

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2024**

or

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

For the transition period from _____ to _____

Commission file number **001-40992**

SURGEPAYS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

98-0550352

(I. R. S. Employer
Identification No.)

**3124 Brother Blvd, Suite 104
Bartlett TN**

(Address of principal executive offices)

38133

(Zip Code)

901-302-9587

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address, and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	SURG	The Nasdaq Stock Market LLC (Nasdaq Capital Market)
Common Stock Purchase Warrants	SURGW	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Non-accelerated filer ☒

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided to Section 7(a)(2)(B) of the Securities Act. ☐

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

The number of shares of the registrant's common stock outstanding as of May 7, 2024 was 19,411,549 shares.

SurgePays, Inc. and Subsidiaries

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Report of Independent Registered Public Accounting Firm (PCAOB ID No. 910)

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SurgePays, Inc. and Subsidiaries
Consolidated Balance Sheets

	<u>March 31, 2024</u> (Unaudited)	<u>December 31, 2023</u>
Assets		
Current Assets		
Cash	\$ 42,945,078	\$ 14,622,060
Accounts receivable - net	8,271,878	9,536,074
Inventory	7,343,739	9,046,594
Prepays and other	499,908	161,933
Total Current Assets	<u>59,060,603</u>	<u>33,366,661</u>
Property and equipment - net	291,458	361,841
Other Assets		
Note receivable	176,851	176,851
Intangibles - net	1,963,093	2,126,470
Internal use software development costs - net	483,717	539,424
Goodwill	4,166,782	1,666,782
Investment in CenterCom	480,562	464,409
Operating lease - right of use asset - net	420,107	387,869
Deferred income taxes - net	2,542,000	2,835,000
Total Other Assets	<u>10,233,112</u>	<u>8,196,805</u>
Total Assets	<u>\$ 69,585,173</u>	<u>\$ 41,925,307</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	\$ 6,506,061	\$ 6,439,120
Accounts payable and accrued expenses - related party	564,389	1,048,224
Accrued income taxes payable	700,000	570,000
Deferred revenue	-	20,000
Operating lease liability	94,244	43,137
Note payable - related party	1,567,254	4,584,563
Total Current Liabilities	<u>9,431,948</u>	<u>12,705,044</u>
Long Term Liabilities		
Note payable - related party	3,147,879	-
Notes payable - SBA government	477,403	460,523
Operating lease liability	342,444	356,276
Total Long-Term Liabilities	<u>3,967,726</u>	<u>816,799</u>
Total Liabilities	<u>13,399,674</u>	<u>13,521,843</u>
Stockholders' Equity		
Common stock, \$0.001 par value, 500,000,000 shares authorized 19,431,549 and 14,403,261 shares issued and outstanding, respectively	19,435	14,404
Additional paid-in capital	69,985,592	43,421,019
Accumulated deficit	(13,961,608)	(15,186,203)
Stockholders' equity	56,043,419	28,249,220
Non-controlling interest	142,080	154,244
Total Stockholders' Equity	<u>56,185,499</u>	<u>28,403,464</u>
Total Liabilities and Stockholders' Equity	<u>\$ 69,585,173</u>	<u>\$ 41,925,307</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SurgePays, Inc. and Subsidiaries
Consolidated Statements of Income
(Unaudited)

For the Three Months
Ended March 31,

<u>2024</u>	<u>2023</u>
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Revenues	\$	31,429,135	\$	34,776,443
Costs and expenses				
Cost of revenues		23,246,468		27,081,960
General and administrative expenses		6,430,806		2,989,421
Total costs and expenses		<u>29,677,274</u>		<u>30,071,381</u>
Income from operations		<u>1,751,861</u>		<u>4,705,062</u>
Other income (expense)				
Interest expense		(132,583)		(192,326)
Gain on investment in CenterCom		16,153		33,029
Total other income (expense) - net		<u>(116,430)</u>		<u>(159,297)</u>
Net income before provision for income taxes		1,635,431		4,545,765
Provision for income tax benefit (expense)	\$	<u>(423,000)</u>		<u>-</u>
Net income including non-controlling interest		1,212,431		4,545,765
Non-controlling interest		<u>(12,164)</u>		<u>(576)</u>
Net income available to common stockholders	\$	<u>1,224,595</u>	\$	<u>4,546,341</u>
Earnings per share - attributable to common stockholders				
Basic	\$	0.07	\$	0.32
Diluted	\$	<u>0.07</u>	\$	<u>0.31</u>
Weighted average number of shares outstanding - attributable to common stockholders				
Basic		17,693,283		14,131,276
Diluted		<u>18,678,136</u>		<u>14,535,222</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SurgePays, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
For the Three Months Ended March 31, 2024

	Common Stock		Additional	Accumulated	Non-	Total
	Shares	Amount	Paid-in	Deficit	Controlling	Stockholders'
			Capital		Interest	Equity
December 31, 2023	14,403,261	\$ 14,404	\$43,421,019	\$ (15,186,203)	\$ 154,244	\$ 28,403,464
Stock issued for cash	3,080,356	3,081	17,246,913	-	-	17,249,994
Cash paid as direct offering costs	-	-	(1,395,000)	-	-	(1,395,000)
Exercise of warrants - cash	1,860,308	1,861	8,797,396	-	-	8,799,257
Exercise of warrants - cashless	40,238	41	(41)	-	-	-
Stock issued for services	47,386	48	411,692	-	-	411,740
Recognition of stock based compensation - unvested shares - related parties	-	-	1,497,417	-	-	1,497,417
Recognition of stock-based compensation - related party	-	-	6,196	-	-	6,196
Non-controlling interest	-	-	-	-	(12,164)	(12,164)
Net income	-	-	-	1,224,595	-	1,224,595
March 31, 2024	<u>19,431,549</u>	<u>\$ 19,435</u>	<u>\$69,985,592</u>	<u>\$ (13,961,608)</u>	<u>\$ 142,080</u>	<u>\$ 56,185,499</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SurgePays, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
For the Three Months Ended March 31, 2023
(Unaudited)

	Common Stock		Additional		Non-	Total
	Shares	Amount	Paid-in	Accumulated	Controlling	Stockholders'
			Capital	Deficit	Interest	Equity
December 31, 2022	14,116,832	\$ 14,117	\$40,780,707	\$ (35,804,106)	\$ 127,535	\$ 5,118,253
Stock issued for services	60,082	60	307,398	-	-	307,458
Recognition of stock based compensation - stock options	-	-	9,294	-	-	9,294
Non-controlling interest	-	-	-	-	(576)	(576)
Net income	-	-	-	4,546,341	-	4,546,341
March 31, 2023	14,176,914	\$ 14,177	\$41,097,399	\$ (31,257,765)	\$ 126,959	\$ 9,980,770

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SurgePays, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	For the Three Months Ended March 31,	
	2024	2023
Operating activities		
Net income - including non-controlling interest	\$ 1,212,431	\$ 4,545,765
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation and amortization	233,760	233,758
Amortization of right-of-use assets	23,363	10,687
Amortization of internal use software development costs	55,707	32,265
Stock issued for services	411,740	307,458
Recognition of stock based compensation - unvested shares - related parties	1,497,417	-
Recognition of share based compensation - options - related party	6,196	9,294
Interest expense adjustment - SBA loans	19,750	-
Right-of-use asset lease payment adjustment true up	(46,338)	-
Gain on equity method investment - CenterCom	(16,153)	(33,029)
Changes in operating assets and liabilities		
(Increase) decrease in		
Accounts receivable	1,264,196	(429,187)
Inventory	1,702,855	(4,335,727)
Prepays and other	(337,975)	(58,428)
Deferred income taxes - net	293,000	-
Increase (decrease) in		
Accounts payable and accrued expenses	(2,433,059)	1,418,337
Accounts payable and accrued expenses - related party	15,156	(1,322,773)
Accrued income taxes payable	130,000	-
Installment sale liability - net	-	2,026,713
Deferred revenue	(20,000)	470,211
Operating lease liability	28,012	(9,548)
Net cash provided by operating activities	4,040,058	2,865,796
Investing activities		
Capitalized internal use software development costs	-	(157,044)
Net cash used in investing activities	-	(157,044)
Financing activities		
Proceeds from stock issued for cash	17,249,994	-
Proceeds from exercise of common stock warrants	8,799,257	-
Cash paid as direct offering costs	(1,395,000)	-
Repayments of loans - related party	(368,421)	(467,385)
Repayments on notes payable	-	(410,468)
Repayments on notes payable - SBA government	(2,870)	(4,468)
Net cash provided (used in) by financing activities	24,282,960	(882,321)
Net increase in cash	28,323,018	1,826,431
Cash - beginning of period	14,622,060	7,035,654
Cash - end of period	\$ 42,945,078	\$ 8,862,085
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 129,003	\$ 100,074
Cash paid for income tax	-	-
Supplemental disclosure of non-cash investing and financing activities		

Reclassification of accrued interest - related party to note payable - related party	\$ 498,991	\$ -
Exercise of warrants - cashless	\$ 41	\$ -
Right-of-use asset obtained in exchange for new operating lease liability	\$ 98,638	\$ -
Goodwill (ClearLine Mobile, Inc.)	\$ 2,500,000	\$ -

SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Note 1 - Organization and Nature of Operations

Organization and Nature of Operations

SurgePays, Inc. ("SurgePays," "SP," "we," "our" or "the Company"), and its operating subsidiaries, is a technology-driven company building a next generation supply chain software platform that can offer wholesale goods and services more cost efficiently than traditional and existing wholesale distribution models.

