

SURGE COMPONENTS INC  
Form 10-K  
February 26, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-K**

(Mark One)

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

For the fiscal year ended **November 30, 2015**

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

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

**Commission File No. 000-27688**

**SURGE COMPONENTS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada** **11-2602030**  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

**95 East Jefryn Boulevard**  
**11729**  
**Deer Park, New York**  
(Address of principal executive offices) (Zip Code)

**(631) 595-1818**  
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of each exchange on which registered
to be so Registered:	
<b>None</b>	<b>None</b>

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

**Common Stock, Par Value \$0.001**

(Title of Class)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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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 such shorter period that the registrant was required to submit and post such files. Yes

No

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

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 definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer   Accelerated Filer  
Non-accelerated Filer   Smaller reporting company  
(Do not check if a  
smaller reporting  
company)

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

As of May 31, 2015, the aggregate market value of the issued and outstanding common stock held by non-affiliates of the registrant, based upon the closing price of the common stock, was approximately \$5.6 million.

The Registrant's common stock outstanding as of February 26, 2016, was 9,999,125 shares of common stock.

**SURGE COMPONENTS, INC.**

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## **FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements. All statements other than statements of historical facts contained in this report, including statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, forward-looking statements can be identified by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. These statements are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. We discuss many of the risks in greater detail under the heading "Risk Factors." Also, these forward-looking statements represent our estimates and assumptions only as of the date of the filing of this report. Except as required by law, we assume no obligation to update any forward-looking statements after the date of the filing of this report.

This report also contains estimates and other statistical data made by independent parties and by us relating to market size and growth and other industry data. This data involves a number of assumptions and limitations, and investors are cautioned not to give undue weight to such estimates. We have not independently verified the statistical and other industry data generated by independent parties and contained in this report and, accordingly, we cannot guarantee their accuracy or completeness. In addition, projections, assumptions and estimates of our future performance and the future performance of the industries in which we operate are subject to a high degree of uncertainty and risk due to a variety of factors, including those described in "Risk Factors" and elsewhere in this report. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

## **PART I**

### **Item 1. Business.**

References to "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"), and Surge Components, Limited ("Surge Limited").

We were incorporated under the laws of the State of New York on November 24, 1981, and re-incorporated in Nevada on August 26, 2010. We completed an initial public offering of our securities in 1984 and a second offering in August 1996. Our principal executive offices are located at 95 East Jefryn Boulevard, Deer Park, New York 11729 and our telephone number is (631) 595-1818.

We are 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. The products that we sell are typically utilized in the electronic circuitry of diverse products, including, but not limited to, automobiles, telecomm, audio, cellular telephones, computers, consumer electronics, garage door openers, household appliances, power supplies and security equipment. The products that we sell are sold to both original equipment manufacturers, commonly referred to as OEMs, who incorporate them into their products, and to distributors of the lines of products we sell, who resell these products within their customer base. Surge sells its products through three of the top four distributors for electronic components in the world and also supplies its products to subcontractors who manufacture for their customers. These channels open doors to Surge at customers which Surge may not have access to otherwise. The products that we sell are manufactured predominantly in Asia by approximately sixteen independent manufacturers. We only have one binding long-term supply agreement with one of our manufacturers, Lelon Electronics. We have an agreement to act as the exclusive sales agent utilizing independent sales representative organizations in North America to sell and market the products for one of such manufacturers, Lelon Electronics. When we act as a sales agent, we receive a commission from our supplier who sold the product to the customer that we introduced to our supplier. The amount of the commission is determined on a sale by sale basis depending on the profit margin of the product. Commission revenue totaled \$266,525 and \$509,273 for the fiscal years ended November 30, 2015 and November 30, 2014, respectively.

Challenge is engaged in the sale of electronic components. In 1999, Challenge began as a division to sell audible components. We have been able to increase the types of products that we sell because some of our suppliers introduced new products, and we also located other products from new suppliers. Our core products include buzzers, speakers, microphones, resonators, alarms, chimes, filters, and discriminators. We now also work with our suppliers to have our suppliers customize many of the products we sell for many customers through the customers' own designs and those that we work with our suppliers to have our suppliers redesign for them at our suppliers' factories. We have a

design engineer on our staff with more than thirty years experience with these types of products, who works with our suppliers on such redesigns. We are continually looking to expand the line of products that we sell. In 2015, we hired a junior engineer to assist with the introduction of a new micro controller product line. We sell these products through independent representatives that earn a commission on the products we sell. We are also working with local, regional, and national distributors to sell these products to local accounts in every state.

In order for us to grow, we will depend on, among other things, the continued growth of the electronics and semiconductor industries, our ability to withstand intense price competition, our ability to obtain new clients, our ability to retain and attract 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.

### **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 audibles), and electro mechanical, interconnect (such as connectors and wire) and computer products. Surge focuses its efforts on the sale of capacitors, discrete components, and audible products.

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 the products that we sell, 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 the products that we sell. Accordingly, any downturn in the electronics industry in general could adversely affect our business and results of operations. There are forces of change such as price cutting, M&A of customers and centralization of purchasing by customers vs. localized, affecting the wholesale distribution industry, including the electronics industry. The industry has experienced 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 has responded to this trend by setting up a Hong Kong corporation, Surge Components, Limited, and hiring a sales staff to better position the Company in the Asian markets. Due to rising transportation and employment costs in Asia, we have seen U.S. manufacturers start moving their manufacturing facilities to Mexico to reduce transportation costs and bring manufacturing much closer to home. At this time, however, none of our customers has moved its manufacturing facilities to Mexico.

## **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 2015 and Fiscal 2014, capacitors accounted for approximately 50% and 50% of Surge's sales, respectively, of which approximately 75% for each year was Lelon capacitors (discussed below). Discrete components accounted for Surge's remaining sales in Fiscal 2015 and Fiscal 2014. Capacitors and discrete components can be categorized based on various factors, including function, construction, fabrication and capacity.

We sell, under the name of the manufacturer, Lelon Electronics, aluminum electrolytic capacitors, which are capacitors that store and release energy into a circuit incrementally and are used in various applications, including but not limited to, computers, appliances, automotive, lighting, telecommunications devices and various consumer products. Our sales of products under the Lelon Electronics name accounted for approximately 40% of our total sales (and approximately 75% of our capacitor sales as noted above) in Fiscal 2015.

The principal products sold by Surge under the Surge name (except with respect to capacitors, which the Company also sells under the Lelon Electronics name as noted above) 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. All products are available in traditional leaded as well as surface mount (chip) packages. The product line of capacitors we sell includes:

**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 and China. These facilities are fully certified for the International Quality Standard ISO 9001 and QS9000, and TS16949, which means that they meet 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.

**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.

**Mylar Film Capacitors-** These capacitors are frequently used for noise suppression and filtering. They are commonly used in telecommunication and computer products. Surge's suppliers in China have facilities fully certified for all of the above mentioned quality certifications.

## **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.

The product line of discrete components we sell 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. All products are available in traditional leaded as well as surface mount (chip) packages. Surge's rectifier suppliers all have the aforementioned certifications, giving us an opportunity to market the products that we sell to the automotive industry.

**Transistors-** These products 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 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:

**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, Piezo buzzers, speakers, and microphones, 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 the products that we sell 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. 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 one-to-two month inventory on certain products in high demand for customers 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. The products that we sell 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, 2015, we maintained inventory valued at \$3,199,463.

Because of the experience of our management, including Ira Levy and Steven Lubman, we believe that we know the best prices to buy the products we sell and as a result 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. The Company has experienced very little impact from customer design changes and slowdown but this can potentially increase due to economic conditions and customer-specific business conditions. If our customers experience these changes, our business could be adversely affected.

## **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 2015 and Fiscal 2014, Challenge purchased approximately 95% and 93%, 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 2015, those foreign manufactured products were supplied from manufacturers in Taiwan (58%), Hong Kong (9%), elsewhere in Asia (29%) and overseas outside of Asia (less than 1%). The Company purchases its products from approximately sixteen different manufacturers.

Most of the facilities that manufacture products for Surge have obtained International Quality Standard ISO 9002 and other certifications. We typically purchase the products that we sell 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. 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 only have one agreement with a supplier, Lelon Electronics, which is terminable by either party upon six months notice to the other party. We have an agreement to act as the sales agent in North America for one of our manufacturers, Lelon Electronics. 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 2015 and Fiscal 2014, one of Surge's vendors, Lelon Electronics, accounted for approximately 56% and 49% of Surge's consolidated purchases. The loss of or a significant disruption in the relationship with Lelon Electronics, which is our major supplier, could have a material adverse effect on our business and results of operations until a suitable replacement could be obtained.

The Company has a written agreement with Lelon Electronics regarding the supply of inventory for the Company's customers. The Company purchases products under both the Company's name and Lelon's brand name for the Company's inventory in order to supply the Company's customers. For the majority of purchases from Lelon Electronics, the Company takes title to the products, houses them in the Company's warehouse and sells directly to the Company's customers. There is no right of return on the products purchased from Lelon and the Company accepts all credit risk with regards to sales of these products.

The components business has, from time to time, experienced periods of shortages in product supply, usually as the result of demand exceeding available supply. When these shortages occur, suppliers tend to either increase prices and or reduce the number of units sold to given customers. Should there be shortages in the future, such shortages may benefit our business if we get preferential supply from our manufacturers. It could also have an adverse effect upon our business, in the case that our manufacturers don't have enough capacity to provide enough components. Conversely, due to poor market demand, there could be an excess of components in the market, causing stronger competition and an erosion of prices. Currently, demand in the industry is down regarding product availability for customers in most market segments.

## **Marketing and Sales**

Surge's sales efforts are directed towards Original Equipment Manufacturer (OEM) customers in numerous industries where the products that we sell have wide application. Surge currently employs ten sales and marketing personnel, not including two of its executive officers, who are responsible for certain key customer relationships.

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, 2015, we had representation agreements with approximately 30 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 the products that we sell. 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 have initiated a formal national distribution program to attract more distributors to promote the products that we sell. We expect this market segment to contribute significantly to our sales growth over time.

Many customers require their suppliers to have a local presence and Surge's network of independent sales representatives are responsive to these needs. Surge formed a Hong Kong corporation, Surge Components, Limited and hired a regional sales manager to service the Hong Kong/Greater China region customers.

Other marketing efforts include generation and distribution of catalogs and brochures of the products we sell and attendance at trade shows. We have produced an exhibit for display at electronics trade shows throughout the year. The products that we sell have been exhibited at the electronic distribution show in Las Vegas, and we intend to continue our commitment and focus on the distribution segment of the industry by our visibility at the Electronic Distributor Trade Show. In addition, we have updated our website to make it more informative and user friendly. Our search engines have been improved so that customers can find us more easily and we have developed a new portal system to help with lead management and disbursement.

## **Customers**

The products that we sell are sold to distributors and OEMs in such diverse industries as the automotive, computer, communications, cellular telephones, consumer electronics, garage door openers, security equipment, audio equipment, telecomm products, computer related products, power supply products, utility meters 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 the products that we sell are sold. One of our customers, TTI, accounted for 17% of net sales for Fiscal 2015 and 8% of net sales for Fiscal 2014. 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, Epcos, United Chemicon, Rubycon, Vishay and Kemet. Our principal competitors in the sale of discrete components include Vishay, General Semiconductor Division, General Instrument Corp., OnSemi, Inc., Microsemi Corp., Diodes, Inc. and Littlefuse, and Copper Bussman Division. 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 many of our customers. As our customers become larger, and as the market becomes more competitive, 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. Additionally, since the tsunami and earthquake in Japan in 2012, our competitors have established manufacturing facilities in China enabling them to be more competitive by lowering their labor rates and manufacturing costs. Also, as the world continues to become global and customers have easier access to suppliers in Asia, our business could be adversely affected since foreign suppliers are traveling to the United States and interacting with customers more often, where previously they communicated via long-distance. Also, the internet enables customers to meet and interact with suppliers through Google and other search engines which customers had not previously done.

