown of industries into which our products are sold. For Fiscal 2003, one customer accounted for 12% of Surge's consolidated net sales. The same customer accounted for 3% of Surge's consolidated net sales in Fiscal 2002. For Fiscal 2002, a customer, Millennium Components, a company owned by a director employee of Challenge, accounted for 1% of Surge's consolidated net sales. Millennium accounted for 2% of Surge's consolidated net sales in Fiscal 2003. Our discrete components are often sold to the same clients as our capacitors. These OEM customers typically accept samples for evaluation and, if approved, we work towards procuring the next orders for these items.

Typically, we do not maintain contracts with our customers and generally sell products pursuant to customer purchase orders. Although our customer base has increased, the loss of our largest customers as well as, to a lesser extent, the loss of any other material customer, could have a materially adverse effect on our operations during the short-term until we are able to generate replacement business, although we may not be able to obtain such replacement business. Because of our contracts and good working relationships with our distributors, we offer the OEMs, when purchasing through distributors, extended payment terms, just-in-time deliveries and one-stop shopping for many types of electronic products.

Competition

We conduct business in the highly competitive electronic components industry. We expect this industry to remain competitive. We face intense competition in both our selling efforts and purchasing efforts from the many companies that manufacture or distribute electronic components. Our principal competitors in the sale of capacitors include Nichicon, Panasonic, Illinois Capacitor, NIC, AVX, Murata and Kemet. Our principal competitors in the sale of discrete components include General Instrument Corp., Motorola, Inc., Microsemi Corp., Diodes, Inc. and Samsung. Our principal competition in the audible business include AVX, Murata, Panasonic, Projects Unlimited, International Components Corp. and Star Micronics. Many of these companies are well established with substantial expertise, and have much greater assets and greater financial, marketing, personnel, and other resources than we do. Many larger competing suppliers also carry product lines which we do not carry. Generally, large semiconductor manufacturers and distributors do not focus their direct selling efforts on small to medium sized OEMs and distributors, which constitute most of our customers. As our customers become larger, however, our competitors may find it beneficial to focus direct selling efforts on those customers, which could result in our facing increased competition, the loss of customers or pressure on our profit margins. We are finding increased competition from manufacturers located in Asia due to the increased globalization nature of the business. There can be no assurance that we will be able to continue to compete effectively with existing or potential competitors.

Other factors that will affect our success in these markets include our continued ability to attract additional experienced marketing, sales and management talent, and our ability to expand our support, training and field service capabilities. Our motto is "never say no," as we offer same day fulfillment without minimum purchase order requirements and generally maintain flexibility to ensure complete customer satisfaction.

Management Information Systems

We have made an investment in computer hardware and software. Our management information systems consultants are responsible for software and hardware upgrades, maintenance of current software and related databases, and designing custom systems. All sales personnel of Surge are equipped with computer terminals to assist in providing up-to-date reliable information to customers. Surge's purchasing department manages our inventory on a real time computer system offering the sales and accounting departments complete knowledge regarding inventory availability, income and expense levels, sales and product line information. Management also analyzes various reports, including product, profit, and sales trends using our computer system. We intend to continually evaluate and upgrade our IBM-compatible computer system as our requirements evolve.

Customer Service

We have two full-time customer service employees whose time is dedicated largely to respond to customer inquiries such as price quote requests, delivery status of new or existing purchase orders, changes of existing order dates, quantities, dates, etc. We intend to increase our customer service capabilities, as necessary.

Foreign Trade Regulation

Most products sold by Surge are manufactured in Asia, including such countries as Taiwan, South Korea, Hong Kong, India, Japan and China. The purchase of goods manufactured in foreign countries is subject to a number of risks, including economic disruptions, transportation delays and interruptions, foreign exchange rate fluctuations, impositions of tariffs and import and export controls, and changes in governmental policies, any of which could have a material adverse effect on our business and results of operations. Potential concerns may include drastic devaluation of currencies, loss of supplies and increased competition within the region.

From time to time, protectionist pressures have influenced United States trade policy concerning the imposition of significant duties or other trade restrictions upon foreign products. We cannot predict whether additional United States customs quotas, duties, taxes or other charges or restrictions will be imposed upon the importation of foreign components in the future or what effect such actions could have on our business, financial condition or results of operations.

Our ability to remain competitive with respect to the pricing of imported components could be adversely affected by increases in tariffs or duties, changes in trade treaties, strikes in air or sea transportation, and possible future United States legislation with respect to pricing and import quotas on products from foreign countries. Our ability to remain competitive could also be affected by other governmental actions related to, among other things, anti-dumping legislation and international currency fluctuations. While we do not believe that any of these factors adversely impact our business at the present time, there can be no assurance that these factors will not materially adversely affect us in the future. Any significant disruption in the delivery of merchandise from our suppliers, substantially all of whom are foreign, could have a materially adverse impact on our business and results of operations.