The Company and its subsidiaries are organized as follows:

Company Name (Active)	Incorporation Date	State of Incorporation	Segment
SurgePays, Inc.	August 18, 2006	Nevada	Corporate Parent
Surge Blockchain, LLC	January 29, 2009	Nevada	Other
ECS Prepaid, LLC	June 9, 2009	Missouri	Comprehensive Platform Services
LogicsIQ, Inc.	October 2, 2018	Nevada	Lead Generation
Torch Wireless	January 29, 2019	Wyoming	Mobile Virtual Network Operators
SurgePays Fintech, Inc.	August 22, 2019	Nevada	Comprehensive Platform Services
SurgePhone Wireless, LLC	August 29, 2019	Nevada	Mobile Virtual Network Operators
Injury Survey, LLC	July 28, 2020	Nevada	Lead Generation

All of the following entities have nominal operations.

Company Name (Inactive)	Incorporation Date	State of Incorporation
Electronic Check Services, Inc.	May 19, 1999	Missouri
Central States Legal Services, Inc.	August 1, 2003	Missouri
KSIX, LLC	September 14, 2011	Nevada
DigitizelQ, LLC	July 23, 2014	Illinois
KSIX Media, Inc.	November 5, 2014	Nevada
Surge Payments, LLC	December 17, 2018	Nevada

SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements ("U.S. GAAP") and with the instructions to Form 10-Q and Article 8 of Regulation S-X of the United States Securities and Exchange Commission ("SEC"). Accordingly, they do not contain all information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements.

In the opinion of the Company's management, the accompanying unaudited consolidated financial statements contain all of the adjustments necessary (consisting only of normal recurring accruals) to present the financial position of the Company as of March 31, 2024 and the results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2024 are not necessarily indicative of the operating results for the full fiscal year or any future period.

These unaudited consolidated financial statements should be read in conjunction with the financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 filed with the SEC on March 12, 2024.

Management acknowledges its responsibility for the preparation of the accompanying unaudited consolidated financial statements which reflect all adjustments, consisting of normal recurring adjustments, considered necessary in its opinion for a fair statement of its consolidated financial position and the consolidated results of its operations for the periods presented.

Liquidity and Management's Plans

As reflected in the accompanying consolidated financial statements, for the three months ended March 31, 2024, the Company had:

- Net income available to common stockholders of \$1,224,595; and
- Net cash provided by operations was \$4,040,058

Additionally, at March 31, 2024, the Company had:

- Accumulated deficit of \$13,961,608
- Stockholders' equity of \$56,185,499; and
- Working capital of \$49,628,655

We manage liquidity risk by reviewing, on an ongoing basis, our sources of liquidity and capital requirements. The Company has cash on hand of

SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

The Company has historically incurred significant losses and has not, prior to 2023, demonstrated an ability to generate sufficient revenues from the sales of its products and services to achieve profitable operations. There can be no assurance that profitable operations will continue to be, or if achieved, and could be sustained on a continuing basis. In making this assessment we performed a comprehensive analysis of our current circumstances including: our financial position, our cash flows and cash usage forecasts for the twelve months ended March 31, 2025, and our current capital structure including equity-based instruments and our obligations and debts.

The Company believes it has sufficient cash resources on hand to meet its current obligations for a period that is one year from the issuance date of these financial statements.

Management's strategic plans include the following:

- Sustain our growth of the Affordable Connectivity Program revenue stream, based upon continued funding by Congress,
- Expand product and services offerings to a larger surrounding geographic area,
- Continuing to explore and execute prospective partnering or distribution opportunities; and
- Identifying unique market opportunities that represent potential positive short-term cash flow.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation and Non-Controlling Interest

These consolidated financial statements have been prepared in accordance with U.S. GAAP and include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

For entities that are consolidated, but not 100% owned, a portion of the income or loss and corresponding equity is allocated to owners other than the Company. The aggregate of the income or loss and corresponding equity that is not owned by us is included in Non-controlling Interests in the consolidated financial statements.

SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Business Combinations and Asset Acquisitions

The Company accounts for acquisitions that qualify as business combinations by applying the acquisition method according to Accounting Standards Codification ("ASC") 805, Business Combinations ("ASC 805").

Transaction costs related to the acquisition of a business are expensed as incurred and excluded from the fair value of consideration transferred.

The identifiable assets acquired, liabilities assumed, and noncontrolling interests in an acquired entity are recognized and measured at their estimated fair values. The excess of the fair value of consideration transferred over the fair values of identifiable assets acquired, liabilities assumed, and noncontrolling interests in an acquired entity, net of the fair value of any previously held interest in the acquired entity, is recorded as goodwill. Such valuations require management to make significant estimates and assumptions.

Purchase price allocations may be preliminary, and, during the measurement period not to exceed one year from the date of acquisition, changes in assumptions and estimates that result in adjustments to the fair value of assets acquired and liabilities assumed are recorded in the period the adjustments are determined.

Significant judgments are used in determining fair values of assets acquired and liabilities assumed, as well as intangibles. Fair value and useful life determinations are based on, among other factors, estimates of future expected cash flows, and appropriate discount rates used in computing present values. These judgments may materially impact the estimates used in allocating acquisition date fair values to assets acquired and liabilities assumed, as well as the Company's current and future operating results. Actual results may vary from these estimates which may result in adjustments to goodwill and acquisition date fair values of assets and liabilities during a measurement period or upon a final determination of asset and liability fair values, whichever occurs first. Adjustments to fair values of assets and liabilities made after the end of the measurement period are recorded within the Company's earnings.

SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

The Company evaluates acquisitions of assets and other similar transactions to assess whether the transaction should be accounted for as a business combination or asset acquisition by first applying a screen test to determine whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If so, the transaction is accounted for as an asset acquisition. If not, further determination is required as to whether the Company has acquired inputs and processes that can create outputs that would meet the definition of a business. When applying the screen test, significant judgment is required to determine whether an acquisition is a business combination or an acquisition of assets.

Accounting for asset acquisitions falls under the guidance of Topic 805, Business Combinations, specifically Subtopic 805-50. A cost accumulation model is used to determine an asset acquisition's cost. Assets acquired are based on their cost, generally allocated to them on a relative fair value basis. Direct acquisition-related costs are included in the cost of the acquired assets.

The distinction between business combinations and asset acquisitions involves judgment, particularly when applying the screen test to determine the nature of the transaction. Incorrect judgments or changes in decisions in these areas could materially affect the determination of goodwill, the recognition and measurement of acquired assets and assumed liabilities, and, consequently, our financial position and results of operations.

Acquisition of ClearLine Mobile, Inc

On January 5, 2024, the Company closed a purchase agreement and acquired ClearLine Mobile, Inc's. ("CLMI") related software development in exchange for \$2,500,000.

CLMI produces a touchscreen display, positioned by the cash register, that is integrated into the SurgePays software platform and markets SurgePays products 24/7 from a central server. SurgePays can advertise its entire suite of products and services while utilizing the POS device for transactions.

Following the guidance of ASC 805, we performed the screen test to evaluate whether the acquired set is a business or a group of assets. The acquired group of assets included inputs and a substantive process that together significantly contributed to the ability to create outputs. At the time of purchase, CLMI had insignificant operations, however, the transaction was accounted for as a business combination in accordance with ASC 805-50.

SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

Payments are due as follows:

- \$100,000 at signing,
- \$800,000 at closing,
- \$800,000 90 days from closing (April 2024)
- \$800,000 180 days from closing (July 2024)

In connection with this business combination, the Company assumed a right-of-use operating lease and corresponding lease liability of \$ 98,638 with a remaining period of two (2) years. Additionally, the acquired technology/software had a net carrying amount of \$ 0. As a result, the Company determined that it has acquired both tangible and intangible assets.

The table below summarizes the estimated fair value of the assets acquired and the liabilities assumed at the effective acquisition date.

Consideration	
Cash	\$ 2,500,000
Fair value of consideration transferred	<u>2,500,000</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Right-of-use operating lease	98,638
Total assets acquired	<u>98,638</u>
Right-of-use operating lease	98,638
Total liabilities assumed	<u>98,638</u>
Total identifiable net assets	-
Goodwill	<u>\$ 2,500,000</u>

At the time of acquisition, CLMI had nominal revenues and historical losses from operations. As a result, and given the immaterial nature of this acquisition, the Company elected not to present any pro-forma financial information during the three months ended March 31, 2024.

This transaction did not involve the purchase of a "significant amount of assets" as defined in the Instructions to Item 2.01 of Form 8-K. Additionally, the acquisition of CLMI was not deemed to be significant to the Company at any level under SEC Regulation S-X 3.05 and did not require the presentation of any additional historical audited financial statements.

SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

At March 31, 2024 and December 31, 2023 goodwill was \$ 4,166,782 and \$1,666,782, respectively.

There were no impairment losses for the three months ended March 31, 2024 and 2023, respectively.

Note Receivable (Sale of Former Subsidiary)

On May 7, 2021, the Company disposed of its former subsidiary True Wireless, Inc.

In connection with the sale, the Company received an unsecured note receivable for \$ 176,851, bearing interest at 0.6%, with a default interest rate of 10%. The Company was expected to receive twenty-five (25) monthly payments of principal and accrued interest totaling \$ 7,461 commencing in June 2023.

Payments were scheduled as follows:

For the Year Ended December 31,

In Default

2024 (9 months)	\$	141,759**	\$	74,610
2025		44,766		
		186,525		
Less: amount representing interest		(9,674)		
Total	\$	176,851		

On July 12, 2023, Notice of Default was provided by SurgePays, Inc. to Blue Skies Connections, LLC for failure to pay amounts due under that certain Promissory Note dated June 14, 2021 by Blue Skies Connections, LLC in favor of SurgePays, Inc. in the original principal amount of \$176,851 (the "Note"). Pursuant to the terms of the Note, SurgePays, Inc. accelerated the amount due.