### **Customer Service**

We have customer service employees whose time is dedicated largely to responding 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.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with us, are not subject to these prohibitions. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations. To the Company's knowledge, none of our employees or other agents have engaged in such practices.

### **Environmental and Regulatory Compliance**

We are subject to various environmental laws and regulations relating to the protection of the environment, including those governing the handling and management of certain chemicals used in electronic components.



We do not believe that compliance with these laws and regulations will have a material adverse effect on our capital expenditures, earnings, or competitive position.

### **Patents, Trademarks and Proprietary Information**

With respect to the products that we sell, we have no patents, trademarks or copyrights registered in the United States Patent and Trademark Office or in any state. Additionally to the best of our knowledge the manufacturers of the products that we sell do not have patents, trademarks or copyrights registered in the United States Patent and Trademark Office or in any state. We rely on the know-how, experience and capabilities of our management personnel. Although we believe that the 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 that the products that we sell infringe proprietary rights of others, these products may have to be modified or redesigned by the manufacturer of these products. However, there can be no assurance that any infringing products will be able to be modified or redesigned in a way that does not infringe on the proprietary rights of others, which 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 the products we sell 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, 2015, our backlog was approximately \$5,762,331, as compared with \$6,353,521 at November 30, 2014. 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, 2015, Surge and Challenge employed 33 persons, two of whom are employed in executive capacities, ten are engaged in sales, three in engineering, three in purchasing, three in administrative capacities, five in customer service, two in accounting and five in warehousing. None of our employees is covered by a collective bargaining agreement, and we consider our relationship with our employees to be good.

## **Item 1A. Risk Factors**

*An investment in our common stock involves a high degree of risk. An investor should carefully consider the risks described below as well as other information contained in this annual report on Form 10-K. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected, the value of our common stock could decline, and an investor may lose all or part of his or her investment.*

### **Risks Related to our Business**

*We have an agreement with only one of our suppliers and we depend on a limited number of suppliers*

We have an agreement with only one of our suppliers (Lelon Electronics), which agreement is terminable by either party upon notice to the other party. Lelon Electronics accounted for approximately 56% and 49% of the Company's consolidated purchases. We also act as the exclusive sales agent in North America for Lelon Electronics. While we believe that we have established close working relationships with our principal suppliers, our success depends, in large part, on maintaining these relationships and developing new supplier relationships for our existing and future product lines. There is no assurance that we will be able to maintain these relationships. While we believe that there are alternative semiconductor and capacitor suppliers whose replacement products may be acceptable to our customers, the loss of, or a significant disruption in the relationship with, one or more of our major suppliers would likely have a material adverse effect on our business and results of operations.

*We need to maintain large inventories in order to succeed and as a result, price fluctuations could harm us.*

In order to adequately service our customers, we believe that it is necessary to maintain a large inventory of products. Accordingly, we attempt to maintain a one-to-two month inventory of those products which we supply to our customers. As a result of our strategic inventory purchasing policies, under which we order products to obtain preferential pricing, we generally waive the right to manufacturers' inventory protection agreements (including price protection and inventory return rights). As a result, we bear the risk of increases in the prices charged by our manufacturers to the Company and decreases in the prices we are able to charge our customers. If prices of components which we hold in inventory decline or if new technology is developed that displaces products which we sell, our business could be materially adversely affected. Typically the Company has experienced very little impact from customer design changes and slowdown but this can potentially increase due to economic conditions and specific customers business conditions. If our customers experience these changes, our business could be adversely affected.

***Our operations would be adverse effected if we lose certain of our customers.***

For Fiscal 2015, approximately 17% of our net sales were derived from sales to one customer. 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, would be expected to have a materially adverse effect on our operations until we are able to generate replacement business, although we may not be able to obtain such replacement business.

***We may not be able to compete against large competitors who have better resources.***

We face intense competition, in both our selling efforts and purchasing efforts, from the many companies that manufacture or distribute electronic components and semiconductors. Our principal competitors in the sale of capacitors include Nichicon, Panasonic, Illinois Capacitor, NIC, AVX, Murata, Epcos, United Chemicon, Rubycon, Vishay and Kemet, General Semiconductor Division, General Instrument Corp., OnSemi, Inc., Microsemi Corp., Diodes, Inc. and Littlefuse, and Copper Bussman Division. 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. There can be no assurance that we will be able to continue to compete effectively with existing or potential competitors.

***Our business will be adversely affected if there is a shortage of components.***

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 large inventory and our relationships with our manufacturers, we have not been adversely affected by shortages in certain discrete semiconductor components. However, in the future shortages may have an adverse effect upon our business especially if we were to reduce inventory to cut costs and reduce risks of obsolescence.

***Our success depends on key personnel whose continued service is not guaranteed.***

Our continued success and our ability to manage anticipated future growth depend, in large part, upon the efforts of key personnel, particularly Ira Levy and Steven Lubman, our chief executive officer and vice president, respectively, who have extensive industry knowledge and relationships and exercise substantial influence over our operations. The loss of services of one or both of these individuals, or our inability to attract and retain highly qualified personnel, could adversely affect our business, and weaken our relationships with suppliers, business partners, and industry personnel, which could adversely affect our financial condition, results of operations, cash flow and trading price of our common stock.

***Our business is subject to risks from trade regulation and foreign economic conditions.***

Approximately 97% of the total goods which we purchased in Fiscal 2015 were manufactured in foreign countries, with the majority purchased from Taiwan (58%), Hong Kong (9%), elsewhere in Asia (29%) and outside of Asia (less than 1%). These purchases subject us to a number of risks, including economic disruptions, transportation delays and interruptions, foreign exchange rate fluctuations, imposition of tariffs and import and export controls and changes in governmental policies, any of which could have a materially 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.

The 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. For example, it is possible that political or economic developments in China, or with respect to the United States' relationship with China, could have an adverse effect on our business. 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 have adversely impacted our business in the past, there can be no assurance that these factors will not materially adversely affect us in the future. Because the China internal consumption market is depressed, this will increase competition, as there is now a smaller market potential target. Therefore, we believe certain of our competitors will reduce their pricing to capture more market share.

***Electronics industry cyclicality may adversely affect our operations.***

The electronics industry has been affected historically by general economic downturns, which have had an adverse economic effect upon manufacturers and end-users of capacitors and semiconductors. In addition, the life-cycle of existing electronic products and the timing of new product developments and introductions can affect demand for semiconductor components. Any downturns in the electronics distribution industry could adversely affect our business and results of operations.

***Our products are not protected by patents, trademarks and proprietary information.***

We have no patents, trademarks or copyrights registered in the United States Patent and Trademark Office or in any state. We rely on the know-how, experience and capabilities of our management personnel. Therefore, without trademark and copyright protection, we have no protection from other parties attempting to offer similar services. Although we believe that the products that we sell 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 that the products that we sell infringe proprietary rights of others, the manufactures of the products that we sell may be required to modify the design of the products that we sell, change the name of these products and/or obtain a license. There can be no assurance that the manufactures will be able to modify or redesign the products in a way that does not infringe on the proprietary rights of others. 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 the products that we sell 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.

***Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.***

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with us, are not subject to these prohibitions. To our knowledge, none of our employees or other agents have engaged in such practices. However, if our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

### **Risks Related to our Common Stock**

***Our common stock is quoted on the OTCQB, which may limit the liquidity and price of our common stock more than if our common stock were listed on the Nasdaq Stock Market or another national exchange.***

Our securities are currently quoted on the OTCQB, an inter-dealer electronic quotation and trading system for equity securities. Quotation of our securities on the OTCQB may limit the liquidity and price of our securities more than if our securities were listed on The Nasdaq Stock Market or another national exchange. Some investors may perceive our securities to be less attractive because they are traded in the over-the-counter market. In addition, as an OTCQB listed company, we do not attract the extensive analyst coverage that accompanies companies listed on national exchanges. Further, institutional and other investors may have investment guidelines that restrict or prohibit investing in securities traded on the OTCQB. These factors may have an adverse impact on the trading and price of our common stock.

The market price of our common stock may fluctuate significantly in response to the following factors, most of which are beyond our control:

variations in our quarterly operating results;

changes in general economic conditions;

changes in market valuations of similar companies;

announcements by us or our competitors of significant new contracts, acquisitions, strategic partnerships or joint ventures, or capital commitments;

loss of a major supplier or customer; and  
the addition or loss of key managerial and collaborative personnel.

Any such fluctuations may adversely affect the market price of our common stock, regardless of our actual operating performance. As a result, stockholders may be unable to sell their shares, or may be forced to sell them at a loss.

***The application of the “penny stock” rules could adversely affect the market price of our common stock and increase an investor’s transaction costs to sell those shares.***

Rule 3a51-1 of the Exchange Act defines “penny stock,” in part, as any equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, Rule 15c-9 of the Exchange Act requires that a broker or dealer:

approve a person’s account for transactions in penny stocks; and  
receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person’s account for transactions in penny stocks, the broker or dealer must:

obtain financial information and investment experience and objectives of the person; and  
make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which:

sets forth the basis on which the broker or dealer made the suitability determination; and  
that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the “penny stock” rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our

stock.

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***As an issuer of “penny stock,” the protection provided by the federal securities laws relating to forward looking statements does not apply to us.***

Although federal securities laws provide a safe harbor for forward-looking statements made by a public company that files reports under the federal securities laws, this safe harbor is not available to issuers of penny stocks. As a result, the Company will not have the benefit of this safe harbor protection in the event of any legal action based upon a claim that the material provided by the Company contained a material misstatement of fact or was misleading in any material respect because of the Company’s failure to include any statements necessary to make the statements not misleading. Such an action could hurt our financial condition.

***The market price for our common stock is particularly volatile given our status as a relatively unknown company with a small and thinly traded public float which could lead to wide fluctuations in our share price. Investors may be unable to sell their common stock at or above your purchase price, which may result in substantial losses to investors.***

The market for our common stock is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common stock is sporadically and thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our shares of common stock are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, investors may consider us a speculative or risky investment due to the uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Many of these factors are beyond our control and may decrease the market price of our common stock, regardless of our operating performance. We cannot make any predictions or projections as to the prevailing market price for our common stock at any time, including whether our common stock will sustain its current market price, or the effect that the sale or the availability shares for sale at any time will have on the prevailing market price.

***We have not paid dividends on our common stock in the past and do not expect to pay dividends for the foreseeable future. Any return on investment may be limited to the value of our common stock.***

No cash dividends have been paid on the Company’s common stock. We expect that any income received from operations will be devoted to our future operations and growth. The Company does not expect to pay cash dividends

on its common stock in the near future. Payment of dividends would depend upon our profitability at the time, cash available for those dividends, and other factors as the Company's board of directors may consider relevant. In addition, we may not pay dividends on our common stock until we have paid the dividends in arrears for our preferred stock. If the Company does not pay dividends, the Company's common stock may be less valuable because a return on an investor's investment will only occur if the Company's stock price appreciates.

***The rights of the holders of common stock have been impaired by the issuance of preferred stock and may be further impaired by the potential future issuance of preferred stock.***

We are authorized to issue up to 5,000,000 shares of blank check preferred stock of which 260,000 shares have been designated as Non-Voting Redeemable Convertible Series A Preferred Stock, of which no shares are issued and outstanding, 200,000 shares have been designated Voting Redeemable Convertible Series B Preferred Stock, of which no shares are issued and outstanding, and 100,000 shares have been designated Non-Voting Redeemable Convertible Series C Preferred Stock ("Series C Preferred Stock"), of which 10,000 shares are issued and outstanding. Holders of the Series C Preferred Stock are entitled to receive, upon liquidation, payment of \$5.00 per share of Series C Preferred Stock prior to any payment to common shareholders. Holders of Series C Preferred Stock are entitled to cumulative dividends, if and when declared by the board of directors, at the rate of \$0.50 per share per annum, prior to payment of dividends to common shareholders.