Government Regulation

Various laws and regulations relating to safe working conditions, including the Occupational Safety and Health Act, are applicable to our company. We believe we are in substantial compliance with all material federal, state and local laws and regulations regarding safe working conditions. We believe that the cost of compliance with such governmental regulations is not material.

Patents, Trademarks and Proprietary Information

The Company has registered the logo for "Surge" and the phrase "quality on board & design" as trademarks with the United States Patent and Trademark Office.

Although we believe that our products do not and will not infringe patents or trademarks, or violate proprietary rights of others, it is possible that infringement of existing or future patents, trademarks or proprietary rights of others may occur. In the event our products infringe proprietary rights of others, we may be required to modify the design of our products, change the name of our products and/or obtain a license. There can be no assurance that we will be able to do any of these things in a timely manner, upon acceptable terms and conditions or at all. Our failure to do any of the foregoing could have a material adverse effect upon our operations. In addition, there can be no assurance that we will have the financial or other resources necessary to enforce or defend a patent infringement or proprietary rights violation action. Moreover, if our products infringe patents, trademarks or proprietary rights of others, we could, under certain circumstances, become liable for damages, which also could have a material adverse effect on our business.

Backlog

As of November 30, 2003, our backlog was approximately $4,652,000, as compared with $4,892,000 at November 30, 2002. Substantially all backlog is expected to be shipped by us within 90 to 180 days. Year to year comparisons of backlog are not necessarily indicative of future operating results.

Employees

As of November 30, 2003, Surge and Challenge employed 24 persons, two of whom are employed in executive capacities, eight are engaged in sales, one in engineering, three in purchasing, three in administrative capacities, two in customer service, two in accounting and three in warehousing. As of November 30, 2003, Superus had no employees. None of our employees are covered by a collective bargaining agreement, and we consider our relationship with our employees to be good.

Item 2. Description of Property.

Surge and Challenge each lease their current executive offices and warehouse facilities, located at 95 Jefryn Boulevard, Deer Park, New York, 11729, at an aggregate annual rental for each of Surge and Challenge of $92,960 during Fiscal 2003. The Lessor is Great American Realty of Jefryn Blvd., LLC ("Great American"), an entity owned equally by Ira Levy, Surge's president, Steven Lubman, Surge's vice president and one of its former directors, Mark Siegel. These leases expire on September 30, 2010. Each lease is subject to a 3% annual increase. Each tenant occupies approximately 11,625 square feet of office space and warehouse space. Each lease was negotiated in an arm's length transaction and the rental rate is typical for the type and location of Surge's and Challenge's facilities.

Item 3. Legal Proceedings.

By letters dated October 9, 2001 and January 17, 2002, we were contacted by the Securities and Exchange Commission ("SEC") regarding certain potentially questionable payments, in which we were requested to voluntarily furnish various documents. By letters dated October 23, 2001 and November 28, 2001, we voluntarily responded and provided the SEC with such documents. On March 13, 2002, we provided a supplemental response to the SEC. We have not had any contact with, or received any letters from, the SEC concerning this matter since March 2002. See Item 6. "Management's Discussion and Analysis or Plan of Operation-Results of Operations."

By letter dated June 20, 2001 we were contacted by NASDAQ regarding these potentially questionable payments. By letter dated August 6, 2001 we were contacted by NASDAQ regarding its determination to delist the Company's securities from NASDAQ and advising us that we may appeal such determination pursuant to a hearing request. We appealed such determination. By letter dated August 14, 2001, NASDAQ formally notified us that our request for continued listing on the NASDAQ SmallCap Market would be considered at an oral hearing and requested various documents. The hearing was held on September 28, 2001 before a NASDAQ Listing Qualifications Panel. By letter dated November 29, 2001, NASDAQ informed us that pursuant to the September 28, 2001 hearing, it had determined that the Company's securities would be delisted on November 30, 2001, based on public interest concerns related to the potentially questionable payments and additionally for the failure of certain of our officers and directors to submit to an interview by NASDAQ regarding these payments.

On or about March 8, 2002, Superus filed a voluntary petition seeking relief under Chapter 7 of the United States Bankruptcy Code (the "Code") (Title 11) in the United States Bankruptcy Court for the District of Delaware. A trustee was appointed in the case and he held a meeting of creditors as required by the Code. On June 18, 2002, the trustee filed his report with the Court stating that the case was a no asset case that had been fully administered and requesting that it be discharged. In December 2003, the Bankruptcy Court issued an Order approving the Trustee's Report and closing the case.