**The amount due for the nine months ended December 31, 2024 is \$74,610, which includes \$52,227 of payments which were due as of December 31, 2023 and an additional \$22,383 of payments which were due as of March 31, 2024.

As of March 31, 2024, the Company believes the note is collectible.

See Note 8 for Contingencies – Legal Matters for additional discussion.

SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Business Segments and Concentrations

The Company uses the "management approach" to identify its reportable segments. The management approach requires companies to report segment financial information consistent with information used by management for making operating decisions and assessing performance as the basis for identifying the Company's reportable segments. The Company manages its business as multiple reportable segments. See Note 10 regarding segment disclosure.

The Mobile Virtual Network Operator (SurgePhone and Torch Wireless) business segment made up approximately 92% and 82% of total consolidated revenues for the three months ended March 31, 2024 and 2023, respectively.

Revenues related to this business segment are 100% derived from programs administered by the Federal Communications Commission (FCC), and all funds related to these programs are received directly from organizations under the direction of the FCC and subject to administrative rulings, statutory changes, and other funding restrictions that could impact the Company's operations in this segment.

Accounts receivable related to these programs made up 99% and 98% of accounts receivable at March 31, 2024 and December 31, 2023, respectively.

Customers in the United States accounted for 100% of our revenues. We do not have any property or equipment outside of the United States.

Use of Estimates

Preparing financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates, and those estimates may be material.

Significant estimates during the three months ended March 31, 2024 and 2023, respectively, include, allowance for doubtful accounts and other receivables, inventory reserves and classifications, valuation of loss contingencies, valuation of stock-based compensation, estimated useful lives related to intangible assets, capitalized internal-use software development costs, and property and equipment, implicit interest rate in right-of-use operating leases, uncertain tax positions, income tax payable and the valuation allowance on deferred tax assets.

SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Risks and Uncertainties

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

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

Effective February 7, 2024, the Affordable Connectivity Program ("ACP") stopped accepting new applications and enrollments. The program will cease to be funded after April 2024. The Company believes that the program will be funded by Congress, however, at this time, we cannot predict any outcome. See discussion below regarding revenue recognition.

Fair Value of Financial Instruments

The Company accounts for financial instruments under Financial Accounting Standards Board ("FASB") ASC 820, *Fair Value Measurements*. ASC 820 provides a framework for measuring fair value and requires disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in absence of a principal, most advantageous market for the specific asset or liability.

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the

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The three tiers are defined as follows:

- Level 1 – Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 – Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions.

The determination of fair value and the assessment of a measurement's placement within the hierarchy requires judgment. Level 3 valuations often involve a higher degree of judgment and complexity. Level 3 valuations may require the use of various cost, market, or income valuation methodologies applied to unobservable management estimates and assumptions. Management's assumptions could vary depending on the asset or liability valued and the valuation method used. Such assumptions could include estimates of prices, earnings, costs, actions of market participants, market factors, or the weighting of various valuation methods. The Company may also engage external advisors to assist us in determining fair value, as appropriate. Although the Company believes that the recorded fair value of our financial instruments is appropriate, these fair values may not be indicative of net realizable value or reflective of future fair values.

The Company's financial instruments, including cash, accounts receivable, note receivable, accounts payable and accrued expenses, and accounts payable and accrued expenses – related party, are carried at historical cost. At March 31, 2024 and December 31, 2023, respectively, the carrying amounts of these instruments approximated their fair values because of the short-term nature of these instruments.

ASC 825-10 "Financial Instruments" allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value ("fair value option"). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. The Company did not elect to apply the fair value option to any outstanding financial instruments.

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments with a maturity of three months or less at the purchase date and money market accounts to be cash equivalents.

At March 31, 2024 and December 31, 2023, respectively, the Company did not have any cash equivalents.

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The Company is exposed to credit risk on its cash and cash equivalents in the event of default by the financial institutions to the extent account balances exceed the amount insured by the FDIC, which is \$250,000.

At March 31, 2024 and December 31, 2023, respectively, the Company did not experience any losses on cash balances in excess of FDIC insured limits.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding customer balances. Credit is extended to customers based on an evaluation of their financial condition and other factors. Interest is not accrued on overdue accounts receivable. The Company does not require collateral.

Management periodically assesses the Company's accounts receivable and, if necessary, establishes an allowance for estimated uncollectible amounts. The Company provides an allowance for doubtful accounts based upon a review of the outstanding accounts receivable, historical collection information and existing economic conditions. Accounts determined to be uncollectible are charged to operations when that determination is made.

Allowance for doubtful accounts was \$17,525 at March 31, 2024 and December 31, 2023, respectively.

There was bad debt expense of \$0 for the three months ended March 31, 2024 and 2023, respectively.

Bad debt expense (recoveries) is recorded as a component of general and administrative expenses in the accompanying consolidated statements of operations.

Inventory

Inventory primarily consists of tablets, cell phones and sim cards. Inventories are stated at the lower of cost or net realizable value using the average cost valuation method.

There was no provision for obsolescence for the three months ended March 31, 2024 and 2023, respectively.

At March 31, 2024 and December 31, 2023, the Company had inventory of \$ 7,343,739 and \$9,046,594, respectively.

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Impairment of Long-lived Assets including Internal Use Capitalized Software Costs

Management evaluates the recoverability of the Company's identifiable intangible assets and other long-lived assets when events or circumstances indicate a potential impairment exists, in accordance with the provisions of ASC 360-10-35-15 "*Impairment or Disposal of Long-Lived Assets*." Events and circumstances considered by the Company in determining whether the carrying value of identifiable intangible assets and other long-lived assets may not be recoverable include but are not limited to significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; and changes in the Company's business strategy. In determining if impairment exists, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of these assets.

If impairment is indicated based on a comparison of the assets' carrying values and the undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

There were no impairment losses for the three months ended March 31, 2024 and 2023, respectively.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

Expenditures for repair and maintenance which do not materially extend the useful lives of property and equipment are charged to operations. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in operations.

Management reviews the carrying value of its property and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

There were no impairment losses for the three months ended March 31, 2024 and 2023, respectively.

SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

Internal Use Software Development Costs

We capitalize certain internal use software development costs associated with creating and enhancing internally developed software related to our technology infrastructure. These costs include personnel and related employee benefits expenses for employees who are directly associated with and who devote time to software projects, and external direct costs of materials and services consumed in developing or obtaining the software. Software development costs that do not meet the qualification for capitalization, as further discussed below, are expensed as incurred and recorded in general and administrative expenses in the consolidated results of operations.

Software development activities generally consist of three stages:

- (i) planning stage,
- (ii) application and infrastructure development stage, and
- (iii) post implementation stage.

Costs incurred in the planning and post implementation stages of software development, including costs associated with the post-configuration training and repairs and maintenance of the developed technologies, are expensed as incurred.

We capitalize costs associated with software developed for internal use when the planning stage is completed, management has authorized further funding for the completion of the project, and it is probable that the project will be completed and perform as intended. Costs incurred in the application and infrastructure development stages, including significant enhancements and upgrades, are capitalized. Capitalization ends once a project is substantially complete, and the software and technologies are ready for their intended purpose. There is judgment involved in estimating the stage of development as well as estimating time allocated to a particular project. A significant change in the time spent on each project could have a material impact on the amount capitalized and related amortization expense in subsequent periods.

We amortize internal use software development costs using a straight-line method over a three-year (3) estimated useful life, commencing when the software is ready for its intended use. The straight-line recognition method approximates the manner in which the expected benefit will be derived. We determined the life of internal use software based on historical software upgrades and replacement.

On an ongoing basis, we assess if the estimated remaining useful lives of capitalized projects continue to be reasonable based on the remaining expected benefit and usage. If the remaining useful life of a capitalized project is revised, it is accounted for as a change in estimate and the remaining unamortized cost of the underlying asset is amortized prospectively over the updated remaining useful life.

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We also evaluate internal use software for abandonment and use that as a significant indicator for impairment on a quarterly basis.

There were no impairment losses for the three months ended March 31, 2024 and 2023, respectively.

Right of Use Assets and Lease Obligations

The Right of Use Asset and Lease Liability reflect the present value of the Company's estimated future minimum lease payments over the lease term, which may include options that are reasonably assured of being exercised, discounted using a collateralized incremental borrowing rate.

Typically, renewal options are considered reasonably assured of being exercised if the associated asset lives of the building or leasehold improvements

exceed that of the initial lease term, and the performance of the business remains strong. Therefore, the Right of Use Asset and Lease Liability may include an assumption on renewal options that have not yet been exercised by the Company. The Company's operating leases contained renewal options that expire at various dates with no residual value guarantees. Future obligations relating to the exercise of renewal options is included in the measurement if, based on the judgment of management, the renewal option is reasonably certain to be exercised. Factors in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of leasehold improvements, the value of the renewal rate compared to market rates, and the presence of factors that would cause a significant economic penalty to the Company if the option is not exercised. Management reasonably plans to exercise all options, and as such, all renewal options are included in the measurement of the right-of-use assets and operating lease liabilities.

As the rate implicit in leases are not readily determinable, the Company uses an incremental borrowing rate to calculate the lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease within a particular currency environment.

See Note 8 regarding operating leases.

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Revenue Recognition

The Company recognizes revenue in accordance with ASC 606 to align revenue recognition more closely with the delivery of the Company's services and will provide financial statement readers with enhanced disclosures. In accordance with ASC 606, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services.