Furthermore, our board of directors has the right, without stockholder approval, to issue additional preferred stock with voting, dividend, conversion, liquidation or other rights which could adversely affect the voting power and equity interest of the holders of common stock, which could be issued with the right to more than one vote per share, and could be utilized as a method of discouraging, delaying or preventing a change of control. The possible negative impact on takeover attempts could adversely affect the price of our common stock. Although we have no present intention to issue any additional shares of preferred stock or to create any additional series of preferred stock, we may issue such shares in the future.

*We have a staggered board of directors, which could delay or prevent a change of control that may favor shareholders.*

Our Board of Directors is divided into three classes and our Board members are elected for terms that are staggered. This could discourage the efforts by others to obtain control of the Company. The possible negative impact on takeover attempts could adversely affect the price of our common stock.

#### **Item 1B. Unresolved Staff Comments**

Not applicable.

#### **Item 2. Properties.**

Our executive offices and warehouse facilities are located at 95 Jefryn Boulevard, Deer Park, New York, 11729. We lease our facilities from 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. Our lease is through September 30, 2020 and our monthly rent is \$14,334. Our monthly rent will increase over the 10 year term, reaching \$15,516 in the final year. We occupy approximately 23,250 square feet of office space and warehouse space. The rental rate is typical for the type and location of Surge's and Challenge's facilities.

In June 2015, the Company entered into a lease to rent office space in Hong Kong for two years. Annual rental payments are approximately \$58,461.

#### **Item 3. Legal Proceedings.**

There are no legal proceedings to which the Company or any of its property is the subject.

**Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

### Item 5. **Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Shares of our common stock are quoted on the OTCQB market maintained by OTC Markets Group under the symbol "SPRS". Trading in our common stock is limited.

For the periods indicated, the following table sets forth the high and low bid prices per share of our common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

Fiscal Quarter	High	Low
2014 First Quarter	\$0.93	\$0.73
2014 Second Quarter	\$0.90	\$0.71
2014 Third Quarter	\$0.88	\$0.79
2014 Fourth Quarter	\$0.90	\$0.74
2015 First Quarter	\$0.93	\$0.82
2015 Second Quarter	\$0.90	\$0.69
2015 Third Quarter	\$1.00	\$0.71
2015 Fourth Quarter	\$0.86	\$0.71

As of the date of the filing of this report, there are issued and outstanding 9,999,125 shares of common stock.

As of the date of the filing of this report, there are approximately 201 holders of record of our common stock.

#### Dividends

We have not declared any cash dividends on our common stock since inception and do not anticipate paying such dividends in the foreseeable future. We plan to retain any future earnings for use in our business operations.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Share repurchase activity during the three months ended November 30, 2015 was as follows:

<b>Periods</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup></b>
September 1, 2015 to September 30, 2015:	-	-	-	-
October 1, 2015 to October 31, 2015:	-	-	-	-
November 1, 2015 to November 30, 2015:	-	-	-	\$ 500,000
<b>Total</b>				<b>\$ 500,000</b>

In November 2015, the Company's Board of Directors authorized a program to repurchase up to \$500,000 of the Company's common stock. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act.

Equity Compensation Plan Information

The following table provides information as of November 30, 2015 with respect to the shares of common stock that may be issued under our existing equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plan approved by security holders (1)	2,035,438	\$ 0.85	1,864,562
Equity compensation plan not yet approved by security holders	-	-	-
Total	2,035,438	\$ 0.85	1,864,562

(1) Represents the Company's 2010 Incentive Stock Plan and the Company's 2015 Incentive Stock Plan. There are currently no outstanding options, warrants or rights issued pursuant to the Company's 2015 Incentive Stock Plan.

***Recent Sales of Unregistered Securities.***

None.

***Purchases of Equity Securities by the Issuer and Affiliated Purchasers***

None.

**Item 6. Selected Financial Data**

We are a smaller reporting company and therefore, we are not required to provide information required by this Item of Form 10-K.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This report contains forward-looking statements. All statements other than statements of historical facts contained herein, including statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, forward-looking statements can be identified by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. These statements are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. We discuss many of the risks in greater detail under the heading "Risk Factors." Also, these forward-looking statements represent our estimates and assumptions only as of the date of the filing of this report. Except as required by law, we assume no obligation to update any forward-looking statements after the date of the filing of this report.



## Overview

The Company operates with two sales groups, Surge Components (“Surge”) and Challenge Electronics (“Challenge”). Surge is a supplier of electronic products and components. These products include capacitors, which are electrical energy storage devices, and discrete semiconductor components, such as rectifiers, transistors and diodes, which are single function low power semiconductor products that are packaged alone as compared to integrated circuits such as microprocessors. The products sold by Surge are typically utilized in the electronic circuitry of diverse products, including, but not limited to, automobiles, audio products, temperature control products, lighting products, energy related products, computer related products, various types of consumer products, garage door openers, household appliances, power supplies and security equipment. These products are sold to both original equipment manufacturers, commonly referred to as OEMs, who incorporate them into their products, and to distributors of the lines of products we sell, who resell these products within their customer base. These products are manufactured predominantly in Asia by approximately sixteen independent manufacturers. We act as the master distribution agent utilizing independent sales representative organizations in North America to sell and market the products for one such manufacturer pursuant to a written agreement. When we act as a sales agent, our supplier who sold the product to the customer that we introduced to our supplier pays us a commission. The amount of the commission is determined on a sale by sale basis depending on the profit margin of the product. Commission revenue totaled \$266,525 and \$509,273 for the fiscal year ended November 30, 2015 and November 30, 2014 respectively.

Challenge is engaged in the sale of electronic components. In 1999, Challenge began as a division to sell audible components. We have been able to increase the types of products that we sell because some of our suppliers introduced new products, and we also located other products from new suppliers. Our core products include buzzers, speakers, microphones, resonators, alarms, chimes, filters, and discriminators. We now also work with our suppliers to have our suppliers customize many of the products we sell for many customers through the customers’ own designs and those that we work with our suppliers to have our suppliers redesign for them at our suppliers’ factories. We have a design engineer on our staff with more than thirty years experience with these types of products, who works with our suppliers on such redesigns. We are continually looking to expand the line of products that we sell. In 2015, we hired a junior engineer to assist with the introduction of a new micro controller product line. We sell these products through independent representatives that earn a commission on the products we sell. We are also working with local, regional, and national distributors to sell these products to local accounts in every state.

The Company has a Hong Kong office to effectively handle the transfer business from United States customers purchasing and manufacturing in Asia after designing the products in the United States. This office has strengthened the Company's global position, improving our capabilities and service to our customer base.

The electronic components industry has changed, from one of strong demand to now one of reduced demand. This reduced demand can be attributed to a slowdown in global growth as well as a slowdown in the forecast of retail sales in North America. Management expects 2016 to continue with the reduced demand for components that it experienced in 2015. Due to this worldwide reduction in demand, the Company could feel the effects of potentially reduced demand for its products.

In order for us to grow, we will depend on, among other things, the continued growth of the electronics and semiconductor industries, our ability to withstand intense price competition, our ability to obtain new customers, our ability to retain and attract 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.

## **Critical Accounting Policies**

### *Accounts Receivable*

The allowance for doubtful accounts is based on the Company's assessment of the collectability of specific customer accounts and an assessment of international, political and economic risk as well as the aging of the accounts receivable. If there is a change in actual defaults from the Company's historical experience, the Company's estimates of recoverability of amounts due could be affected and the Company would adjust the allowance accordingly.

### *Revenue Recognition*

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed and determinable, collectability is reasonably assured and title and risk of loss have been transferred to the customer. This occurs when product is shipped from the Company's warehouse. For direct shipments from our suppliers to our customer, revenue is recognized when product is shipped from the Company's supplier. The Company acts as a sales agent for certain customers buying direct from one of its suppliers. The Company reports these commissions as

revenues in the period earned.

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

#### *Inventory Valuation*

Inventories are recorded at the lower of cost or market. Write-downs of inventories to market value are based on stock rotation, historical sales requirements and obsolescence as well as in the changes in the backlog. Reserves required for obsolescence were not material in any of the periods in the financial statements presented. If market conditions are less favorable than those projected by management, additional write-downs of inventories could be required. For example, each additional 1% of obsolete inventory would reduce operating income by approximately \$32,000.

The Company does not have price protection agreements with any of its vendors and assumes the risk of changes in the prices of its products. The Company does not believe there to be a significant risk with regards to the lack of price protection agreements as many of its inventory items are purchased to fulfill purchase orders received.

#### *Income Taxes*

We have made a number of estimates and assumptions relating to the reporting of a deferred income tax asset to prepare our financial statements in accordance with generally accepted accounting principles. These estimates have a significant impact on our valuation allowance relating to deferred income taxes. Our estimates could materially impact the financial statements.

#### **Results of Operations**

Consolidated net sales for the fiscal year ended November 30, 2015 increased by \$2,516,468 or 9.2%, to \$29,734,493 as compared to net sales of \$27,218,025 for the fiscal year ended November 30, 2014. We largely attribute the increase in net sales to an increase in business with new customers as well as new business with existing customers.

Our gross profit for the fiscal year ended November 30, 2015 increased by \$757,493 to \$7,433,736, or 11.3%, as compared to \$6,676,243 for the fiscal year ended November 30, 2014. Gross margin as a percentage of net sales increased to 25% for the fiscal year ended November 30, 2015 compared to 24.5% for the fiscal year ended November 30, 2014. The Company attributes the increase in gross profit to the increase in sales and the increase in gross margin as a percentage of sales for the fiscal year ended November 30, 2015. We attribute the increase in gross margin as a percentage of sales to the fact that the Company wrote off approximately \$31,000 of obsolete inventory in Fiscal 2015 as compared to \$236,000 of obsolete inventory in Fiscal 2014. This inventory was a combination of old inventory as well as recent inventory where customers either discontinued use due to slowdown in production or changes in design. Frequently customers will evaluate their inventory at the end of the third quarter and if they assess their inventory to be too high they will either cancel their orders with the Company or push delivery dates back. The Company does business with Electronic Manufacturing Service (EMS) subcontractor customers who manufacture the products for other customers who do not have their own manufacturing operations. The Company has agreements to provide periodic cost reductions through rebates in the amount of up to 5%. This reduction only affects future shipments of products, and does not affect any of the customers' existing orders. This obligation can have a negative impact on our profit margins. Even though this rebate can impact the Company's gross profit margin, these subcontractor customers represent very significant potential growth for the Company, because they may help the Company to become an approved supplier at the customers they manufacture for, and they purchase our components for these customers. It would be very difficult for the Company to gain business at these customers without the help of the EMS companies.

Selling and shipping expenses for the fiscal year ended November 30, 2015 was \$2,394,331, an increase of \$44,241, or 1.9%, as compared to \$2,350,090 for the fiscal year ended November 30, 2014. Specifically the increase is due to increases in salespersons' salaries, advertising, and selling expenses such as printing, entertainment, travel and freight, offset by a decrease in commissions, auto expenses, messenger and delivery and shipping expenses.

General and administrative expenses for the fiscal year ended November 30, 2015 was \$3,902,358, an increase of \$337,946, or 9.5%, as compared to \$3,564,412 for the fiscal year ended November 30, 2014. The increase is due to the hiring of additional employees and increased costs for office expense, general insurance and consulting expense, as well as increases in officers' salary, professional fees, and public company expenses and partially offset by decreases in promotional expenses, telephone expenses, maintenance expenses and bank charges.