On March 7, 2003 we filed with the SEC and the Boston Stock Exchange (the "BSE") an Application for Withdrawal from Listing of Securities from the BSE (the "Application"). This was due to the low trading volume of our Common Stock and Purchase Warrants and our failure to meet the minimum public float requirements of the BSE. In May 2003, the BSE approved the Application.

The Company received a letter from a lawyer from a collection agency dated February 13, 2003 on behalf of Snow Becker & Krauss P.C. ("SBK"), our former legal counsel asserting a claim for legal fees of approximately $665,000. These fees relate to services rendered by SBK between one and two years ago. In February 2004, the Company and SBK entered into an agreement releasing each for claims against the other and settling the amount owed to SBK. As a result, the Company has written off $676,016 of the debt and has reported this as income for the year ended November 30, 2003.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted during the fourth quarter of the year ended November 30, 2003.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

(a) Market Information

On November 30, 2002, our Common Shares were delisted from the NASDAQ SmallCap Market. Since such date, our Common Shares have been quoted on the over-the-counter "pink sheets" maintained by Pink Sheets LLC (formerly the National Quotation Bureau), under the symbol "SPRS". In March 2003, the Company elected to voluntarily delist its common stock from listing on the Boston Stock Exchange which occurred in May 2003.

The following tables set forth the range of high and low prices for our common stock for the periods indicated as derived from reports furnished by The NASDAQ Stock Market and Pink Sheets LLC. The information reflects inter-dealer prices, without retail mark-ups, mark-downs or commissions:

	High	Low
Fiscal 2002:		
Quarter Ended February 28, 2002	0.08	0.04
Quarter Ended May 31, 2002	0.08	0.05
Quarter Ended August 31, 2002	0.05	0.04
Quarter Ended November 30, 2002	0.17	0.03
Fiscal 2003:		
Quarter Ended February 28, 2003	0.15	0.05
Quarter Ended May 31, 2003	0.07	0.05
Quarter Ended August 31, 2003	0.08	0.05
Quarter Ended November 30, 2003	0.09	0.05
Fiscal 2004		

Quarter Ended February 28, 2004	0.06	0.05

On February 23, 2004, the closing price of our Common Shares as reported by the Pink Sheets was $.06. As of February 23, 2004, (i) we had 271 holders of record of our Common Shares, (ii) 8,743,326 Common Shares were outstanding, (iii) 42,700 shares of our Series C preferred stock were outstanding, and (iv) 427,000 Common Shares were reserved for issuance upon conversion of our Series C preferred stock.

Dividends and Dividend Policy

We have not paid any cash dividends on our Common Shares during the last two fiscal years and we do not anticipate paying any dividends on our Common Shares in the foreseeable future. We currently intend to retain any future earnings for reinvestment in our business. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements and other relevant factors. In addition, we are required to give preference in any declaration and payment of dividends to the Series C preferred stock. Series C preferred stock requires an annual dividend payment of $.50 per share, or currently $21,350 in the aggregate. We paid no dividends to Series C preferred stockholders during Fiscal 2003.

Securities Authorized for Issuance Under Equity Compensation Plans.

The following table includes information as of November 30, 2003 for Surge's compensation plans under which equity securities of Surge are authorized for issuance, aggregated as follows:

Equity Compensation Plan Information

	(a)	(b)	(c)
Plan category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security			

holders			
Surge	685,500	$1.99	16,000
Superus	2,850,000	$2.96	12,420,000
Equity compensation plans not approved by security holders			
Surge	9,670,000	$2.13	-
Total	13,205,500	$2.30	1,258,000

Item 6. Management's Discussion and Analysis or Plan of Operation.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the audited Consolidated Financial Statements and accompanying notes. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventories, income taxes and loss contingencies. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies, among others, may be impacted significantly by judgment, assumptions and estimates used in the preparation of the audited Consolidated Financial Statements:

The allowance for doubtful accounts is maintained to provide for losses arising from customers' inability to make required payments. If there is deterioration of our customers' credit worthiness and/or there is an increase in the length of time that the receivables are past due greater than the historical assumptions used, additional allowances may be required. During February 2003, the Company obtained $2,000,000 of credit insurance covering most of its customers.

Inventories, which consist solely of products held for resale, are stated at the lower of cost (first-in, first-out method) or market. Products are included in inventory when shipped from the supplier. The Company, at November 30, 2003, has a reserve against slow moving and obsolete inventory of approximately $676,000.

The Company's deferred income taxes arise primarily from the differences in the recording of net operating losses, allowances for bad debts, inventory reserves and depreciation expense for financial reporting and income tax purposes. Income taxes are reported under the liability method pursuant to SFAS No. 109 "accounting for income taxes". A valuation allowance is provided when the likelihood of realization of deferred tax assets is not assured. The Company has provided for a valuation allowance totaling approximately $7,284,000.