To achieve this core principle, the Company applies the following five steps:

- Step 1: Identify the contract(s) with customers
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to performance obligations
- Step 5: Recognize revenue when the entity satisfies a performance obligation

Identify the contract with a customer

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

Identify the performance obligations in the contract

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

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Determine the transaction price

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring services to the customer. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. None of the Company's contracts contain a significant financing component and there are no contracts with variable consideration.

Allocate the transaction price to performance obligations in the contract

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

Recognize revenue when or as the Company satisfies a performance obligation

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

The following reflects additional discussion regarding our revenue recognition policies for each of our material revenue streams. For each revenue stream we do not offer any returns, refunds or warranties, and no arrangements are cancellable. Additionally, all contract consideration is fixed and determinable at the initiation of the contract.

Performance obligations for Torch and LogicsIQ are satisfied when services are performed. Performance obligations for ECS and SB are satisfied at point of sale. For each of our revenue streams we only have a single performance obligation.

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Mobile Virtual Network Operators

SurgePhone Wireless ("SPW") and Torch Wireless are licensed to provide subsidized mobile broadband services through the ACP to qualifying low-income customers to all fifty (50) states. Revenues are recognized when an ACP application is completed and accepted. Each month we reconcile subscriber usage to ensure the service was utilized. A monthly file is submitted to the Universal Service Administrative Company for review and approval, at which time we have completed our performance obligation and recognize accounts receivable and revenue. Revenues are recorded in the month when services were rendered, with payment typically received on the 28th of the following month.

Lead Generation Services

LogicsIQ, Inc. is a lead generation and case management solutions company primarily serving law firms in the mass tort industry. Revenues are earned from our lead generation retained services offerings and call center activities through CenterCom (40% investment ownership).

Lead generation consist of sourcing leads, which requires us to drive traffic to our landing pages for a specific marketing campaign. We also achieve this in certain marketing campaigns by using third-party preferred vendors to meet the needs of our clients. Revenues are recognized at the time the lead is delivered to the client. If payment is received in advance of the delivery of services, it is included in deferred revenue, and subsequently recognized once the performance obligation has been completed.

Retained service offerings consist of turning leads into a retained legal case. To provide this service to our customers, we qualify leads through verification of information collected during the lead generation process. Additionally, we further qualify these leads using a client questionnaire which assists in determining the services to be provided. The qualification process is completed using our call center operations.

Effective February 1, 2023, LogicsIQ started offering call center services to existing clients. These services are similar in nature to the services CenterCom offers LogicsIQ. Effective January 1, 2024, the Company no longer provides these services. The total revenue from these services for the three months ended March 31, 2024 and 2023, was \$0 and \$427,786, respectively.

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If payment is received in advance of the delivery of services, it is included in deferred revenue, and subsequently recognized once the performance obligation has been completed. At the time of delivery of leads and the creation of retained cases (customers are qualified at this point), our performance obligation has been completed and revenues are recognized. Arrangements with customers do not provide the customer with the right to take possession of our software or platform at any time. Once the advertising is delivered, it is non-refundable.

Comprehensive Platform Services

Revenues are generated through the sale of telecommunication products such as mobile phones, wireless top-up refills, and other mobile related products. At the time in which our products are sold through our online web portal (point of sale), our performance obligation is considered complete. At point of sale (completion of performance obligation), our web portal platform initiates an automated clearing house transaction (ACH) resulting in the recording revenue.

Contract Liabilities (Deferred Revenue)

Contract liabilities represent deposits made by customers before the satisfaction of performance obligation and recognition of revenue. Upon completion of the performance obligation(s) that the Company has with the customer based on the terms of the contract, the liability for the customer deposit is relieved and revenue is recognized.

At March 31, 2024 and December 31, 2023, the Company had deferred revenue of \$ 0 and \$20,000, respectively.

The following represents the Company's disaggregation of revenues for the three months ended March 31, 2024 and 2023:

Revenue	For the Three Months Ended March 31,			
	2024		2023	
	Revenue	% of Revenues	Revenue	% of Revenues
Mobile Virtual Network Operators	\$ 28,892,590	91.93%	\$ 28,659,384	82.41%
Comprehensive Platform Services	2,530,589	8.05%	2,934,346	8.44%
Lead Generation	-	0.00%	3,170,845	9.12%
Other	5,956	0.02%	11,868	0.03%
Total Revenues	\$ 31,429,135	100%	\$ 34,776,443	100%

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The above disaggregation of revenues includes the following entities:

Mobile Virtual Network Operators (SPW and TW),
 Comprehensive Platform Services (Surge Fintech and ECS),
 Lead Generation (LogicsIQ and Injury Survey); and
 Other (Surge Blockchain)

Cost of Revenues

Cost of revenues consists of purchased telecom services including data usage and access to wireless networks. Additionally, cost of revenues consists of tablet purchases, mobile phone purchases, call center costs, prepaid phone cards, commissions, and advertising costs.

Income Taxes

The Company accounts for income tax using the asset and liability method prescribed by ASC 740, "Income Taxes". Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the year in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date.

The Company follows the accounting guidance for uncertainty in income taxes using the provisions of ASC 740 "Income Taxes". Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. As of March 31, 2024 and 2023, respectively, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Company recognizes interest and penalties related to uncertain income tax positions in other expense. No interest and penalties related to uncertain income tax positions were recorded for the three months ended March 31, 2024 and the year ended December 31, 2023, respectively.

For the year ended December 31, 2023 and for the three months ended March 31, 2024, the Company generated net income. The Company currently has an unapplied net operating loss carryforward (deferred tax asset), which have been evaluated for applicability in offsetting current taxable net income. The Company has determined that the net operating loss carryforward is limited to 80% of the current year's net taxable income.

At March 31, 2024 and December 31, 2023, the Company has an accrued income tax liability of \$ 700,000 and \$570,000, respectively. See Note 12.

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Investment

On January 17, 2019, we announced the completion of an agreement to acquire a 40% equity ownership of CenterCom Global, S.A. de C.V. ("CenterCom"). CenterCom is a dynamic operations center currently providing sales support, customer service, IT infrastructure design, graphic media, database programming, software development, revenue assurance, lead generation, and other various operational support services. Our CenterCom team is based in El Salvador. CenterCom also provides call center support for various third-party clients.

The strategic partnership with CenterCom as a bilingual operations hub has powered our growth and revenue. CenterCom has been built to support the infrastructure required to rapidly scale in synergy and efficiency to support our sales growth, customer service and development.

We account for this investment under the equity method. Investments accounted for under the equity method are recorded based upon the amount of our investment and adjusted each period for our share of the investee's income or loss. All investments are reviewed for changes in circumstance or the occurrence of events that suggest an other than temporary event where our investment may not be recoverable. The financial information used to account for the investment is unaudited.

The following is a summary of our investment at March 31, 2024 and December 31, 2023:

Balance - December 31, 2022	\$ 354,206
Gain on investment in CenterCom	110,203
Balance - December 31, 2023	464,409
Gain on investment in CenterCom	16,153
Balance - March 31, 2024	\$ 480,562

During the three months ended March 31, 2024 and 2023, we recognized a gain of \$ 16,153 and \$33,029, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs are included as a component of general and administrative expense in the consolidated statements of operations.

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The Company recognized \$16,806 and \$32,336 in marketing and advertising costs during the three months ended March 31, 2024 and 2023, respectively.

Stock-Based Compensation

The Company accounts for our stock-based compensation under ASC 718 *"Compensation – Stock Compensation"* using the fair value-based method. Under this method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. This guidance establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

The Company uses the fair value method for equity instruments granted to non-employees and uses the Black-Scholes model for measuring the fair value of options.

The fair value of stock-based compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the vesting periods.

When determining fair value of stock-based compensation, the Company considers the following assumptions in the Black-Scholes model:

- Exercise price,
- Expected dividends,
- Expected volatility,
- Risk-free interest rate; and
- Expected life of option

Stock Warrants

In connection with certain financing (debt or equity), consulting and collaboration arrangements, the Company may issue warrants to purchase shares of its common stock. The outstanding warrants are standalone instruments that are not puttable or mandatorily redeemable by the holder and are classified as equity awards. The Company measures the fair value of warrants issued for compensation using the Black-Scholes option pricing model as of the measurement date. However, for warrants issued that meet the definition of a derivative liability, fair value is determined based upon the use of a binomial pricing model.

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Warrants issued in conjunction with the issuance of common stock are initially recorded at fair value as a reduction in additional paid-in capital of the common stock issued. All other warrants (for services) are recorded at fair value and expensed over the requisite service period or at the date of issuance if there is not a service period.

Basic and Diluted Earnings (Loss) per Share

Pursuant to ASC 260-10-45, basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding for the periods presented.

Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during the period.

Potentially dilutive common shares may consist of contingently issuable shares, common stock issuable upon the conversion of stock options and warrants (using the treasury stock method), and convertible debt. These common stock equivalents may be dilutive in the future.

In the event of a net loss, diluted loss per share is the same as basic loss per share since the effect of the potential common stock equivalents upon conversion would be anti-dilutive.

The following potentially dilutive equity securities outstanding as of March 31, 2024 and 2023 were as follows:

	March 31, 2024	March 31, 2023
Warrants	3,619,278	5,681,392
Stock options	121,276	11,903
Total common stock equivalents	<u>3,740,554</u>	<u>5,693,295</u>

Warrants and stock options included as common stock equivalents represent those that are fully vested and exercisable. See Note 9.

Based on the potential common stock equivalents noted above at March 31, 2024, the Company has sufficient authorized shares of common stock (500,000,000) to settle any potential exercises of common stock equivalents.

SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

The following table shows the computation of basic and diluted earnings per share for the three months ended March 31, 2024 and 2023:

Three Months Ended	Three Months Ended
-----------------------	-----------------------

	March 31, 2024	March 31, 2023
Numerator		
Net income	\$ 1,224,595	\$ 4,546,341
Denominator		
Weighted average shares outstanding - basic	17,693,283	14,131,276
Effect of dilutive securities	984,853	403,946
Weighted average shares outstanding - diluted	18,678,136	14,535,222
Earnings per share - basic	\$ 0.07	\$ 0.32
Earnings per share - diluted	\$ 0.07	\$ 0.31

Related Parties

Parties are considered to be related to the Company if the parties, directly or indirectly, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal with if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

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SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

During the three months ended March 31, 2024 and 2023, respectively, the Company incurred expenses with related parties in the normal course of business totaling \$41,589 as follows:

Related Party	March 31, 2024	March 31, 2023
Carddawg Investments, Inc.	41,589	41,589 ¹
Total	\$ 41,589	\$ 41,589

1- represents an affiliate of our Chief Executive Officer (Kevin Brian Cox)

From time to time, the Company may use credit cards to pay corporate expenses, these credit cards are in the names of certain of the Company's officers and directors. These amounts are insignificant.

See Note 6 for debt transactions with our Chief Executive Officer.

Recent Accounting Standards

Changes to accounting principles are established by the FASB in the form of Accounting Standards Updates ("ASU's") to the FASB's Codification. We consider the applicability and impact of all ASU's on our consolidated financial position, results of operations, stockholders' equity, cash flows, or presentation thereof. Management has evaluated all recent accounting pronouncements issued through the date these financial statements were available to be issued and found no recent accounting pronouncements issued, but not yet effective accounting pronouncements, when adopted, will have a material impact on the consolidated financial statements of the Company, except as follows:

In March 2022, the Financial Accounting Standards Board (the "FASB") issued ASU 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02"), which eliminates the accounting guidance on troubled debt restructurings ("TDRs") for creditors in ASC 310, Receivables (Topic 310), and requires entities to provide disclosures about current period gross write-offs by year of origination. Also, ASU 2022-02 updates the requirements related to accounting for credit losses under ASC 326, Financial Instruments – Credit Losses (Topic 326), and adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. ASU 2022-02 was effective for the Company January 1, 2023. This guidance was adopted on January 1, 2023. The adoption of ASU 2022-02 did not have a material impact on the Company's consolidated financial statements.

There are various other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

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SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no material effect on the consolidated results of operations, stockholders' equity, or cash flows.

Note 3 – Property and Equipment

Property and equipment consisted of the following:

Type	March 31, 2024	December 31, 2023	Estimated Useful Lives (Years)
Computer equipment and software	\$ 1,006,286	\$ 1,006,286	3 - 5

Furniture and fixtures	82,752	82,752	5 - 7
	1,089,038	1,089,038	
Less: accumulated depreciation/amortization	(797,580)	(727,197)	
Property and equipment - net	<u>\$ 291,458</u>	<u>\$ 361,841</u>	

Depreciation and amortization expense for the three months ended March 31, 2024 and 2023 was \$ 70,383, respectively.

These amounts are included as a component of general and administrative expenses in the accompanying consolidated statements of operations.

Note 4 – Intangibles

Intangibles consisted of the following:

Type	March 31, 2024	December 31, 2023	Estimated Useful Lives (Years)
Proprietary Software	\$ 4,286,402	\$ 4,286,402	7
Tradenames/trademarks	617,474	617,474	15
ECS membership agreement	465,000	465,000	1
Noncompetition agreement	201,389	201,389	2
Customer Relationships	183,255	183,255	5
	5,753,520	5,753,520	
Less: accumulated amortization	(3,790,427)	(3,627,050)	
Intangibles - net	<u>\$ 1,963,093</u>	<u>\$ 2,126,470</u>	
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SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

Amortization expense for the three months ended March 31, 2024 and 2023 was \$ 163,377, respectively.

Estimated amortization expense for each of the five (5) succeeding years is as follows:

For the Years Ended December 31:	
2024 (9 Months)	490,130
2025	653,507
2026	653,507
2027	165,949
Total	<u>\$ 1,963,093</u>

Note 5 – Internal Use Software Development Costs

Internal Use Software Development Costs consisted of the following:

Type	March 31, 2024	December 31, 2023	Estimated Useful Life (Years)
Internal Use Software Development Costs	\$ 668,484	\$ 668,484	3
Less: accumulated amortization	(184,767)	(129,060)	
Internal Use Software Development Costs - net	<u>\$ 483,717</u>	<u>\$ 539,424</u>	

Costs incurred for Internal Use Software Development Costs

Management has determined that all costs incurred in 2023 (\$ 281,304) related to internal use software development costs related to the application and infrastructure development stage were completed as of December 31, 2023. Amortization of these costs began in 2024.

Management determined that all costs incurred in 2022 (\$ 387,180) related to internal use software development costs related to the application and infrastructure development stage which were completed as of December 31, 2022. Amortization of these costs began in 2023.

SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

The following is a summary of our capitalized internal use software development costs at March 31, 2024 and December 31, 2023:

Balance - December 31, 2022	\$ 387,180
Capitalized costs	281,304
Balance - December 31, 2023	668,484
No activity	-
Balance - March 31, 2024	<u>\$ 668,484</u>

For the three months ended March 31, 2024 and 2023, amortization of internal use software development costs was \$ 55,707 and \$32,265, respectively.

Estimated amortization expense is as follows for the years ended December 31:

2024 (9 Months)	167,121
2025	222,828

2026	93,768
Total	\$ 483,717

Note 6 – Debt

The following represents a summary of the Company's notes payable – SBA government, notes payable – related parties, and notes payable, key terms, and outstanding balances at March 31, 2024 and December 31, 2023, respectively:

Notes Payable – SBA government

Economic Injury Disaster Loan (“EIDL”)

During 2020, this program was made available to eligible borrowers in light of the impact of the COVID-19 pandemic and the negative economic impact on the Company's business. Proceeds from the EIDL were used for working capital purposes.

Installment payments, including principal and interest, are due monthly (beginning twelve (12) months from the date of the promissory note) in amounts ranging from \$74 - \$731/month. The balance of principal and interest is payable over the next thirty (30) years from the date of the promissory note. There are no penalties for prepayment. The EIDL Loan was not required to be refinanced by the PPP loan.

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SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

Terms	EIDL SBA	EIDL SBA	Total
Issuance dates of SBA loans	May 2020	July 2020	
Term	30 Years	30 Years	
Maturity date	May 2050	July 2050	
Interest rate	3.75%	3.75%	
Collateral	Unsecured	Unsecured	
Balance - December 31, 2022	\$ 145,922	\$ 328,924	\$ 474,846
Repayments	(3,928)	(10,395)	(14,323)
Balance - December 31, 2023	141,994	318,529	460,523
Interest expense adjustment - SBA loans	5,487	14,263	19,750
Repayments	(1,061)	(1,809)	(2,870)
Balance - March 31, 2024	\$ 146,420	\$ 330,983	\$ 477,403

Notes Payable – Related Parties

The following is a summary of the Company's Notes Payable - Related Parties:

	1	1	2	Total
Balance - December 31, 2022	\$ -	\$ 5,134,563	\$ 467,385	\$ 5,601,948
Repayments	-	(550,000)	(467,385)	(1,017,385)
Balance - December 31, 2023	-	4,584,563	-	4,584,563
Reclassification of principal into one single note	4,584,563	(4,584,563)	-	-
Reclassification of accrued interest payable into one single note	498,991	-	-	498,991
Repayments	(368,421)	-	-	(368,421)
Balance - March 31, 2024	\$ 4,715,133	\$ -	\$ -	\$ 4,715,133

1Activity is with the Company's Chief Executive Officer and Board Member (Kevin Brian Cox).

At December 31, 2023, of the total \$4,584,563 due, the Company owed \$558,150 that had not been repaid (due December 31, 2023), the balance of \$4,026,413 was due December 31, 2024. The Chief Executive Officer waived any events of default as of December 31, 2023.

On March 12, 2024, as approved by the Audit Committee, the Company consolidated all remaining outstanding principal (\$ 4,584,563) and accrued interest payable (\$498,991) into one note totaling \$5,083,554. This note bears interest at 10% (with a default interest rate of 15%) and will be repaid ratably over a period of 36 months aggregating \$5,905,427 in total payments to be made (inclusive of interest). Each monthly payment will be \$ 164,039. The note is unsecured. The Note is expected to be repaid in full by December 2026.

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SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

2Activity was with David May, who is a Board Member. The note of \$ 467,385 and related accrued interest of \$ 63,641 (aggregate \$531,026) was repaid in 2023. The note bore interest at 10% and was unsecured.

The following is a detail of the Company's Notes Payable - Related Parties:

Notes Payable - Related Parties							
Note Holder	Issue Date	Maturity Date	Interest Rate	Default Interest Rate	Collateral	March 31, 2024	December 31, 2023
Note #1	December 31, 2023	December 31, 2026	10.00%	15.00%	None	\$ 4,715,133	\$ -

Note #2	December 31, 2022	December 31, 2023	10.00%	0.00%	None	-	4,584,563
						4,715,133	4,584,563
					Short Term	1,567,254	4,584,563
					Long Term	\$ 3,147,879	\$ -

Notes Payable

Terms	1 Notes Payable	2 Notes Payable	3 Note Payable	Total
Issuance dates of notes	April/May 2022 October/November	March 2022	2022	
Maturity date	2022	March 2023	2025	
Interest rate	19%	19%	1%	
Default interest rate	26%	26%	0%	
Collateral	Unsecured	Unsecured	Unsecured	
Warrants issued as debt discount/issue costs	36,000	15,000	N/A	
Balance - December 31, 2022	1,100,000	400,000	95,167	1,595,167
Repayments	(1,100,000)	(400,000)	(95,167)	(1,595,167)
Balance - December 31, 2023	\$ -	\$ -	\$ -	\$ -

1-These notes were issued with 36,000, three (3) year warrants, which were previously reflected as debt issue costs and were amortized over the life of the debt. These notes were fully repaid in 2023.