Depreciation expense for the fiscal year ended November 30, 2015 was \$39,766, a decrease of \$9,111 or 18.6%, as compared to \$48,877 for the fiscal year ended November 30, 2014. The decrease is due to assets becoming fully depreciated during the fiscal year ended November 30, 2015.

Investment income for the fiscal year ended November 30, 2015 was \$8,832, compared to \$4,849 for the fiscal year ended November 30, 2014. We attribute the increase of \$3,983, or 82.1%, to additional cash being placed in several money market accounts during the fiscal year ended November 30, 2015.

Income taxes for the fiscal year ended November 30, 2015 was \$241,228, a decrease of \$37,921 or 13.6% as compared to a tax expense of \$279,149 for the fiscal year ended November 30, 2014. The decrease is a result of management's revised estimate of future taxable income and the related impact on the reported deferred tax. This change in the valuation allowance is based on management estimates of future taxable income. The degree of variability inherent in the estimates of future taxable income is significant and subject to change in the near term. The Company reviews its estimates of future taxable income in each reporting period and adjustments to the valuation allowance are reflected in the current operations.

As a result of the foregoing, net income for the fiscal year ended November 30, 2015 was \$864,885, compared to net income of \$438,564 for the fiscal year ended November 30, 2014.

### **Liquidity and Capital Resources**

As of November 30, 2015 we had cash of \$7,169,118, and working capital of \$11,080,178. We believe that our working capital levels are adequate to meet our operating requirements during the next twelve months.

During the fiscal year ended November 30, 2015, we had net cash flow from operating activities of \$910,345, as compared to net cash flow from operating activities of \$1,945,039 for the fiscal year ended November 30, 2014. The decrease in cash flow from operating activities resulted from a decrease in cash provided by inventory, accounts receivable, accounts payable and accrued expenses, as partially offset by an increase in cash provided by prepaid expenses and net income.

We had net cash flow used in investing activities of \$59,538 for the fiscal year ended November 30, 2015, as compared to net cash flow used in investing activities of \$58,568 for the fiscal year ended November 30, 2014. We attribute the increase to the Company purchasing new equipment during the fiscal year ended November 30, 2015.

We had net cash flow provided by financing activities totaling \$143,750 during the fiscal year ended November 30, 2015 resulting from the proceeds from the exercise of stock options. There were no cash flows from financing activities during the fiscal year ended November 30, 2014.

As a result of the foregoing, the Company had a net increase in cash of \$994,557 for the fiscal year ended November 30, 2015, as compared to a net increase in cash of \$1,886,471 for the fiscal year ended November 30, 2014.

We will continue to evaluate opportunities to use any excess cash generated by our operations, including investing in acquisitions, expanding our business and repurchasing our common stock as approved by our Board of Directors and existing contracts while maintaining sufficient liquidity to support our operational needs and fund future strategic growth opportunities. In November 2015, the Board of Directors authorized the Company to purchase up to \$500,000 of shares of common stock in the open market or in privately negotiated transactions. The Company has not repurchased any shares to date pursuant to such authority.

The table below sets forth our contractual obligations, including long-term debt, operating leases and other long-term obligations, as of November 30, 2015:

Contractual Obligations	Total	Payments due			
		0 – 12 Months	13 – 36 Months	37 – 60 Months	More than 60 Months
Long-term debt	\$-	\$--	\$--	\$--	\$ --
Operating leases	\$954,150	231,041	384,813	338,296	--
Total obligations	\$954,150	\$231,041	\$384,813	\$338,296	\$ --

### **Inflation**

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.

### **Off Balance Sheet Arrangements**

We do not have any off balance sheet arrangements.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

We are a smaller reporting company and therefore, we are not required to provide information required by this Item of Form 10-K.

**Item 8. Financial Statements and Supplementary Information**

Our financial statements, together with the independent registered public accounting firm's report of Seligson & Giannattasio, LLP, begin on page F-1, immediately after the signature page.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

Evaluation of Disclosure Controls and Procedures.

We maintain "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

As of November 30, 2015 we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Management's Report of Internal Control over Financial Reporting.

We are responsible for establishing and maintaining adequate internal control over financial reporting in accordance with Exchange Act Rule 13a-15. With the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of November 30, 2015 based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of November 30, 2015. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.



Changes in Internal Controls.

During the quarter ended November 30, 2015, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III****Item 10. Directors, Executive Officers, and Corporate Governance.**

Our board of directors is classified into three classes, with the term of office of one class expiring each year. The term of Class A directors expires at the Company's annual meeting of shareholders to be held in 2016, the term of Class B directors expires at the Company's annual meeting of shareholders to be held in 2018, and the term of office of Class C directors expires at the Company's annual meeting of shareholders to be held in 2017. Our executive officers and directors, and their ages, positions and offices with us are as follows:

Name	Age	Position
Ira Levy	59	Chief Executive Officer, Chief Financial Officer, President and Class A Director
Steven J. Lubman	60	Vice President, Secretary, Treasurer and Class A Director
Alan Plafker*	57	Class B Director, Member of Compensation Committee, Nominating and Corporate Governance Committee and Audit Committee
David Siegel	90	Class B Director
Lawrence Chariton*	58	Class C Director, Member of Compensation Committee, Nominating and Corporate Governance Committee and Audit Committee
Gary Jacobs*	58	Class C Director, Member of Compensation Committee, Nominating and Corporate Governance Committee and Audit Committee

\* Independent director

**Ira Levy** has served as President, Chief Executive Officer and a director of Surge Components since its inception in November 1981, and as Chief Financial Officer since March 2010. 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 Components' Vice President, Secretary, Treasurer and a director since our inception in November 1981. From 1975 to 1981, Mr. Lubman was employed by Capar Components, Inc.

**Alan Plafker** has served as a director since June 2001. Since July 2000, Mr. Plafker has served as President and Chief Executive Officer of Member Brokerage Service LLC, a credit union service organization owned by Melrose Credit Union, and also serves as director of business services for the credit union. Mr. Plafker has more than 30 years of management experience in the insurance and credit union industries. He is a New York State licensed insurance agent

and broker. Mr. Plafker has earned certification as a Certified Professional Insurance Agent from the AIMS Society and earned the CIC designation from the Society of Certified Insurance Counselors. He has also earned the CUBLP (Credit Union Business Lending Professional) designation from the CUNA Business Lending Certification Institute. In addition, he is a past President and currently serves on the Board of Directors of the Professional Insurance Agents Association of New York State, and currently serves as Treasurer and as a member of the Board of Directors for the New York Independent Livery Drivers Benefit Fund, a New York State benefit fund providing injury benefits for livery drivers, to comply with the Workers' Compensation Board regulations. Mr. Plafker received a Bachelor's degree in business administration from Adelphi University.

**David Siegel** has served as a director since 1983, as well as Chairman of the Board from 1983 to February 2000. Mr. Siegel has served on the boards of directors of a number of public companies in the electronics industry. He was a director and member of the Corporate Governance and Special Committees of Nu Horizons, Inc., a distributor of electronic components, until its acquisition in January 2011 by Arrow Electronics, Inc. Mr. Siegel was a member of the Board of Directors of Kent Electronics Corporation for over ten years and helped Kent Electronics complete a successful sale of the company to Avnet, Inc. in 2001. Mr. Siegel also served on the Board of Directors of Diplomat Electronics Inc. and Quantech Electronics Corporation. Mr. Siegel served on the board of directors of Micronetics, Inc. from April 1987 to June 2012, a publicly traded manufacturer of microwave and radio frequency (RF) components, until its acquisition by Mercury Computer Systems, Inc. David Siegel is the father-in-law of Ira Levy.

**Lawrence Chariton** has served as a director since 2001. Since May 2008, he has served as a consultant to Great American Jewelry, a retail jewelry firm. He served previously for 32 years as Chief Operating Officer of Linda Shop Jewelry a retail jewelry firm. Mr. Chariton previously served as a member of the Board of Directors of New Island Hospital in Bethpage, New York from 2009 to 2013 and subsequently served as a member of the Board of Directors of St Joseph Hospital from February 2007 to December 2010. He served on the Board of Directors of Jewish National Fund of Long Island. Mr. Chariton has a Bachelors degree in Accounting from Hofstra University.

**Gary M. Jacobs** has served as a director since July 2003. Since October 2014, Mr. Jacobs has served as President of Bar Bakers, LLC, a commercial food manufacturer of nutritional bars, cookies and other baked goods. From March 2011 to October 2014, he served as a consultant to several companies, providing advisory services in the areas of turn-around and financial and operational efficiencies. Mr. Jacobs served as the Chief Financial Officer of Chem Rx from June 2008 until March 2011. From May 2005 to June 2008, Mr. Jacobs was the Chief Financial Officer and Chief Operating Officer of Gold Force International, Ltd., a supplier of gold, silver and pearl jewelry to U.S. retail chains, and Karat Platinum LLC, a developer of an alternative to platinum. From July 2003 to April 2005, Mr. Jacobs served as President of The Innovative Companies, LLC, a supplier of natural stone. From October 2001 to February 2003, Mr. Jacobs served as Executive Vice President of Operations and Corporate Secretary of The Hain Celestial Group, Inc., a food and personal care products company. Mr. Jacobs also served as Executive Vice President of Finance, Chief Financial Officer and Treasurer of The Hain Celestial Group, Inc. from September 1998 to October 2001. Prior to that, Mr. Jacobs was the Chief Financial Officer of Graham Field Health Products, Inc., a manufacturing and distribution company. Mr. Jacobs served for 13 years as a member of the audit staff of Ernst & Young LLP, where he attained the position of senior manager. He is a certified public accountant and holds a Bachelor's of Business Administration in Accounting from Adelphi University.

The Company believes that each of its directors has the experience, qualifications, attributes and skills that enable them to make a positive contribution to our board for the following reasons:

Both Mr. Levy and Mr. Lubman have been in the electronic components business for over 30 years and have a vast knowledge of this business. Mr. Levy's and Mr. Lubman's experience in and knowledge of the electronics components business led to the conclusion that Mr. Levy and Mr. Lubman should serve on the Company's board given the Company's business and structure. Their knowledge of our business enables them to bring keen insight to the board.

Alan Plafker has been an executive in the insurance industry for over 20 years and is knowledgeable in financial matters, including reviewing financial statements. Mr. Plafker's experience in the insurance industry and knowledge of financial matters led to the conclusion that he should serve on the Company's board, given the Company's business and structure.

David Siegel has served on the boards of other public companies and is very familiar with the required public filings that a public company must make and as a result he is able to easily communicate with the company's advisors, including their attorneys. Mr. Siegel's experience on the board of directors of other public companies and his ability to communicate with the Company's advisers led to the conclusion that he should serve on the Company's board, given the Company's business and structure.

Lawrence Chariton experience as a sales manager of a jewelry store gives him experience in running a small business like ours. Mr. Chariton's experience running a small business led to the conclusion that he should serve on the

Company's board, given the Company's business and structure.

Gary Jacobs's experience as a certified public accountant and Chief Financial Officer makes him extremely qualified to review and discuss the Company's financial results and to make recommendations regarding the Company's financial position. Mr. Jacobs's experience as a certified public accountant and Chief Financial Officer led to the conclusion that he should serve on the Company's board, given the Company's business and structure.

### **Board Leadership Structure and Role in Risk Oversight**

Although we have not adopted a formal policy on whether the Chairman and Chief Executive Officer positions should be separate or combined, we have traditionally determined that it is in the best interests of the Company and its shareholders to combine these roles. Mr. Levy has served as our Chairman since November 1981. Due to the small size of the Company, we believe it is currently most effective to have the Chairman and Chief Executive Officer positions combined.