Current accounting guidance allows for several options in the reporting of stock options granted to employees or directors as compensation. The Company has adopted the disclosure only provisions of SFAS Number 123, "Accounting for Stock-Based Compensation." Under these provisions, the Company has not provided for a charge for compensation in its statements of operations related to the granting of options to its employees and directors. No such options were granted during the fiscal years ended November 30, 2003 or 2002.

Results of Operations

Consolidated net sales for Fiscal 2003 increased by $307,855, or 3%, to $11,225,294 as compared to net sales of $10,917,439 for Fiscal 2002.

The net sales for the Fiscal 2003 for Challenge increased by $352,505, or 9% when compared to Fiscal 2002. Challenge continues to experience depressed sales in their broker division due to a slowdown in manufacturing among computer, telecommunications and phone manufacturers. This slowdown adversely affected Challenge's sales for Fiscal 2003. Any future improvements in sales (and possible profitability) are expected to be based on the demand for Challenge's products. Sales of speakers, fans and buzzers from Challenge's audible products division, started in 1999, increased steadily since its introduction through the addition of sales representatives and promotions. Currently, the majority of Challenge's sales are comprised from these audible products.
The semiconductor industry has historically experienced wide fluctuations in the supply and demand of semiconductors. These fluctuations have helped produce many occasions when supply and demand for semiconductors have not been in balance. The supply currently far exceeds the demand and resulted in declining average selling prices for our products as companies seek to sell their inventories. Accordingly, the Company's ability to maintain or increase revenues will be highly dependent on its ability to increase sales volume of existing products and to successfully introduce and sell new products.

Surge Components, Limited and Surge/Lelon, LLC comprise the remainder of the sales for Fiscal 2003 totaling $248,268 and $54,501, respectively.

While we cannot predict future performance, we believe opportunities exist for growth in the United States and Asia. We are continually looking into new product lines and strategic partnerships, which could assist in the Company's growth.

Our gross profit for Fiscal 2003 decreased by $211,840, or 7%, as compared to Fiscal 2002. Gross margin as a percentage of net sales decreased to 24% in Fiscal 2003 compared to 27% for

Fiscal 2002. The decrease in our gross profit was a result of decreased sales from the economic slowdown of electronic components and industry pricing pressures requiring us to lower our prices. The gross profit percentage for Fiscal 2003 was affected adversely by the obsoleteness of some of Challenge's inventory of approximately $354,000. Beginning in Fiscal 2001, the Company created a reserve against slow moving and obsolete inventory. During the year ended November 30, 2003, the Company determined approximately $729,000 of the reserve to be obsolete and removed it from the Company's inventory. As of November 30, 2003 the reserve was approximately $676,000.

Selling and shipping expenses for Fiscal 2003 increased by $39,301, or 4%, as compared to Fiscal 2002. This increase primarily is due to commissions paid on the increase in sales.

General and administrative expenses for Fiscal 2003 decreased by $637,868, or 19%, as compared to Fiscal 2002. The decrease is primarily due to decreased professional fees and through the Company's efforts to reduce overhead.

No financial consulting fees and expenses were incurred during Fiscal 2003. Financial consulting fees and expenses for Fiscal 2002 were approximately $264,000, representing the cost of the securities issued in payment of such fees. These fees and expenses were incurred in connection with an agreement with our investment banker regarding services through May 2001 and reimbursement of expenses. In April 2002, the Company entered into a settlement agreement with an investment banker, as more fully explained below in the Liquidity and Capital Resources section.

Superus Holdings, Inc. ("Superus"), a Delaware corporation, a wholly owned subsidiary, filed a petition for bankruptcy under Chapter 7 of the Bankruptcy Code in March 2002. In December 2003, the court approved the Trustee's report and closed the bankruptcy case. As a result, the Company has written off the balance of the Superus liabilities totaling $247,985 during the year ending November 30, 2003 and has reported this amount as income for the year.

The Company received a letter from a lawyer from a collection agency dated February 13, 2003 on behalf of Snow Becker & Krauss P.C. ("SBK"), our former legal counsel asserting a claim for legal fees of approximately $676,000. These fees relate to services rendered by SBK between one and two years ago. In February 2004, the Company and SBK entered into an agreement releasing each for claims against the other and settling the amount owed to SBK. As a result, the Company has written off $676,016 of the debt and has reported this as income for the year ended November 30, 2003.

Investment income decreased by $31,702, or 63%, for Fiscal 2003, as compared to Fiscal 2002. This decrease is primarily related to our use of cash and cash equivalents to fund losses and the reduction of interest rates on our invested funds.