2-These notes were issued with 15,000, three (3) year warrants, which were previously reflected as debt issue costs and were amortized over the life of the debt. Additionally, in 2022, the Company issued an additional 12,000, three (3) year warrants, which were treated as interest expense in connection with extending the maturity date for notes totaling \$400,000 to March 2023. In 2023, the Company repaid \$ 400,000 in notes and related accrued interest of \$36,204 (aggregate \$436,204).

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SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

3-This loan, originally a PPP loan, was refinanced in 2022 and was extended from October 2021 to March 2025. Monthly payments were \$3,566 per month. In 2023, the remaining balance of the note was repaid in full.

Debt Maturities

The following represents the maturities of the Company's various debt arrangements for each of the five (5) succeeding years and thereafter as follows:

For the Year Ended December 31,	Notes Payable - Related Parties	Notes Payable - SBA Government	Total
2024 (9 Months)	\$ 1,159,478	\$ -	\$ 1,159,478
2025	1,689,367	-	1,689,367
2026	1,866,288	-	1,866,288
Thereafter	-	477,403	477,403
Total	\$ 4,715,133	\$ 477,403	\$ 5,192,536

Note 7 – Fair Value of Financial Instruments

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them for each reporting period. This determination requires significant judgments to be made.

The Company did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2024 and December 31, 2023, respectively.

Note 8 – Commitments and Contingencies

Operating Leases

We have entered into various operating lease agreements, including our corporate headquarters. We account for leases in accordance with ASC Topic 842: Leases, which requires a lessee to utilize the right-of-use model and to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either financing or operating, with classification affecting the pattern of expense recognition in the statement of operations. In addition, a lessor is required to classify leases as either sales-type, financing or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as financing. If the lessor does not convey risk and rewards or control, the lease is treated as operating. We determine if an arrangement is a lease, or contains a lease, at inception and record the lease in our financial statements upon lease commencement, which is the date when the underlying asset is made available for use by the lessor.

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SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments over the lease term. Lease right-of-use assets and liabilities at commencement are initially measured at the present value of lease payments over the

lease term. We generally use our incremental borrowing rate based on the information available at commencement to determine the present value of lease payments except when an implicit interest rate is readily determinable. We determine our incremental borrowing rate based on market sources including relevant industry data.

We have lease agreements with lease and non-lease components and have elected to utilize the practical expedient to account for lease and non-lease components together as a single combined lease component, from both a lessee and lessor perspective with the exception of direct sales-type leases and production equipment classes embedded in supply agreements. From a lessor perspective, the timing and pattern of transfer are the same for the non-lease components and associated lease component and, the lease component, if accounted for separately, would be classified as an operating lease.

We have elected not to present short-term leases on the balance sheet as these leases have a lease term of 12 months or less at lease inception and do not contain purchase options or renewal terms that we are reasonably certain to exercise. All other lease assets and lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. Because most of our leases do not provide an implicit rate of return, we used our incremental borrowing rate based on the information available at lease commencement date in determining the present value of lease payments.

Our leases, where we are the lessee, do not include an option to extend the lease term. For purposes of calculating lease liabilities, lease term would include options to extend or terminate the lease when it is reasonably certain that we will exercise such options.

Lease expense for operating leases is recognized on a straight-line basis over the lease term as an operating expense, included as a component of general and administrative expenses, in the accompanying consolidated statements of operations.

Certain operating leases provide for annual increases to lease payments based on an index or rate, our lease has no stated increase, payments were fixed at lease inception. We calculate the present value of future lease payments based on the index or rate at the lease commencement date. Differences between the calculated lease payment and actual payment are expensed as incurred.

In 2024, in connection with our purchase of CLMI, we acquired a right-of-use operating lease and related lease liability for a building having a fair value of \$98,638.

At March 31, 2024 and December 31, 2023, respectively, the Company had no financing leases as defined in ASC 842, "Leases."

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SURGEPAYS, INC. AND SUBSIDIARIES
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The tables below present information regarding the Company's operating lease assets and liabilities at March 31, 2024 and December 31, 2023, respectively:

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Assets		
Operating lease - right-of-use asset - non-current	\$ 420,107	\$ 387,869
Liabilities		
Operating lease liability	\$ 436,688	\$ 399,413
Weighted-average remaining lease term (years)	5.52	6.50
Weighted-average discount rate	5%	5%

The components of lease expense were as follows:

	<u>March 31, 2024</u>	<u>March 31, 2023</u>
Operating lease costs		
Amortization of right-of-use operating lease asset	\$ 23,363	\$ 10,687
Lease liability expense in connection with obligation repayment	5,506	5,385
Total operating lease costs	\$ 28,868	\$ 16,072

Supplemental cash flow information related to operating leases was as follows:

Operating cash outflows from operating lease (obligation payment)	\$ 28,012	\$ 9,548
Right-of-use asset obtained in exchange for new operating lease liability	\$ 98,638	\$ -

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SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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Future minimum lease payments for the years ended December 31:

<u>Year Ended December 31,</u>	
2024 (9 months)	\$ 84,595
2025	116,211
2026	65,041
2027	66,625
2028	61,099

Thereafter	107,265
Total undiscounted cash flows	500,836
Less: amount representing interest	64,148
Present value of operating lease liabilities	436,688
Less: current portion of operating lease liabilities	94,244
Long-term operating lease liabilities	\$ 342,444

Employment Agreements (Chief Executive Officer and Chief Financial Officer)

Chief Financial Officer

In November 2023, the Company finalized the terms of its employment agreement with its Chief Financial Officer as follows:

1. Base salary
 - a. For the year ended December 31, 2023 - \$475,000,
 - b. For the year ended December 31, 2024 - \$489,250; and
 - c. For the year ended December 31, 2025 - \$503,928
2. Annual cash bonus
 - a. For the year ended December 31, 2023 - \$510,000,
 - b. For the year ended December 31, 2024 - at least \$510,000; and
 - c. For the year ended December 31, 2025 - subject to Board approval
3. Restricted Stock Awards
 - a. Effective November 10, 2023, an award of 600,000 shares of common stock. The fair value of this grant was \$3,114,000, based upon the quoted closing price of \$5.19/share.
 - b. The shares will vest as follows (see below for table on non-vested shares):
 - i. 400,000 shares ratably over the period July 2024 – December 2024 (66,667 shares per month over a six-month period); and
 - ii. 200,000 on December 31, 2025,
 - iii. Shares shall immediately vest if any of the following occur and the Chief Financial Officer is employed by the Company at the time of:
 1. Death,
 2. Total disability,
 3. Termination without cause; and
 4. Change in control

SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

4. Other
 - a. Vacation,
 - b. Car allowance of \$500 per month; and
 - c. Home office expense reimbursement of \$667 per month,
 - d. 401(K) plan participation,
 - e. Life insurance; and
 - f. Liability insurance

See Note 9 regarding the vesting provisions of these shares.

Chief Executive Officer

In December 2023, the Company finalized the terms of its employment agreement with its Chief Financial Officer as follows:

1. Term – through December 31, 2028
2. Base salary
 - a. For the year ended December 31, 2023 - \$750,000,
 - b. For each year thereafter an increase of 3%
3. Annual cash bonus
 - a. For the year ended December 31, 2023, and all other years throughout the term of the employment agreement - \$ 870,000.
4. Restricted Stock Awards
 - a. Effective March 1, 2024, future stock awards totaling 2,500,000 shares of common stock.
 - b. The shares will be issued and vest as follows:

- i. 500,000 shares ratably over the period July 2024 – December 2024 (83,333 shares per month over a six-month period). The fair value of this grant was \$3,800,000, based upon the quoted closing price of \$7.60/share. 500,000 on June 1, of each subsequent year (2025, 2026, 2027 and 2028), at which time these shares will have their fair value determined. These shares have no stated performance or service requirements, other than to be remain as the Chief Executive Officer, and the expense will be recorded on the grant date; and
- ii. Shares shall immediately vest if any of the following occur and the Chief Executive Officer is employed by the Company at the time of:
 1. Death,
 2. Total disability,
 3. Termination without cause; and
 4. Change in control

SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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5. Annual Revenue Goals (only one (1) award per goal may be earned until next threshold is achieved)
 - a. \$250,000,000 – value of restricted stock award will be \$6,250,000,
 - b. \$500,000,000 – value of restricted stock award will be \$25,000,000,
 - c. \$1,000,000,000 – value of restricted stock award will be \$50,000,000,
 - d. \$2,000,000,000 – value of restricted stock award will be \$100,000,000; and
 - e. Each additional \$1,000,000,000 – value of restricted stock award will be \$50,000,000,
6. Annual EBITDA Goals (only one (1) award per goal may be earned until next threshold is achieved)
 - a. \$50,000,000 - value of restricted stock award will be \$2,500,000,
 - b. \$100,000,000 - value of restricted stock award will be \$5,000,000; and
 - c. Each additional \$50,000,000 - value of restricted stock award will be \$2,500,000
7. Market Capitalization Goals (only one (1) award per goal may be earned until next threshold is achieved)
 - a. \$250,000,000 - value of restricted stock award will be \$25,000,000,
 - b. \$500,000,000 - value of restricted stock award will be \$50,000,000,
 - c. \$1,000,000,000 - value of restricted stock award will be \$100,000,000,
 - d. \$2,000,000,000 - value of restricted stock award will be \$200,000,000; and
 - e. Each additional \$1,000,000,000 - value of restricted stock award will be \$100,000,000
8. Other
 - a. Vacation,
 - b. Car allowance of \$500 per month; and
 - c. Home office expense reimbursement of \$667 per month,
 - d. 401(K) plan participation,
 - e. Life insurance; and
 - f. Liability insurance

See Note 9 regarding the vesting provisions of these shares.