Our board of directors is primarily responsible for overseeing our risk management processes on behalf of our board of directors. The board of directors receives and reviews periodic reports from management, auditors, legal counsel, and others, as considered appropriate regarding our company's assessment of risks. The board of directors focuses on the most significant risks facing our company and our company's general risk management strategy, and also ensures that risks undertaken by our Company are consistent with the board's appetite for risk. While the board oversees our company's risk management, management is responsible for day-to-day risk management processes. We believe this division of responsibilities is the most effective approach for addressing the risks facing our company and that our board leadership structure supports this approach.

### **Board Meetings**

During the fiscal year ended November 30, 2015, the Board held 5 formal meetings and otherwise acted by unanimous written consent. We have no written policy regarding director attendance at annual meetings of stockholders. Our last annual meeting of stockholders was held on November 24, 2015 and all of our directors attended such meeting.

### **Audit Committee**

The audit committee consists of the following three members: Gary Jacobs, Alan Plafker and Lawrence Chariton. Mr. Jacobs serves as the chairman of the audit committee. The Company's board of directors has determined that Gary Jacobs is the audit committee financial expert and chairman of the committee. The audit committee members are "independent" as that term is defined under the Nasdaq Marketplace Rules. During the fiscal year ended November 30, 2015, the Audit Committee held 4 formal meetings.

### **Nominating and Corporate Governance Committee**

The nominating and corporate governance committee consists of the following three members: Gary Jacobs, Alan Plafker and Lawrence Chariton. Mr. Jacobs serves as the chairman of the nominating and corporate governance committee. During the fiscal year ended November 30, 2015, the Nominating and Corporate Governance Committee held one formal meeting.

### **Compensation Committee**

The compensation committee consists of the following three members: Gary Jacobs, Alan Plafker and Lawrence Chariton. Mr. Jacobs serves as the chairman of the compensation committee. During the fiscal year ended November 30, 2015, the Compensation Committee held 4 formal meetings.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires that our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and persons owning more than ten percent of such securities are required by Commission regulation to file with the Commission and furnish the Company with copies of all reports required under Section 16(a) of the Exchange Act. To our knowledge, based solely upon our review of the copies of such reports furnished to us, during the fiscal year ended November 30, 2015, all Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were complied with the exception of one late Form 4 for each of Messrs. Chariton, Jacobs, Plafker, Siegel and Tofias.

**Code of Ethics**

We have adopted a corporate Code of Ethics. The text of our Code of Ethics, which applies to our employees, officers and directors, is posted in the “Investor Relations” section of our website at [www.surgecomponents.com](http://www.surgecomponents.com). A copy of our Code of Conduct and Ethics is also available in print, free of charge, upon written request to 95 East Jefryn Boulevard, Deer Park, New York 11729, Attention: Ira Levy.

***Changes in Nominating Procedures***

None.

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**Item 11. Executive Compensation.**

The following table sets forth information regarding compensation paid to our executive officers for the years ended November 30, 2015 and November 30, 2014:

Name and Position	Year	Salary	Bonus	All Other Compensation (\$)	Total
Ira Levy President CEO and CFO	2015	\$275,000	\$137,500	\$ 49,888	(1) \$462,388
	2014	\$225,000	\$112,000	\$ 49,683	(1) \$386,683
Steven J. Lubman Vice President and Secretary	2015	\$225,000	\$100,000	\$ 42,199	(1) \$367,199
	2014	\$225,000	\$100,000	\$ 57,291	(1) \$382,291

(1)Includes payments for medical insurance, automobile allowance and insurance and life insurance.

**Employment Agreements**

In February 2016, the Company entered into revised employment agreements (the “Levy Agreement” and the “Lubman Agreement”, individually, and collectively, the “Employment Agreements”) with Ira Levy and Steven Lubman (the “Executives”), respectively, which provides the Executives with a base salary of \$275,000 and \$225,000, respectively (“Base Salary”). The Executives shall receive an annual bonus as shall be determined by the Board of Directors of the Company (the “Board”) or the compensation committee of the Board (the “Compensation Committee”), as applicable, in its sole discretion, based upon criteria to be established in its sole discretion. The Executives shall also be entitled to receive additional cash, equity or other compensation or benefits in consideration for their services to the Company, at such times and in such amounts as shall be determined in the sole discretion of the Board or the Compensation Committee. In addition, the Executives shall be entitled to receive grants of stock options, stock and/or any other equity incentive awards available to senior executives, under the Company’s equity incentive plans, at such times and in such amounts as shall be determined in the sole discretion of the Board or the Compensation Committee.

The Employment Agreements will remain in effect until terminated by either the Company or the Executive. In the event an Executive’s employment is terminated by the Company for Cause (as defined in the Employment Agreements), or if an Executive resigns other than for Good Reason (as defined in the Employment Agreements), he shall be entitled to receive (i) any earned but unpaid salary, all vested equity, and any earned but unpaid bonus awards through the date of termination, and (ii) reimbursement for any unreimbursed business expenses incurred by him in accordance with the Company’s policy prior to the date of termination.



In the event an Executive's employment is terminated by the Company other than for Cause or if an Executive resigns for Good Reason, including a Change of Control (as defined in the Employment Agreements), such Executive shall be entitled to any earned but unpaid salary, all vested equity, and any earned but unpaid bonus awards through the date of termination. Such Executive will also be paid an additional thirty-six months of annual compensation equal to the average of his base salary and bonus for the three calendar years prior to the date of termination, payable in accordance with the Company's regular payroll practice over a 52-week period. The Company shall also (i) accelerate the vesting on any of the Executive's unvested stock options, restricted stock grants or other equity incentive awards; and (ii) reimburse the Executive for any unreimbursed business expenses incurred by him in accordance with the Company's policy prior to the date of termination.

In the event an Executive's employment is terminated by the Company upon death or disability, the Executive or his estate shall be entitled to receive his salary then in effect along with all other fringe benefits (including, without limitation, family medical benefits) for a period of one year following the date of such termination. In addition, the Executive or his estate shall have the right to exercise any unexercised and vested options for a period of ninety days following the date of termination and to receive payment for any accrued but unpaid vacation time.

The Employment Agreements contain customary non-competition and non-solicitation provisions that extend to one year after the date of termination of the Executives' employment with the Company. The Executives also agreed to customary terms regarding confidentiality and ownership of product ideas.

**Director Compensation for Year Ending November 30, 2015**

The following table summarizes the compensation for our non-employee board of directors for the fiscal year ended November 30, 2015. All compensation paid to our employee directors is included under the summary compensation table above.

Name	Fees				Total (\$)
	Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	All Other Compensation (\$)	
Alan Plafker	30,000	-	3,983	-	33,983
David Siegel	30,000	-	3,983	-	33,983
Lawrence Chariton	30,000	-	3,983	-	33,983
Gary Jacobs	42,000	-	7,965	-	49,965

**Outstanding Equity Awards at November 30, 2015**

Name	Number of securities underlying options (#)	Equity Incentive Plan		Option Exercise Price (\$)	Option Expiration Date
		Awards: Number of Securities Underlying Unexercised Unearned Options (#)			
Ira Levy	-	50,000	(1)	0.82	November 2018
Steven Lubman	-	25,000	(2)	0.82	November 2018
Ira Levy	-	62,500	(3)	0.80	April 2018
Steven Lubman	-	45,938	(4)	0.80	April 2018

(1) 50,000 options were issued on November 27, 2013 and vested immediately.

(2) 25,000 options were issued on November 27, 2013 and vested immediately.

(3) 62,500 options were issued on April 10, 2014 and vested immediately.

(4) 45,938 options were issued on April 10, 2014 and vested immediately.



**Item 12. Security Ownership of Certain Beneficial Owners and Management.**

Under Rule 13d-3, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of shares; and (ii) investment power, which includes the power to dispose or direct the disposition of shares. Certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares outstanding is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights.

The following table sets forth as of February 19, 2016, information regarding the beneficial ownership of our common stock by: (i) each person known by the Company to be the beneficial owner of than five percent of the outstanding shares of common stock, (ii) each of our directors and officers and (iii) all officers and directors, as a group:

Name and address of Beneficial Owner (1)	Amount and Nature of Common Stock Beneficially Owned	Percentage of Common Stock Beneficially Owned (2)
Ira Levy	1,053,868 (5)(6)	10.45 %
Steven J. Lubman	870,938 (4)(7)	8.65 %
Lawrence Chariton	178,703 (4)(8)	1.78 %
Alan Plafker	50,000 (4)(8)	*
David Siegel	142,000 (4)(8)	1.41 %
Gary Jacobs	162,000 (3)(4)(9)	1.60 %
All directors and executive officers as a group (6 persons)	2,457,509	23.84 %
Michael Tofias 325 North End Avenue, Apt. 25B New York, NY 10282	1,568,123	15.68 %
Brad Rexroad		

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970 Reserve Drive, Suite 126  
Roseville, CA 95678

585,385

5.58

%

\*Less than 1%

(1) Except as otherwise indicated, the address of each beneficial owner is c/o Surge Components, Inc., 95 East Jefryn Boulevard, Deer Park, NY 11729.

(2) Applicable percentage ownership is based on 9,999,125 shares of common stock outstanding as of February 26, 2016.

(3) Includes 50,000 shares issuable upon exercise of options with an exercise price of \$0.51, which are exercisable within 60 days.

(4) Includes 25,000 shares issuable upon exercise of options with an exercise price of \$0.82, which are exercisable within 60 days.

(5) Includes 50,000 shares issuable upon exercise of options with an exercise price of \$0.82, which are exercisable within 60 days.

(6) Includes 62,500 shares issuable upon exercise of options with an exercise price of \$0.80, which are exercisable within 60 days.

(7) Includes 45,938 shares issuable upon exercise of options with an exercise price of \$0.80, which are exercisable within 60 days.

(8) Includes 25,000 shares issuable upon exercise of options with an exercise price of \$0.87, which are exercisable within 60 days.

(9) Includes 50,000 shares issuable upon exercise of options with an exercise price of \$0.87, which are exercisable within 60 days.

## **Item 13. Certain Relationships And Related Transactions, and Director Independence.**

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

Surge and Challenge each lease their current executive offices from Great American Realty of Jefryn Blvd., LLC, an entity owned equally by Ira Levy, our Chief Executive Officer, and President and Steven Lubman, our Vice President, Secretary and Treasurer and one other individual who is not an executive officer or director of the Company. Our lease is through September 2020 and our annual rent payments were approximately \$250,026 and \$249,538 for fiscal 2015 and 2014, respectively.

### **Director Independence**

Lawrence Chariton, Alan Plafker, and Gary Jacobs are independent directors as that term is defined under the Nasdaq Marketplace Rules.

## **Item 14. Principal Accounting Fees And Services**

### Audit Fees

Audit Fees represent the aggregate fees for professional services for the audit of our annual financial statements and review of financial statements included in our quarterly reports on Form 10-Q or services that are normally provided in connection with statutory and regulatory filings or engagements for those fiscal years. For the years ended November 30, 2015 and 2014, we paid Seligson & Giannattasio, LLP \$151,000 and \$151,000, respectively.

### Audit-Related Fees

For the years ended November 30, 2015 and 2014, we paid Seligson & Giannattasio, LLP \$0 and \$0, respectively, for audit-related services.

Tax Fees

For the years ended November 30, 2015 and 2014, we paid Seligson & Giannattasio, LLP \$12,000 and \$12,000, respectively, for tax related services.

All Other Fees

For the years ended November 30, 2015 and 2014, we paid Seligson & Giannattasio, LLP \$0 and \$0, respectively, for all other services.