Interest expense for Fiscal 2003 increased by $44,478, or 77%, as compared to Fiscal 2002. This increase primarily is related to the Company borrowing funds from an asset-based lender starting in July 2002.

During the year ended November 30, 2000 and the quarter ended February 28, 2001, we made certain potentially questionable payments totaling approximately $2,137,000 and $774,000, respectively. Such payments were made to the wife of an employee of one of our suppliers in return for help obtaining components from that supplier and another distributor. According to management personnel responsible for making the payments, prior to making any payment, the transaction was disclosed to our legal counsel to determine whether payments to an employee of a supplier would be legal. Management personnel believed they had received reasonable assurances at the time, and thereafter, that such payments were not illegal, so long as the recipient of the payments received an IRS Form 1099, and all payments were made by check. The costs of such payments were recorded in our books and records and financial statements. We duly issued a Form 1099 to the recipient of the payments. According to Steven Lubman, Vice President, in mid-March 2001 he became aware of a document in a criminal proceeding unrelated to us in which similar payments were described as kickbacks. This caused management to seek the affirmation of the legal advice previously given. Legal counsel advised us by letter on or about March 22, 2001, that, since the payments had been described in a document in the unrelated criminal action as kickbacks, disclosure of the document should be made to our auditors, which was done. Such counsel stated in the letter that no conclusion had been reached that such payments were kickbacks. On April 17, 2001, we disclosed in our Form 10-QSB Quarterly Report filing that the potentially questionable payments had been made.

After receipt of the March 22, 2001 letter referred to above, the Board determined to investigate the payments and ask for the return of the payments. The Company requested that the $3 million be repaid. $1 million was repaid to the Company. In May 2001, the law firm of Mintz Levin Cohn Ferris Glovsky and Popeo, P.C. was formally engaged by the Company to assist in an investigation concerning the payments and to recommend policies to prevent any similar future payments. Due in part to the previously disclosed resignation of our outside counsel and such counsel's refusal to be interviewed as part of the investigation, we were unable to confirm what legal advice was rendered as to the making of such payments. The investigation did not uncover any additional payments similar to the previously disclosed "potentially questionable payments". We have taken steps to ensure that such payments are not made in the future, including requiring that all payments above $5,000 be made to a party on a list approved by our audit committee, requiring co-signatures on each check for more than $10,000, adopting a Code of Conduct, and seeking to add additional Board and Audit Committee members, as well as, as soon as economically feasible, a controller and chief financial officer. The Company has not been contacted by the SEC regarding its investigation since March 2002. Except for the SEC inquiry referred to above, we are not aware of any pending proceedings relating to the potentially questionable payments.

The Company's substantial savings in general and administrative expenses have significantly reduced the Company's loss in the current fiscal year, but have been partially offset by the decrease in the Company's gross profit percentage and increases in selling and interest expenses.

As a result of the foregoing, we had a consolidated net loss of $131,636 for Fiscal 2003, as compared to $1,740,379 for Fiscal 2002.

Liquidity and Capital Resources

Working capital increased by $80,924 during Fiscal 2003 to $2,540,472 at November 30, 2003, from $2,459,548, at November 30, 2002. This increase resulted primarily from the decrease in accounts payable and accrued expenses and loan payable offset, in part, by a decrease in inventory. Our current ratio increased from 1.8:1 at November 30, 2002, to 2.2:1 at November 30, 2003. Inventory turned 4.3 times during Fiscal 2003 as compared to 3.6 times during Fiscal 2002. The average number of days to collect receivables remained relatively unchanged at 54 days. We believe that our working capital levels and available financing are adequate to meet our operating requirements during the next twelve months.

In July 2002, the Company entered into a financing agreement (the "Financing Agreement") with an asset-based lender (the "Lender") providing for borrowings up to $1,000,000 (the "Credit Line"). Borrowings under the Credit Line accrue interest at the greater of the prime rate plus two percent (2.0%) or 6.75% per annum (6.75% at November 30, 2003). The Company pays one-quarter of one percent (1/4 of 1%) annually as an unused line fee for the difference between $1,000,000 and the average daily outstanding balance under the Credit Line. The Credit Line is collateralized by substantially all the Company's non-cash assets and contains various financial covenants pertaining to the maintenance of working capital and tangible net worth. During Fiscal 2003, the agreement was amended to adjust the financial covenants. In December 2003, the Company entered into a Security Agreement with the lender establishing a restricted cash collateral account totaling $200,000. At November 30, 2003, the Company was in compliance with the financial covenants. At various times prior to the amendment of the covenants, the Company has not been in compliance with these covenants. The Lender may declare the Company in default at any time these covenants are not met and has the following rights, among others: (1) to demand immediate repayment of borrowings under the Credit Line; (2) to receive a charge at the rate of two percent per month upon the unpaid balance of the obligations under the Financing Agreement (the "Obligations") from the date of default until the date of our full payment of the Obligations, which charge is in lieu of interest; (3) to receive all costs, disbursements, charges and expenses that it incurs in the collection and enforcement of the Obligations, including attorneys fees; and (4) to enforce payment of or settle any of our receivables and apply the net cash proceeds resulting from such payment or settlement to the payment of the Obligations. While we do not believe that the Lender will elect to exercise such rights, if it did so at an inopportune time for the Company, it could result in a severe liquidity crisis for the Company, forcing us to use our available cash, which may or may not be sufficient, and obtain alternative financing at a difficult time.