Contingencies – Legal Matters

During the normal course of business, the Company may be exposed to litigation. When the Company becomes aware of potential litigation, it evaluates the merits of the case in accordance with Financial Accounting Standards Board ("FASB") ASC 450-20-50, "Contingencies". The Company evaluates its exposure to the matter, possible legal or settlement strategies and the likelihood of an unfavorable outcome. If the Company determines that an unfavorable outcome is probable and can be reasonably estimated, it establishes the necessary accruals.

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As of March 31, 2024, for all matters listed below, the Company is not aware of any contingent liabilities that should be reflected in the consolidated financial statements.

Surge Holdings – Juno Litigation

Juno Financial v. AATAC and Surge Holdings Inc. AND Surge Holdings Inc. v. AATAC; Circuit Court of Hillsborough County, Florida, Case # 20-CA-2712 DIV A: Breach of Contract, Account Stated and Open Account claims against Surge by a factoring company. Surge has filed a cross-complaint against defendant AATAC for Breach of Contract, Account Stated, Open Account and Common Law Indemnity. The case remains in discovery but has been inactive for some time. Following analysis by our litigation counsel stating that there is a good defense, management has decided that a reserve is not necessary. The case remains on the docket and has no court dates set at this time.

True Wireless and SurgePays – Litigation

Blue Skies Connections, LLC, and True Wireless, Inc. v. SurgePays, Inc., et. al. : In the District Court of Oklahoma County, OK, CJ-2021-5327, filed on December 13, 2021. Plaintiffs petition alleges breach of a Stock Purchase Agreement by SurgePays, SurgePhone Wireless, LLC, and Kevin Brian Cox, and makes other allegations related to SurgePays' consulting work with Jonathan Coffman, a True Wireless employee. Blue Skies believes the

Defendants are in violation of their non-competition and non-solicitation agreements related to the sale of True Wireless from SurgePays to Blue Skies. Oklahoma state law does not recognize non-compete agreements and non-solicitation agreements in the manner alleged by Plaintiffs, as such we believe SurgePays, SurgePhone, and Cox have a strong defense against the claims asserted by Blue Skies and True Wireless. The matter continues in the discovery process. Mr. Coffman is no longer working for True Wireless. An attempt at mediation in July, 2022 did not achieve a settlement. The petition requests injunctive relief, general damages, punitive damages, attorney fees and costs for alleged breach of contract, tortious interference with a business relationship, and fraud. Plaintiffs have made a written demand for damages and the parties continue to discuss a potential resolution. This matter is an anti-competitive attempt by Blue Skies and True Wireless to damage SurgePays, SurgePhone, and Cox. Written discovery is winding down and depositions began in the third quarter of 2023 and are expected to continue in 2024. The case is anticipated to be set for trial in January 2025.

In the Circuit Court of Tennessee for the 30th Judicial District at Memphis, Docket # CT-3219-23. On August 8, 2023, a complaint was filed by SurgePays for breach of a promissory note by Blue Skies Connections, LLC. The note at issue is dated June 14, 2021, and requires Blue Skies Connections to repay the principal sum of \$176,850.56, by monthly payments of \$7,461.37 commencing on June 1, 2023. Blue Skies Connections has failed to make any payments due under the terms of the note, and this breach entitles SurgePays to demand payment of the entire amount of the note together with all accrued interest. Blue Skies Connections has responded by preparing a Motion to Dismiss or, in the alternative, a Motion to Stay, taking the position that, under the prior suit pending doctrine, the subject promissory note is subject to the prior litigation instituted by Blue Skies Connections against SurgePays, styled *Skies Connections, LLC and True Wireless, Inc. v. SurgePays, Inc., et al.*, Case No. CJ-2021-5327, District Court of Oklahoma County, Oklahoma. Counsel for Blue Skies Connections has requested that Surge Pays either voluntarily dismiss the subject action or agree to stay the subject action until conclusion of the Oklahoma litigation.

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SURGEPAYS, INC. AND SUBSIDIARIES
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Mike Fina litigation

SurgePays, Inc. et al. v. Fina et al., Case No. CJ-2022-2782, District Court of Oklahoma County, Oklahoma. Plaintiffs SurgePays, Inc. and Kevin Brian Cox initiated this case against its former officer Mike Fina, his companies Blue Skies Connections, LLC, True Wireless, Inc., Government Consulting Solutions, Inc., Mussell Communications LLC, and others. This case also arises from the June 2021 transaction by which SurgePays sold True Wireless to Blue Skies. During the litigation of CJ-2021-5327 described above, SurgePays learned information that showed Mike Fina breached his duties owed to True Wireless during his employment and consulting work for True Wireless prior to SurgePays' sale of True Wireless to Blue Skies. SurgePays alleges that Mike Fina conspired with the other defendants to damage True Wireless thereby harming the value of the company and causing its eventual sale at a greatly reduced price. SurgePays asserts claims for (i) breach of contract; (ii) breach of fiduciary duty; (iii) fraud; (iv) tortious interference; and (v) unjust enrichment. At this stage, no defendant has asserted a counterclaim against SurgePays.

SurgePays filed a Second Amended Petition on January 27, 2023. Defendants Fina, Blue Skies, True Wireless, and Government Consulting Solutions filed a Motion to Dismiss on March 10, 2023. On June 29, 2023, the Court granted the Motion to Dismiss, ruling the claims asserted are "derivative" and could only be asserted by the True Wireless entity now owed by Blue Skies. The Court rejected SurgePays' request to certify this ruling for immediate appeal. Defendant Misty Garrett has filed a Motion for Summary Judgment seeking the same relief as the Motion to Dismiss granted by the Court. Defendants Rob Rowlen and Terracom, LLC remain as defendants in the case after answering the Second Amended Petition. It is SurgePays' present intent to vigorously appeal the Court's dismissal of Fina, Blue Skies, True Wireless, and Government Consulting Solutions, and to continue prosecuting the case against the other Defendants. At this stage, no attempts at settlement have been made.

Aliotta and Vasquesz v SurgePays – Litigation

Robert Aliotta and Steve Vasquesz, on behalf of themselves and others similarly situated v. SurgePays, Inc. d/b/a Surge Logics, filed January 4, 2023, in the U.S. District Court for the Northern District of Illinois, Case No. 1:23-cv-00042. Plaintiffs allege violations of the Telephone Consumer Protection Act (TCPA) and the Florida Telephone Solicitations Act (FTSA) based on telephone solicitations allegedly made by or on behalf of SurgePays, Inc. Plaintiffs seek damages for themselves and seek certification of a class action on behalf of others similarly situated. Defendants intend to vigorously defend the action however most similar cases are eventually resolved by an out-of-court settlement. At this time, it is difficult to estimate the amount or range of potential loss. SurgePays Inc has been removed from the case following a Motion to Dismiss and LogicsIQ, Inc. has been named as the defendant. A Confidential Settlement Agreement and Release of Claims has been entered into in April 2024 and the parties await a Dismissal Order to be entered by the Court.

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Consumer Attorney Marketing Group, LLC v. LogicsIQ, Inc. and SurgePays, Inc.

Consumer Attorney Marketing Group, LLC v. LogicsIQ, Inc. and SurgePays, Inc. On February 13, 2024, in the Superior Court of California, Los Angeles County, Case No. 24 ST CV 03653, Consumer Attorney Marketing Group, LLC ("CAMG") filed a complaint naming SurgePays, Inc. (the "Company") a defendant and alleging claims for breach of contract, declaratory judgment and express and implied indemnity. The complaint demands that defendants indemnify CAMG for any damages or losses that CAMG may incur in the case *Robert Aliotta, et al. v. SurgePays, Inc. d/b/a SurgeLogics*, Case No. 23 C 00042, pending in the U.S. District Court for the Northern District of Illinois. CAMG's claims against the Company are solely based upon theories of participatory and vicarious liability. A Confidential Settlement Agreement and Release of Claims has been entered into in April 2024 and the parties await a Dismissal Order to be entered by the Court.

Demiray v. SurgePays, Inc.

Meral Demiray v Surge Holdings, Inc. a/k/a SurgePays, Inc.: In the United States District Court for the Northern District of Illinois, Case # 22-cv-6591, filed November 23, 2022. Plaintiff filed a claim against SurgePays following her dismissal from her position as an employee of the company. Following negotiations among and between SurgePays, SurgePays' insurance carrier and the Plaintiff, a settlement has been reached and documentation is currently being drafted for full settlement, release, and dismissal of the claim. The case was settled and dismissed in 2023 for \$7,500, which has been recorded as a component of general and administrative expenses.