The audit committee on an annual basis reviews audit and non-audit services performed by the independent registered public accounting firm. All audit and non-audit services are pre-approved by the audit committee, which considers, among other things, the possible effect of the performance of such services on the auditors' independence. The audit committee has considered the role of Seligson & Giannattasio, LLP in providing services to us for the fiscal year ended November 30, 2015 and has concluded that such services are compatible with Seligson & Giannattasio, LLP's independence as the Company's independent registered public accounting firm.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

The following documents are filed as a part of this report or incorporated herein by reference:

1. Our Consolidated Financial Statements commencing on page F-1 of this Annual Report.

2. Exhibits:

The following documents are included as exhibits to this Annual Report:

Exhibit Number	Description
3.1	Articles of Incorporation of Surge Components, Inc. (filed as exhibit to Form 8-K filed on September 16, 2010 and incorporated herein by reference)
3.2	Amended and Restated By-Laws of Surge Components, Inc. (filed as exhibit to Form 8-K filed on February 24, 2016 and incorporated herein by reference)
3.3	Certificate of Correction of Surge Components, Inc. (filed as exhibit to Form 10-K filed on February 27, 2015 and incorporated herein by reference)
10.1	Lease between Surge Components and Great American Realty of 95 Jefryn BLVD., LLC (filed as exhibit to Amendment No. 1 to Form 10 filed on August 20, 2010 and incorporated herein by reference)
10.2	Lease between Challenge Electronics and Great American Realty of 95 Jefryn BLVD., LLC (filed as exhibit to Amendment No. 1 to Form 10 filed on August 20, 2010 and incorporated herein by reference)
10.3	Employment Agreement between Surge Components, Inc. and Ira Levy (filed as exhibit to Form 8-K filed on February 24, 2016 and incorporated herein by reference)
10.4	Employment Agreement between Surge Components Inc. and Steven Lubman (filed as exhibit to Form 8-K filed on February 24, 2016 and incorporated herein by reference)
10.5	Tenancy Agreement between Surge Components, Inc. and Sam Cheong Stove Parts Co. Ltd (filed as exhibit to Amendment No. 3 to Form 10 filed on January 11, 2011 and incorporated herein by reference)



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- 10.6 Declaration of Trust (filed as exhibit to Amendment No. 1 to Form 10 filed on August 20, 2010 and incorporated herein by reference)
- 10.7 2010 Incentive Stock Plan (filed as exhibit to Amendment No. 2 to Form 10 filed on November 4, 2010 and incorporated herein by reference)
- 10.8 2015 Incentive Stock Plan
- 10.9 Lease Agreement, dated October 1, 2010, between Great American Realty of Jefryn Boulevard, LLC and Surge Components, Inc. (filed as exhibit to Amendment No. 2 to Form 10 filed on November 4, 2010 and incorporated herein by reference)
- 10.10 Lease Agreement, dated October 1, 2010, between Great American Realty of Jefryn Boulevard, LLC and Challenge Electronics, Inc. (filed as exhibit to Amendment No. 2 to Form 10 filed on November 4, 2010 and incorporated herein by reference)
- 10.11 Agreement, dated March 18, 1999 between Surge Components, Inc. and Future Electronics Incorporated (filed as exhibit to Amendment No. 3 to Form 10 filed on January 11, 2011 and incorporated herein by reference)
- 10.12 Addendum A, dated March 18, 1999, between Surge Components, Inc. and Future Electronics (filed as exhibit to Amendment No. 3 to Form 10 filed on January 11, 2011 and incorporated herein by reference)
- 10.13 Agreement, dated October 21, 2009, between Challenge Electronics, Inc. and Cam RPC Electronics (filed as exhibit to Amendment No. 3 to Form 10 filed on January 11, 2011 and incorporated herein by reference)
- 10.14 Agreement, dated October 21, 2009, between Challenge Electronics, Inc. and Nu-Way Electronics (filed as exhibit to Amendment No. 3 to Form 10 filed on January 11, 2011 and incorporated herein by reference)

- 10.15 Agreement, dated October 19, 2009 between Challenge Electronics, Inc. and Aesco Electronics (filed as exhibit to Amendment No. 3 to Form 10 filed on January 11, 2011 and incorporated herein by reference)
- 10.16 Agreement, dated May 5, 2009, between Challenge Electronics, Inc. and TLC Electronics, Inc. (filed as exhibit to Amendment No. 3 to Form 10 filed on January 11, 2011 and incorporated herein by reference)
- 10.17 Distributor Agreement, dated August 14, 2012, between Surge Components, Inc. and TTI, Inc. (filed as exhibit to Form 10-K filed on February 28, 2013 and incorporated herein by reference)
- 10.18 Sole Agent Agreement, dated January 1, 2007, between Surge Components, Inc. and Lelon Electronics (filed as exhibit to Form 10-K filed on February 28, 2012 and incorporated herein by reference)
- 10.19 Master Distributor Agreement, dated February 7, 2011, between Surge Components, Inc. and Avnet, Inc. (filed as exhibit to Form 10-K filed on February 28, 2012 and incorporated herein by reference)
- 10.20 First Amendment to Master Distributor Agreement, dated February 17, 2011, between Surge Components, Inc. and Avnet, Inc. (filed as exhibit to Form 10-K filed on February 28, 2012 and incorporated herein by reference)
- 10.21 Rental Agreement with Adcock Investment Company Limited dated May 5, 2013 (filed as exhibit to Form 10-Q filed on July 15, 2013 and incorporated herein by reference)
- 21.1 Subsidiaries (filed as exhibit to Amendment No. 1 to Form 10 filed on August 20, 2010 and incorporated herein by reference)
- 31 Certification of principal executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 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

**SIGNATURES**

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

**SURGE COMPONENTS, INC**

Date: February 26, 2016 By: /s/ Ira Levy  
Ira Levy  
Chief Executive Officer and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Ira Levy Ira Levy Chief Executive Officer, Chief Financial Officer and Chairman of the Board (Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)	February 26, 2016
/s/ Steven J. Lubman Steven J. Lubman Vice President, Secretary, Treasurer and Director	February 26, 2016
/s/ Alan Plafker Alan Plafker Director	February 26, 2016
/s/ David Siegel David Siegel Director	February 26, 2016
/s/ Lawrence Chariton Lawrence Chariton Director	February 26, 2016

/s/ Gary M. Jacobs

Gary M. Jacobs

Director

February 26,  
2016

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To The Board of Directors and Stockholders of

Surge Components, Inc.

We have audited the accompanying consolidated balance sheets of Surge Components, Inc. and subsidiaries as of November 30, 2015 and 2014 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the two year period ended November 30, 2015. Surge Components, Inc. and subsidiaries management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Surge Components, Inc. and subsidiaries as of November 30, 2015 and 2014 and the consolidated results of their operations and their consolidated cash flows for each of the years in the two year period ended November 30, 2015 in conformity with accounting principles generally accepted in the United States of America.

/s/ Seligson & Giannattasio, LLP

White Plains, New York

February 26, 2016

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## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

	November 30, 2015	November 30, 2014
<b>ASSETS</b>		
Current assets:		
Cash	\$7,169,118	\$6,174,561
Accounts receivable - net of allowance for doubtful accounts of \$127,531 and \$93,765	4,693,749	4,433,994
Inventory, net	3,199,463	3,258,156
Prepaid expenses and income taxes	131,522	233,275
Deferred income taxes	249,533	295,873
Total current assets	15,443,385	14,395,859
Fixed assets – net of accumulated depreciation and amortization of \$2,154,182 and \$2,114,416	104,738	84,966
Deferred income taxes	748,597	887,620
Other assets	13,384	11,652
Total assets	\$16,310,104	\$15,380,097

See notes to consolidated financial statements

## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(Continued)

	November 30, 2015	November 30, 2014
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$3,261,763	\$3,288,798
Accrued expenses and taxes	572,487	785,002
Accrued salaries	528,957	556,805
Total current liabilities	4,363,207	4,630,605
Deferred rent	41,955	40,564
Total liabilities	4,405,162	4,671,169
Commitments and contingencies		
Shareholders' equity		
Preferred stock - \$.001 par value stock, 5,000,000 shares authorized:		
Series A – 260,000 shares authorized, none outstanding, non-voting, convertible, redeemable.		
Series B – 200,000 shares authorized, none outstanding, voting, convertible, redeemable.		
Series C–100,000 shares authorized, 10,000 and 23,700 shares issued and outstanding, redeemable, convertible, and a liquidation preference of \$5 per share	10	24
Common stock - \$.001 par value stock, 75,000,000 shares authorized, 9,999,125 and 9,080,012 shares issued and outstanding	9,999	9,080
Additional paid-in capital	23,529,729	23,192,405
Accumulated deficit	(11,634,796)	(12,492,581)
Total shareholders' equity	11,904,942	10,708,928
Total liabilities and shareholders' equity	\$16,310,104	\$15,380,097

See notes to consolidated financial statements.



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## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

	Year Ended November 30,	
	2015	2014
Net sales	\$29,734,493	\$27,218,025
Cost of goods sold	22,300,757	20,541,782
Gross profit	7,433,736	6,676,243
Operating expenses:		
Selling and shipping expenses	2,394,331	2,350,090
General and administrative expenses	3,902,358	3,564,412
Depreciation and amortization	39,766	48,877
Total operating expenses	6,336,455	5,963,379
Income before other income and income taxes	1,097,281	712,864
Other income:		
Investment income	8,832	4,849
Other income	8,832	4,849
Income before income taxes	1,106,113	717,713
Income taxes	241,228	279,149
Net income	\$864,885	\$438,564
Dividends on preferred stock	7,100	11,850
Net income available to common shareholders	\$857,785	\$426,714
Net income per share available to common shareholders:		
Basic	\$.09	\$.05
Diluted	\$.09	\$.04

Weighted Shares Outstanding:

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Basic	9,641,542	9,062,642
Diluted	9,759,575	9,705,861

See notes to consolidated financial statements.

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## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Statements of Changes in Shareholders' Equity

Years ended November 30, 2015 and 2014

	Series C Preferred Shares	Preferred Amount	Common Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total
Balance – November 30, 2013	23,700	\$ 24	9,060,012	\$ 9,060	\$ 23,153,177	\$(12,919,295)	\$ 10,242,966
Preferred stock dividends	--	--	--	--	--	(11,850 )	(11,850 )
Issuance of options	--	--	--	--	39,248	--	39,248
Issuance of common shares	--	--	20,000	20	(20 )	--	--
Net Income	--	--	--	--	--	438,564	438,564
Balance – November 30, 2014	23,700	24	9,080,012	9,080	23,192,405	(12,492,581)	10,708,928
Preferred stock dividends	--	--	--	--	--	(7,100 )	(7,100 )
Issuance of options	--	--	--	--	34,913	--	34,913
Exercise of options	--	--	575,000	575	143,175	--	143,750
Issuance of shares for conversion of accrued interest	--	--	113,803	114	102,286	--	102,400
Issuance of shares as compensation	--	--	78,310	78	57,088	--	57,166
Issuance of common shares	(13,700)	(14 )	152,000	152	(138 )	--	--
Net income	--	--	--	--	--	864,885	864,885
Balance – November 30, 2015	10,000	\$ 10	9,999,125	\$ 9,999	\$ 23,529,729	\$(11,634,796)	\$ 11,904,942

See notes to consolidated financial statements.

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## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

	Year Ended November 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$864,885	\$438,564
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,766	48,877
Stock compensation expense	92,079	39,248
Deferred income taxes	185,363	273,114
Allowance for doubtful accounts	33,766	33,765
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES:</b>		
Accounts receivable	(293,521)	495,626
Inventory	58,693	414,407
Prepaid expenses and income taxes	101,753	8,421
Other assets	(1,732 )	-
Accounts payable	(27,034 )	(40,978 )
Deferred rent	1,391	4,709
Accrued expenses	(145,064)	229,286
<b>NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>910,345</b>	<b>1,945,039</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of fixed assets	(59,538 )	(58,568 )
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(59,538 )</b>	<b>(58,568 )</b>

## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Consolidated Statements Of Cash Flows

(Continued)

	Year Ended November 30,	
	2015	2014
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercising stock options	\$ 143,750	\$-
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>143,750</b>	<b>-</b>
<b>NET CHANGE IN CASH</b>	<b>994,557</b>	<b>1,886,471</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>6,174,561</b>	<b>4,288,090</b>
<b>CASH AT END OF PERIOD</b>	<b>\$7,169,118</b>	<b>\$6,174,561</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Income taxes paid	\$55,865	\$77,600
Interest paid	\$-	\$-
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Accrued dividends on preferred stock	\$7,100	\$11,850

See notes to consolidated financial statements.