We incur substantial operating costs. These costs principally consist of rent, payroll, professional fees, insurance premiums and marketing related charges. Our ability to operate profitably in the future depends on increasing sales levels and decreasing our expenses. To accomplish this goal, we are attempting to streamline our operations and reviewing other possible areas of cost reductions.

Our headquarters are leased from a company owned by certain of our officers, directors and shareholders. Rental costs for the premises were approximately $186,000 for the year ended November 30, 2003. The lease agreement calls for a three percent (3%) increase each year and terminates September 30, 2010. Amortization of the leasehold improvements is made ratably over the shorter of the ten-year term of the lease or the life of the improvements.

In November 2002, the Board of Directors authorized the repurchase of up to 1,000,000 shares of the Company's common stock at a price between $.04 and $.045. No action has been taken on the above authorization, since the stock is currently trading at a higher amount.

During Fiscal 2003, we had net cash used in operating activities of $636,719, as compared to $1,825,191 in Fiscal 2002. The decrease in cash used in operating activities resulted from the decrease in the Company's net loss, and decreases in accrued expenses and inventory, partially offset by an increase in accounts receivable and inventory provision for losses on inventory.

We had net cash used in investing activities of $39,923 for Fiscal 2003, as compared to net cash provided by investing activities of $1,890,683 for Fiscal 2002. The net cash used in investing activities during Fiscal 2003 resulted primarily from the purchase of marketable securities and fixed assets. The net cash provided by investing activities during Fiscal 2002 resulted primarily from the sale of marketable securities and amounts collected under a repurchase agreement.

We had net cash used in financing activities of $122,379 for Fiscal 2003, as compared to net cash provided by financing activities of $398,768 for Fiscal 2002. The cash used in financing activities during Fiscal 2003 was a result of the payments to the credit line. The cash provided by financing activities in Fiscal 2002 resulted primarily from borrowings on the credit line.

As a result of the foregoing, the Company had a net decrease in cash and equivalents of $799,021 during Fiscal 2003, as compared to a net increase in cash and equivalents of $464,260 for Fiscal 2002.

In April 2002, in connection with a Mutual Release, Settlement, Standstill and Non-Disparagement Agreement by and among the Company and Equilink Capital Partners, LLC, Robert DePalo, Old Oak Fund Inc. and Kenneth Orr (collectively, the "Investors"), the Investors released the Company from potential claims relating to services provided by the Investors, transferred back to the Company 252,000 Common Shares, 19,300 shares of Series C preferred stock, and certain warrants, representing all of the Company's securities held by the Investors, and agreed, among other things, not to purchase any securities of the Company and not to disparage the Company in any manner, in exchange for $225,000. In addition, the Company and the Investors mutually agreed to release each other from all claims each party had, now has, or in the future might have against the other. The Company recorded a $194,000 expense during Fiscal 2002 in connection with this settlement.

In March 2002, we entered into an agreement with two shareholders to settle a dispute as to the form of payment of interest on certain 12% Convertible Promissory Notes. We agreed to pay these shareholders an aggregate of $32,854, in exchange for 17,522 Common Shares issued to them for converted interest.

In July 2000, Surge entered into a joint venture agreement with Lelon (a supplier of component parts to Surge) to form Surge/Lelon LLP, a Delaware limited liability partnership. The Company has membership interests in the joint venture totaling 55%. Operations commenced in August 2002. These operations have been consolidated with those of the Company. The ownership of Lelon in this joint venture, totaling 45%, has been reported as a minority interest. This joint venture was started in order to more effectively market the products of the Lelon name brand. To date, these operations have been relatively small.

In May 2002, Surge and an officer of Surge became the sole owners of Surge Components, Limited, a Hong Kong corporation. Under current Hong Kong law, Surge Components, Limited is required to have at least two shareholders. Surge owns 999 shares of the outstanding common stock and an officer of Surge owns one share of the outstanding common stock. The officer of Surge has assigned his rights regarding his one share to Surge. Operations commenced in July 2002. These operations have been consolidated with those of the Company. Surge Components, Limited was created to better position the Company in the Asian markets.