SURGE COMPONENTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE A – ORGANIZATION, DESCRIPTION OF COMPANY'S BUSINESS AND BASIS OF PRESENTATION

Surge Components, Inc. (“Surge”) was incorporated in the State of New York and commenced operations on November 24, 1981 as an importer of electronic products, primarily capacitors and discrete semi-conductors selling to customers located principally throughout North America. On June 24, 1988, Surge formed Challenge/Surge Inc. (“Challenge”), a wholly-owned subsidiary to engage in the sale of electronic component products and sounding devices from established brand manufacturers to customers located principally throughout North America.

In May 2002, Surge and an officer of Surge founded and became sole owners of Surge Components, Limited (“Surge Limited”), a Hong Kong corporation. Under current Hong Kong law, Surge Limited is required to have at least two shareholders. Surge owns 999 shares of the outstanding common stock and the officer of Surge owns 1 share of the outstanding common stock. The officer of Surge has assigned his rights regarding his 1 share to Surge. Surge Limited started doing business in July 2002. Surge Limited operations have been consolidated with the Company. Surge Limited is responsible for the sale of Surge’s products to customers located in Asia.

On August 31, 2010, the Company changed its corporate domicile by merging into a newly-formed corporation, Surge Components, Inc. (Nevada), which was formed in the State of Nevada for that purpose. Surge Components Inc. is the surviving entity. The number of common stock shares authorized for issuance was increased to 75,000,000 shares.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of Consolidation:

The consolidated financial statements include the accounts of Surge, Challenge, and Surge Limited (collectively the “Company”). All material intercompany balances and transactions have been eliminated in consolidation.



(2) Accounts Receivable:

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

(3) Revenue Recognition:

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

For direct shipments, revenue is recognized when product is shipped from the Company's supplier. The Company has a long term supply agreement with one of our suppliers. The Company purchases the merchandise from the supplier and has the supplier directly ship to the customer through a freight forwarder. Title passes to customer upon the merchandise being received by a freight forwarder. Direct shipments were approximately \$3,930,000 and \$3,920,000 for the years ended November 30, 2015 and November 30, 2014 respectively.

The Company also acts as a sales agent to certain customers in North America for one of its suppliers. The Company reports these commissions as revenues in the period earned. Commission revenue totaled \$266,525 and \$509,273 for the years ended November 30, 2015 and November 30, 2014 respectively.

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

SURGE COMPONENTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Revenue Recognition (continued):

The Company and its subsidiaries currently have agreements with several distributors. There are no provisions for the granting of price concessions in any of the agreements. Revenues under these distribution agreements were approximately \$9,331,000 and \$7,019,000 for the years ended November 30, 2015 and November 30, 2014 respectively.

(4) Inventories:

Inventories, which consist solely of products held for resale, are stated at the lower of cost (first-in, first-out method) or market. Products are included in inventory when the Company obtains title and risk of loss on the products, primarily when shipped from the supplier. Inventory in transit principally from foreign suppliers at November 30, 2015 approximated \$1,613,000. The Company, at November 30, 2015, has a reserve against slow moving and obsolete inventory of \$295,000. From time to time the Company's products are subject to legislation from various authorities on environmental matters.

(5) Depreciation and Amortization:

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

Furniture, fixtures and equipment 5 - 7 years

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

Maintenance and repairs are expensed as incurred while renewals and betterments are capitalized.

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SURGE COMPONENTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Concentration of Credit Risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. The Company maintains substantially all of its cash balances in a limited number of financial institutions. At November 30, 2015 and November 30, 2014, the Company's uninsured cash balances totaled approximately \$3,988,761 and \$2,994,000, respectively.

(7) Income Taxes:

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. A valuation allowance is provided when it has been determined to be more likely than not that the likelihood of the realization of deferred tax assets will not be realized. See Note G.

The Company follows the provisions of the Accounting Standards Codification topic, ASC 740, "Income Taxes" (ASC 740). There have been no unrecognized tax benefits and, accordingly, there has been no effect on the Company's financial condition or results of operations as a result of ASC 740.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is no longer subject to U.S. federal tax examinations for years before fiscal years ending November 30, 2011, and state tax examinations for years before fiscal years ending November 30, 2010. Management does not believe there will be any material changes in our unrecognized tax positions over the next twelve months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income expense. As of the date of adoption of ASC 740, there was no accrued interest or penalties associated with any unrecognized benefits, nor was any interest expense recognized during the years ended November 30, 2015 and November 30, 2014.

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SURGE COMPONENTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(8) Cash Equivalents:

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(9) Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(10) Marketing and promotional costs:

Marketing and promotional costs are expensed as incurred and have not been material to date. The Company has contractual arrangements with several of its distributors which provide for cooperative advertising rights to the distributor as a percentage of sales. Cooperative advertising is reflected as a reduction in revenues and has not been material to date.

(11) Fair Value of Financial Instruments:

The carrying amount of cash balances, accounts receivable, accounts payable and accrued expenses approximate their fair value based on the nature of those items. Estimated fair values of financial instruments are determined using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret the market data used to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange.

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SURGE COMPONENTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Shipping Costs

The Company classifies shipping costs as a component of selling expenses. Shipping costs totaled \$8,664 and \$11,357 for the years ended November 30, 2015 and November 30, 2014 respectively.

(13) Earnings Per Share

Basic earnings per share includes no dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. The difference between reported basic and diluted weighted-average common shares results from the assumption that all dilutive stock options and convertible preferred stock exercised into common stock. Total potentially dilutive shares excluded from diluted weighted shares outstanding at November 30, 2015 and November 30, 2014 totaled 518,405 and 560,220, respectively.

(14) Stock Based Compensation

Stock Based Compensation to Employees

The Company accounts for its stock-based compensation for employees in accordance with Accounting Standards Codification (“ASC”) 718. The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees over the related vesting period.



Stock Based Compensation to Other than Employees

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with ASC 718. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably determinable. The value of equity instruments issued for consideration other than employee services is determined on the earlier of a performance commitment or completion of performance by the provider of goods or services. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement.

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## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

NOTE C - FIXED ASSETS

Fixed assets consist of the following:

	November 30, 2015	November 30, 2014
Furniture and Fixtures	\$ 327,971	\$ 322,586
Leasehold Improvements	956,637	940,204
Computer Equipment	974,312	936,592
Less-Accumulated Depreciation	(2,154,182)	(2,114,416)
Net Fixed Assets	\$ 104,738	\$ 84,966

Depreciation and amortization expense for the years ended November 30, 2015 and November 30, 2014 was \$39,766 and \$48,877, respectively.

NOTE D - ACCRUED EXPENSES

Accrued expenses consist of the following:

	November 30, 2015	November 30, 2014
Commissions	\$ 276,724	\$ 263,796
Preferred Stock Dividends	124,069	200,557
Interest	-	102,399

Other accrued expenses	171,694	218,250
	\$ 572,487	\$ 785,002

In March 2000, the Company completed a \$7,000,000 private placement of convertible notes. The face value of the notes was converted into common stock in July 2001 pursuant to the automatic conversion provisions of the notes. However, approval by holders of the notes was required to convert the interest accrued on the notes to common stock. The accrued interest set forth in the Company's financial statements relates to the portion of the accrued interest for which note holder approval was not obtained and therefore not converted into common stock. No additional interest accrues on these amounts and none of the accrued interest was repaid during any of the periods presented. In February 2015, the Company issued 113,803 shares of common stock to the holders of the Notes at a conversion rate of \$0.90 per share.

#### NOTE E – RETIREMENT PLAN

In June 1997, the Company adopted a qualified 401(k) retirement plan for all full-time employees who are twenty-one years of age and have completed twelve months of service. The plan allows total employee contributions of up to fifteen percent (15%) of the eligible employee's salary through salary reduction. The Company makes a matching contribution of twenty percent (20%) of each employee's contribution for each dollar of employee deferral up to five percent (5%) of the employee's salary. Net assets for the plan, as estimated by Union Central, Inc., which maintains the plan's records, were approximately \$1,092,000 at November 30, 2015. Pension expense for the years ended November 30, 2015 and November 30, 2014 was \$2,287 and \$11,222, respectively.

SURGE COMPONENTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE F – SHAREHOLDERS’ EQUITY

[1] Preferred Stock:

In February 1996, the Company amended its Certificate of Incorporation to authorize the issuance of 1,000,000 shares of preferred stock in one or more series. In August 2010, the number of preferred shares authorized for issuance was increased to 5,000,000 shares.

In January 2000, the Company authorized 260,000 shares of preferred stock as Non-Voting Redeemable Convertible Series A Preferred Stock (“Series A Preferred”). None of the Series A preferred stock is outstanding as of November 30, 2015.

In November 2000, the Company authorized 200,000 shares of preferred stock as Voting Redeemable Convertible Series B Preferred Stock (“Series B Preferred”). None of the Series B Preferred Stock is outstanding as of November 30, 2015.

In November 2000, the Company authorized 100,000 shares of preferred stock as Non-Voting Redeemable Convertible Series C Preferred Stock (“Series C Preferred”). Each share of Series C Preferred is automatically convertible into 10 shares of our common stock upon shareholder approval. If the Series C Preferred were converted into common stock on or before April 15, 2001, these shares were entitled to cumulative dividends at the rate of \$.50 per share per annum commencing April 15, 2001 payable on June 30 and December 31 of each year. In November 2000, 70,000 shares of the Series C Preferred were issued in payment of financial consulting services to its investment banker and a shareholder of the Company. In April 2001, 8,000 shares of the Series C Preferred were repurchased and cancelled.

In April 2002, in connection with a Mutual Release, Settlement, Standstill and Non-Disparagement Agreement among other provisions, certain investors transferred back to the Company 252,000 shares of common stock, 19,300 shares of

Series C preferred stock, and certain warrants, in exchange for \$225,000. These repurchased shares were cancelled.

In February 2006, the Company settled with a shareholder to repurchase 10,000 shares of Series C Preferred plus accrued dividends for \$50,000.

Pursuant to exchange agreements dated as of March 14, 2011, 9,000 shares of Series C Preferred were returned to the Company for cancellation in exchange for 112,500 shares of common stock.

In October 2014, 2,000 shares of Series C Preferred were converted into 20,000 shares of common stock.

In April 2015, the Company entered into a settlement agreement with a shareholder pursuant to which 7,500 shares of Series C Preferred were returned to the Company for cancellation in exchange for 110,000 shares of common stock plus \$65,000 for accrued dividends and legal fees and expenses.

In July 2015, 4,200 shares of Series C Preferred were exchanged for 42,000 shares of common stock and \$29,838 in accrued dividends.

Dividends aggregating \$124,069 have not been paid for the semi-annual periods ended December 31, 2001 through the semi-annual payment due June 30, 2015. The Company has accrued these dividends. At November 30, 2015, there are 10,000 shares of Series C Preferred issued and outstanding.

## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

NOTE F – SHAREHOLDERS’ EQUITY (Continued)[2] 2010 Incentive Stock Plan

In March 2010, the Company adopted, and in April 2010 the shareholders ratified, the 2010 Incentive Stock Plan (“2010 Stock Plan”). The 2010 Stock Plan provides for the grant of options to officers, employees, directors or consultants to the Company to purchase an aggregate of 1,500,000 common shares.

Activity in the 2010 Stock Plan for the year ended November 30, 2015 is summarized as follows:

	Shares	Weighted Average Exercise Price
Options outstanding December 1, 2014	986,438	\$ 0.50
Options issued in the year ended November 30, 2015	125,000	\$ 0.87
Options exercised in the year ended November 30, 2015	(575,000)	\$ 0.25
Options cancelled in the year ended November 30, 2015	(1,000 )	\$ 1.15
Options outstanding at November 30, 2015	535,438	\$ 0.85
Options exercisable at November 30, 2015	535,438	\$ .085

[3] 2015 Incentive Stock Plan

In November 2015, the Company adopted and the shareholders ratified, the 2015 Incentive Stock Plan (“2015 Stock Plan”). The 2015 Stock Plan provides for the grant of options to officers, employees, directors or consultants to the Company to purchase an aggregate of 1,500,000 common shares.

There was no activity in the 2015 Stock Plan for the year ended November 30, 2015.

### Stock Compensation

On February 25, 2011, the Company granted stock options to employees to purchase 85,000 shares of the Company's common stock at an exercise price of \$1.15, the value of the common stock on the date of the grant. These options vest over a three year period and expire in ten years. The fair values of these stock options are estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: expected volatility of 60% (based on stock volatility of public company industry peers); average risk-free interest rate of 3.42% (the ten year treasury note rate on the date of the grant); initial expected life of 10 years (based on the term of the options); no expected dividend yield; and amortized over the vesting period.

In July 2012, the Company granted a stock option to one non-officer director to purchase 50,000 shares of common stock at an exercise price of \$0.51, the market price of the common stock on the date of the grant. This option vested immediately and expires in five years. The fair value of this stock option is estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: expected volatility of 35% (based on stock volatility of public company industry peers); average risk-free interest rate of 0.67% (the five year treasury note rate on the date of the grant); initial expected life of 5 years (based on the term of the options) and no expected dividend yield.

In November 2013, the Company granted a stock option to one employee-director and all non-employee directors to purchase 25,000 shares of common stock, and one employee-director to purchase 50,000 shares of common stock at an exercise price of \$0.82, the market price of the common stock on the date of the grant. This option vested immediately and expires in five years. The fair value of this stock option is estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: expected volatility of 18% (based on the Company's historical stock volatility); average risk-free interest rate of 1.36% (the five year treasury note rate on the date of the grant); initial expected life of 5 years (based on the term of the options) and no expected dividend yield.

SURGE COMPONENTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE F – SHAREHOLDERS’ EQUITY (Continued)

Stock Compensation (Continued)

In April 2014, the Company granted a stock option to (a) one employee-director to purchase 62,500 shares of common stock, and (b) one employee-director to purchase 45,938 shares of common stock, at an exercise price of \$.80 per share, the market price of the common stock on the date of the grant. These options vest immediately and expire five years from the grant date. The fair value of these stock options are estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: expected volatility of 20% (based on the Company’s historical stock volatility); average risk-free interest rate of 1.65% (the five year treasury note rate on the date of the grant); initial expected life of 5 years (based on the term of the options) and no expected dividend yield.

In March 2015, the Company awarded one employee director 48,530 shares of its common stock and another employee director 29,780 shares of its common stock as part of their 2014 bonus. The Company recorded a cost of \$57,166 relating to the issuance of these shares. In February 2015, one non-employee director exercised an option to acquire 25,000 shares of common stock for \$0.25 per share. In April 2015, two employee directors each exercised options to acquire 250,000 shares for \$0.25 per share. Also in April 2015, two non-employee directors each exercised options to acquire 25,000 shares of common stock for \$0.25 per share.

In July 2015, the Company granted stock options to (a) three non-employee directors to each purchase 25,000 shares of common stock, and (b) one non-employee-director to purchase 50,000 shares of common stock, at an exercise price of \$.87 per share, the market price of the common stock on the date of the grant. These options vest immediately and expire five years from the grant date. The Company recorded a cost of \$19,913 related to the granting of these options. The fair value of these stock options are estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: expected volatility of 17% (based on the Company’s historical stock volatility); average risk-free interest rate of 1.55% (the five year treasury note rate on the date of the grant); initial expected life of 5 years (based on the term of the options) and no expected dividend yield.



The intrinsic value of the exercisable options at November 30, 2015 totaled \$12,500. At November 30, 2015 the weighted average remaining life of the stock options is 2.57 years. At November 30, 2015, there was no unrecognized compensation cost related to the stock options granted under the plan.

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SURGE COMPONENTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE F – SHAREHOLDERS’ EQUITY (Continued)

[4] Authorized Repurchase:

In November 2015, the Board of Directors authorized the Company to purchase up to \$500,000 of common stock in the open market or in privately negotiated transactions. The Company has not repurchased any shares to date pursuant to such authority.

[5] Compensation of Directors

In May 2010, the Company issued 12,000 shares of its common stock to each non-employee director as compensation for services on the Board of Directors. These shares were valued at \$0.18 per share, the closing price of the common stock on the over-the-counter market. Starting April 1, 2012, the amount directors each receive for their services on the Board of Directors was increased from \$200 a month to \$2,000 a month. In May 2010, options were granted to each non-employee director to purchase 25,000 shares of common stock at an exercise price of \$0.25 per share. In July 2012, a stock option was granted to one non-employee director to purchase 50,000 shares of common stock at an exercise price of \$0.51. (See Note F[2] for disclosure on the valuation and terms of these options). In May 2012, one non-employee director exercised an option and acquired 25,000 shares of common stock for \$0.25 per share. In November 2013, each non-employee director was granted an option to purchase 25,000 shares of common stock at an exercise price of \$0.82 per share. Starting December 1, 2013 the compensation for each non-employee director was increased to \$2,500 per month (and \$3,500 per month for a non-employee director that serves as the chairman of more than two committees of the Board of Directors). In February 2015, one non-employee director exercised an option and acquired 25,000 shares of common stock for \$0.25 per share. In April 2015, two non-employee directors exercised options and acquired 25,000 shares each of common stock for \$0.25 per share. In July 2015, options were granted to three non-employee directors each to purchase 25,000 shares of common stock and one non-employee director to purchase 50,000 shares of common stock at an exercise price of \$0.87 per share.

NOTE G – INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes using the enacted tax rates in effect in the years in which the differences are expected to reverse.

The Company's deferred income taxes are comprised of the following:

	November 30, 2015	November 30, 2014
Deferred Tax Assets		
Net operating loss	\$4,095,388	\$4,366,694
Allowance for bad debts	39,296	29,317
Inventory	100,017	120,219
Deferred Rent	16,756	16,201
Depreciation	156,272	170,131
Total deferred tax assets	4,407,729	4,702,562
Valuation allowance	(3,409,599)	(3,519,069)
Deferred Tax Assets	\$998,130	\$1,183,493

The valuation allowance for the deferred tax assets relates principally to the uncertainty of the utilization of deferred tax assets and was calculated in accordance with the provisions of ASC 740, which requires that a valuation allowance be established or maintained when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. The valuation allowance decreased by approximately \$109,000 during the year ended November 30, 2015. This valuation is based on management estimates of future taxable income. Although the degree of variability inherent in the estimates of future taxable income is significant and subject to change in the near term, management believes, that the estimate is adequate. The estimated valuation allowance is continually reviewed and as adjustments to the allowance become necessary, such adjustments are reflected in the current operations.

## SURGE COMPONENTS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

NOTE G – INCOME TAXES (CONTINUED)

The Company's income tax expense consists of the following:

	Years Ended	
	November 30, 2015	November 30, 2014
Current:		
Federal	\$12,602	\$-
States	42,263	6,035
	55,865	6,035
Deferred:		
Federal	146,434	215,760
States	38,929	57,354
	185,363	273,114
Provision for income taxes	\$241,228	\$279,149

The Company files a consolidated income tax return with its wholly-owned subsidiaries and has net operating loss carryforwards of approximately \$10,250,000 for federal and state purposes, which expire through 2020. A reconciliation of the difference between the expected income tax rate using the statutory federal tax rate and the Company's effective rate is as follows:

	Years ended		
	November 30, 2015	November 30, 2014	
U.S Federal Income tax statutory rate	34 %	34	%

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Valuation allowance	(19)%	2	%
State income taxes	7 %	3	%
Other	-	-	
Effective tax rate	22 %	39	%

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SURGE COMPONENTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE H- RENTAL COMMITMENTS

The Company leases its office and warehouse space through 2020 from a corporation that is controlled by officers/shareholders of the Company (“Related Company”). Annual minimum rental payments to the Related Company approximated \$169,000 for the year ended November 30, 2015, and increase at the rate of three per cent per annum throughout the lease term.

Pursuant to the lease, rent expense charged to operations differs from rent paid because of scheduled rent increases. Accordingly, the Company has recorded deferred rent. Rent expense is calculated by allocating to rental payments, including those attributable to scheduled rent increases, on a straight line basis, over the lease term.

In June 2015, the Company renewed its lease to rent office space and a warehouse in Hong Kong for two years. Annual minimum rental payments for this space are approximately \$58,500.

The Company’s future minimum rental commitments at November 30, 2015 are as follows:

Twelve Months Ended	
November 30,	
2016	\$231,041
2017	\$205,261
2018	\$179,552
2019	\$183,142
2020	\$155,154
2021 & thereafter	\$-
	\$954,150

Net rental expense for the years ended November 30, 2015 and November 30, 2014 were \$306,263 and \$306,078 respectively, of which \$250,026 and \$249,538 respectively, was paid to the Related Company.

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SURGE COMPONENTS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE I – EMPLOYMENT AND OTHER AGREEMENTS

In February 2016, the Company entered into revised employment agreements with two officers of the Company. Pursuant to these agreements, the base salary for one officer is \$275,000 and the base salary for the other officer is \$225,000. The agreements continue until terminated by either party.

The Company's compensation committee may award these officers with bonuses and will review the base salary amounts for each of the officers on an annual basis to determine if any changes to the base salary need to be made. Pursuant to the employment agreements, the officers are prohibited from engaging in activities which are competitive with those of the Company during the employment and for one year following termination. If the agreement is terminated for other than cause, the officer would be entitled to any and all base salary, accrued but unused vacation, all vested equity, and bonus amounts payable to the officer through the date of termination. He would also be paid an additional thirty-six months of annual compensation equal to the average of his base salary and bonus for the three calendar years prior to the date of termination, payable in accordance with the Company's regular payroll practice over a 52-week period.

NOTE J– MAJOR CUSTOMERS

The Company had one customer who accounted for 17% of net sales for year ended November 30, 2015 and one customer who accounted for 14% of net sales for the year ended November 30, 2014. The Company had one customer who accounted for 10% of accounts receivable at November 30, 2015 and one customer who accounted for 11% of accounts receivable at November 30, 2014.

NOTE K- MAJOR SUPPLIERS

During the years ended November 30, 2015 and November 30, 2014 there was one foreign supplier accounting for 56% and 49% of total inventory purchased.



The Company purchases substantially all of its products overseas. For the year ended November 30, 2015, the Company purchased 58% of its products from Taiwan, 9% from Hong Kong, 29% from elsewhere in Asia and less than 1% overseas outside of Asia. The Company purchases the balance of its products in the United States.

NOTE L - EXPORT SALES

The Company's export sales were as follows:

	Year Ended	
	November 30, 2015	November 30, 2014
Canada	3,354,552	2,491,789
China	6,274,876	5,136,612
Other Asian Countries	1,059,075	938,771
South America	462,202	563,388
Europe	1,107,043	1,006,986

Revenues are attributed to countries based on location of customer.