We purchase a significant amount of our products from the Asian market and in addition a number of our customers have factories located in Asia. In Fiscal 2003, the Company purchased approximately 84% of its inventory from factories in Asia. Approximately 12% of the Company's sales were shipped to Asia. Surge Components Limited will help us service these clients more effectively and in addition will assist in the obtaining of new opportunities.

Inflation and Increasing Interest Rates

In the past two fiscal years, inflation has not had a significant impact on our business. However, any significant increase in inflation and interest rates could have a significant effect on the economy in general and, thereby, could affect our future operating results. In addition, the interest on the Company's line of credit is based upon the prime rate. Any significant increase in the prime rate could significantly impact our future operating results.

Item 7. Financial Statements.

Set forth below is a list of our financial statements included in this Annual Report on Form 10-KSB and their location.

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act.

Our Executive Officers and Directors

Surge's current executive officers and directors, and their ages, positions and offices with us are as follows:

Name	Age	Positions and Offices with Surge
Ira Levy	47	Chief Executive Officer, President and Director
Steven J. Lubman	48	Vice President, Principal Financial Officer, Secretary and Director
Alan Plafker	45	Director, Member of the Audit Committee and Member of the Compensation Committee
David Siegel	77	Director, and Chairman of the Compensation Committee

Lawrence Chariton	46	Director, Member of the Audit Committee
Gary Jacobs	46	Director, Member of the Audit Committee

Set forth below is a brief description of the background of each of the executive officers and directors of Surge, based on information provided to us by them.

Ira Levy has served as President, Chief Executive Officer and a director of Surge since its inception in November 1981. From 1976 to 1981, Mr. Levy was employed by Capar Components Corp., an importer and supplier of capacitor and resistor products.

Steven J. Lubman has served as Surge's Vice President, Principal Financial Officer, Secretary and a director since its inception in November 1981. From 1975 to 1981, Mr. Lubman was employed by Capar Components, Inc.

David Siegel has served as a director since 1983, as well as Chairman of the Board from 1983 to February 2000. Mr. Siegel also serves on the boards of directors of Kent Electronics Corp. and Micronetics, Inc., each of which is a publicly traded company. which leases facilities to Surge. David Siegel is the father-in-law of Ira Levy.

Alan Plafker has served as a director since June 2001. Mr. Plafker is the President and Chief Executive Officer of Member Brokerage Service LLC, a credit union service organization owned by Melrose Credit Union. Mr. Plafker has over 20 years of management experience in the insurance and credit union industries.

Lawrence Chariton has served as a director since August 2001. For the last 25 years, Mr. Chariton has worked as a Sales Manager for Linda Shop, a retail jewelry business, and is involved in charitable organizations benefiting the State of Israel. Mr. Chariton graduated from Hofstra University in 1979 with a Bachelor's Degree in accounting.

Gary M. Jacobs is currently the President of The Innovative Companies, a supplier, fabricator and installer of natural and man-made stone products. Mr. Jacobs previously held the position of Executive Vice President-Operations and Secretary of The Hain Celestial Group, Inc., a manufacturer, marketer and distributor of natural, specialty, organic and snack food products. Prior to this position, Mr. Jacobs served as Executive Vice President-Finance/CFO, Secretary and Treasurer of Hain. Hain is listed on NASDAQ. Before coming to Hain, he spent six years as the Chief Financial Officer of Graham Field Health Products, Inc., a leading manufacturer and distributor of healthcare products. After graduating from Adelphi University, Mr. Jacobs spent 13 years with the accounting firm of Ernst & Young LLP.

Director Compensation

Currently, our directors, other than David Siegel, receive $500 compensation per month for serving on our Board of

Directors. David Siegel receives $750 per month to serve on our Board of Directors and as Chairman of the Compensation Committee. See "Item 12. Certain Relationships and Related Transactions." Directors are reimbursed for their reasonable expenses incurred in attending meetings.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board of Directors

During Fiscal 2003, the Board of Directors, consisting of Ira Levy, David Siegel, Steven Lubman, Alan Plafker, Lawrence Chariton and Gary Jacobs met four times.

Audit and Compensation Committees

During Fiscal 2003, the Compensation Committee, consisting of Mr. David Siegel, had no meetings.

During Fiscal 2003, the Audit Committee (the "Audit Committee"), consisting of Messrs. Chariton, Plafker and Jacobs, met six times.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934.

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Based solely on its review of the copies of such forms received by it, the Company believes that during Fiscal 2003 all executive officers and directors of the Company complied with all applicable filing requirements.

AUDIT COMMITTEE REPORT

The Audit Committee consists of independent directors all of whom meet the independence and experience requirements of Nasdaq Marketplace Rule 4200(a)(14). The Audit Committee's responsibilities are as described in a written charter adopted by the Board, which is attached as Appendix A to the Company's Proxy Statement for Fiscal 2002.

The Audit Committee has reviewed and discussed the Company's audited financial statements for Fiscal 2003 with management and with the Company's independent auditors, Seligson & Giannatassio LLP (S&G). The Audit Committee has discussed with S&G the matters required to be discussed by the Statement on Auditing Standards No. 61 relating to the conduct of the audit. The Audit Committee has received the written disclosures and the letter from S&G required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed with S&G its independence. Based on the Audit Committees review of the audited financial statements and the review and discussions described in the foregoing paragraph, the Audit Committee recommended to the Board that the audited financial statements for Fiscal 2003 be included in the Company's Annual Report on Form 10-KSB for Fiscal 2003 for filing with the Securities and Exchange Commission.

Submitted by the members of the Audit Committee:

Alan Plafker
Lawrence Chariton
Gary Jacobs

AUDIT FEES; FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES; ALL OTHER FEES

Audit fees billed to the Company by S&G during Fiscal 2003 for review of the Company's annual financial statements and those financial statements included in the Company's quarterly reports on Form 10-QSB totaled $152,867. The Company did not engage S&G to provide advice to the Company regarding financial information systems design and implementation during Fiscal 2003. The Company also engaged S&G during Fiscal 2003 for the preparation of the Company's tax returns totaling $7,500 in services.

Code of Business Conduct and Ethics

Surge has a adopted a Code of Business Conduct and Ethics (the "Code") which is applicable to its chief executive officer, its financial officer, its accounting officer and its controller. The Code sets forth certain of Surge's expectations, including that the officer's will act with honesty and integrity, will avoid actual and apparent conflicts of interests, will comply with all applicable laws, will disclosure information that it is complete and understandable and will act in good faith and responsibly. The Code also requires the prompt internal reporting of violations to the Chair of the Audit Committee. The Company will disclosure information regarding any amendment to the Code or any waiver from any of its provisions. The Company undertakes to provide without charge to any person, upon written or verbal request of such person, a copy of the Code. Request should be directed in writing to Surge Components, Inc., 95 East Jefryn Blvd., Deer Park, NY 11729. A copy of the Code has been filed as Exhibit 14 to this Annual Report on Form 10-KSB.

Item 10. Executive Compensation.

The following table sets forth all compensation awarded to, earned by, or paid for all services rendered to Surge during the fiscal years ended November 30, 2003, 2002 and 2001 by those persons who served as chief executive officer and any executive officer who received compensation in excess of $100,000 during such years.

Summary Compensation Table

Name and Principal Position	Annual Compensation Year	Salary	Bonus	Other Annual Compensation(1)	Long-Term Compensation Shares Underlying Options
Ira Levy,	2003	$200,000	$ 0(3)	0	0
President and Chief	2002	$200,000	$ 0(3)	0	0
Executive Officer(2)	2001	$200,000	$ 48,736(3)	0	0
Steven J. Lubman,	2003	$200,000	$ 0(3)	0	0
Vice President	2002	$200,000	$ 0(3)	0	0
	2001	$200,000	$161,230(3)	0	0
Adam Epstein, Former Chairman of the Board and Former Chief Executive Officer(2)	2001	$184,615	$ 0	0	500,000(4)

See accompanying notes.

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BIOTELEMETRY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(*In thousands*)

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
OPERATING ACTIVITIES				
Net income	$	12,406	$	4,580
Adjustments to reconcile net income to net cash provided by operating activities:				
Bad debt expense		7,797		6,769
Depreciation		7,884		6,343
Non-cash lease expense		111		11
Deferred income tax expense		107		260
Stock-based compensation		3,757		3,321
Amortization of intangibles		2,735		2,781
Accretion of discount on debt		163		149
Changes in operating assets and liabilities:				
Accounts and other receivables		(8,390)		(6,820)
Inventory		(1,221)		(241)
Prepaid expenses and other assets		(1,895)		(403)
Accounts payable		934		(2,682)
Accrued and other liabilities		2,017		(515)
Liability associated with the Civil Investigative Demand				(6,400)
Net cash provided by operating activities		26,405		7,153
INVESTING ACTIVITIES				
Acquisition of businesses, net of cash acquired		(17,970)		
Purchases of property and equipment and investment in internally developed software		(8,507)		(10,310)
Net cash used in investing activities		(26,477)		(10,310)
FINANCING ACTIVITIES				