SurgePays – Ambess Litigation

On December 17, 2021, Ambess Enterprises, Inc. v SurgePays, Inc., Blair County Pa. case number 2021 GN 3222. Plaintiff alleges breach of contract and prays for damages of approximately \$73,000, plus fees, costs and interest. Litigation counsel is managing the motion practice and discovery

SURGEPAYS, INC. AND SUBSIDIARIES
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Note 9 – Stockholders' Equity

At March 31, 2024, the Company had three (3) classes of stock:

Common Stock

- 500,000,000 shares authorized
- Par value - \$0.001
- Voting at 1 vote per share

Series A, Convertible Preferred Stock

- 13,000,000 shares authorized
- none issued and outstanding
- Par value - \$0.001
- Voting at 10 votes per share
- Ranks senior to any other class of preferred stock
- Dividends - none
- Liquidation preference – none
- Rights of redemption - none
- Conversion into 1/10 of a share of common stock for each share held

Series C, Convertible Preferred Stock

- 1,000,000 shares authorized
- None issued and outstanding
- Par value - \$0.001
- Voting at 250 votes per share
- Ranks junior to any other class of preferred stock
- Dividends – equal to the per share amount (as converted basis) as the common stockholders should the Board of Directors declare a dividend
- Liquidation preference – original issue price plus any declared yet unpaid accrued dividends
- Rights of redemption - none
- Conversion into 250 shares of common stock for each share held

SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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Securities and Incentive Plan

In March 2023, the Company's shareholders approved the 2022 Plan (the "Plan") initially approved, authorized and adopted by the Board of Directors in August 2022.

The Plan initially provided for the following:

1. 3,500,000 shares of common stock
2. An annual increase on the first day of each calendar year beginning January 1, 2023 and ending on January 31, 2031 equal to the lesser of:
 - a. 10% of the common stock outstanding on the final day of the immediately preceding calendar year, or
 - b. Such smaller amount of common stock as determined by the Board of Directors.
3. The shares may be issued as follows to directors, officers, employees, and consultants:
 - a. Distribution equivalent rights
 - b. Incentive share options
 - c. Non-qualified share options
 - d. Performance unit awards
 - e. Restricted share awards
 - f. Restricted share unit awards
 - g. Share appreciation rights
 - h. Tandem share appreciation rights
 - i. Unrestricted share awards

See the proxy statement filed with the SEC on January 19, 2023 for a complete detail of the Plan.

Effective January 1, 2024, in accordance with the Plan, we increased the available amount of shares by 10% of the common stock outstanding on December 31, 2023, approximating an additional 1,400,000 shares of common stock. After this increase, total shares authorized and available to be issued under the Plan approximated 4,900,000 shares.

Of the total shares authorized and available, the Company has reserved shares for its officers, directors and employees for non-vested shares that are expected to vest in accordance with the terms of the related employment agreements and stock options that may be converted into common stock. At March 31, 2024, the Company had sufficient authorized shares to settle any possible awards that vested or stock options eligible for conversion.

SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Equity Transactions for the Three Months Ended March 31, 2024

Stock Issued for Cash - Capital Raise

In 2024, the Company issued 3,080,356 shares of common stock for gross proceeds of \$ 17,249,994 (\$5.60/share).

In connection with the capital raise, the Company paid cash as direct offering costs totaling \$ 1,395,000, resulting in net proceeds of \$15,854,994.

This offering was made pursuant to the Company's registration statement on Form S-3 (File No. 333-273110) previously filed with the Securities and Exchange Commission (the "SEC") on July 3, 2023, as amended, and declared effective by the SEC on November 3, 2023.

A preliminary and final prospectus supplement were filed with the Securities and Exchange Commission pursuant to Rule 424(b) under the Securities Act of 1933 (the "Securities Act") on January 17, 2024 and January 19, 2024, respectively. The Offering closed on January 22, 2024.

Exercise of Warrants - Cash

During 2024, the Company issued 1,860,308 shares of common stock in connection with the exercise of 1,860,308 warrants for \$8,799,257 (\$4.73/share). See warrant table below.

Exercise of Warrants - Cashless

During 2024, the Company issued 40,238 shares of common stock in connection with the cashless exercise of warrants (\$ 0.001/share). The transaction had a net effect of \$0 on stockholders' equity. See warrant table below.

Stock Issued for Services

The Company issued 47,386 shares of common stock for services rendered, having a fair value of \$ 411,740 (\$3.85 - \$7.34/share), based upon the quoted closing trading price.

See separate discussion below for the issuance and related vesting of common stock granted to the Company's officers and directors.

SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Equity Transactions for the Year Ended December 31, 2023

Stock Issued for Services

The Company issued 242,615 shares of common stock for services rendered, having a fair value of \$ 1,290,024 (\$4.19 - \$9.40/share), based upon the quoted closing trading price.

Exercise of Warrants - Cash

The Company issued 43,814 shares of common stock upon the exercise of warrants with an exercise price of \$ 4.73 for \$207,240.

Non-Vested Shares – Related Parties (Officer and Directors)

Chief Financial Officer

In 2023, the Company granted common stock to its Chief Financial Officer (600,000 shares – see Note 8), having a fair value of \$3,114,000 (\$5.19/share), based upon the quoted closing trading price.

The shares will vest as noted above (see Note 8). The Company records stock compensation expense ratably over these vesting periods. All shares are expected to vest in accordance with the terms of the agreement.

For the three months ended March 31, 2024 and 2023, the Company recognized stock compensation expense of \$ 729,363 and \$0, respectively, related to vesting.

Board Directors

In 2023, the Company granted an aggregate 95,000 shares of common stock to various members of the Board of Directors, having a fair value of \$519,500 (\$5.14 - \$5.53/share), based upon the quoted closing trading price.

The shares will vest at the earlier to occur:

- Board Member no longer serves in that capacity for any reason, except for reasons related to cause,
- Occurrence of a change in control; and
- 5th anniversary of the effective date (2028)

The Company records stock compensation expense over the five (5) year vesting period. All shares are expected to vest in accordance with the terms of the employment agreement.

SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

For the three months ended March 31, 2024 and 2023, the Company recognized stock compensation expense of \$ 25,975 and \$0, respectively, related to vesting.

Chief Executive Officer

In 2024, the Company granted common stock to its Chief Executive Officer (500,000 shares – see Note 8), having a fair value of \$ 3,800,000 (\$7.60/share), based upon the quoted closing trading price.

The shares will vest as noted above (see Note 8). The Company records stock compensation expense ratably over these vesting periods. All shares are expected to vest in accordance with the terms of the agreement.

For the three months ended March 31, 2024 and 2023, the Company recognized stock compensation expense of \$ 630,568 and \$0 related to vesting.

Director of Human Resources and Legal Services

In 2024, the Company granted 100,000 shares of common stock to its Director of Human Resources and Legal Services, having a fair value of \$ 672,000 (\$6.72/share), based upon the quoted closing trading price.

The shares will vest ratably over the period July 2024 – December 2024. The Company records stock compensation expense ratably over these vesting periods. All shares are expected to vest in accordance with the terms of the agreement.

For the three months ended March 31, 2024 and 2023, the Company recognized stock compensation expense of \$ 111,511 and \$0 related to vesting.

For the three months ended March 31, 2024 and 2023, the Company recognized total stock compensation expense of \$ 1,497,114 and \$0 related to vesting.

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SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

The following is a summary of the Company's non-vested shares at March 31, 2024 and December 31, 2023.

Non-Vested Shares	Number of Shares	Weighted Average Grant Date Fair Value
Balance - December 31, 2022	-	\$ -
Granted	695,000	5.24
Vested	-	-
Cancelled/Forfeited	-	-
Balance - December 31, 2023	695,000	\$ 5.24
Granted	600,000	\$ 7.60
Vested	-	-
Cancelled/Forfeited	-	-
Balance - March 31, 2024	1,295,000	\$ 6.26
Unrecognized Compensation	\$ 6,078,549	
Weighted average period (years)	0.70	

The following is a detail of the common stock granted, which is subject to the vesting provisions noted above at March 31, 2024 and December 31, 2023, respectively.

Three Months Ended March 31, 2024	Shares Granted	Shares Vested	Non-Vested Shares
Chief Financial Officer	-	-	-
Chief Executive Officer	500,000	-	500,000
Board Directors	-	-	-
Director of Human Resources and Legal Services	100,000	-	100,000
	600,000	-	600,000
Year Ended December 31, 2023	Shares Granted	Shares Vested	Non-Vested Shares
Chief Financial Officer	600,000	-	600,000
Chief Executive Officer	-	-	-
Board Directors	95,000	-	95,000
Director of Human Resources and Legal Services	-	-	-
	695,000	-	695,000

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SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2024

Stock Options

Stock option transactions for the three months ended March 31, 2024 and the year ended December 31, 2023 are summarized as follows:

Stock Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value
Outstanding - December 31, 2022	17,004	\$ 16.00	4.16	\$ -	
Vested and Exercisable - December 31, 2022	6,801	\$ 16.00	4.16	\$ -	
Unvested and non-exercisable - December 31, 2022	10,203	\$ 16.00	4.16	\$ -	
Granted	104,272	\$ 6.45			\$ 5.53
Exercised	-	\$ -			
Cancelled/Forfeited	-	\$ -			
Outstanding - December 31, 2023	121,276	\$ 7.79	6.47	\$ -	
Vested and Exercisable - December 31, 2023	116,174	\$ 7.43	6.61	\$ -	
Unvested and non-exercisable - December 31, 2023	5,101	\$ 16.00	3.16	\$ -	
Granted	-	\$ -			
Exercised	-	\$ -			
Cancelled/Forfeited	-	\$ -			
Outstanding - March 31, 2024	121,276	\$ 7.79	6.22	\$ -	
Vested and Exercisable - March 31, 2024	121,276	\$ 7.79	6.22	\$ -	
Unvested and non-exercisable - March 31, 2024	-	\$ -	-	\$ -	

Three Months Ended March 31, 2024

Stock Options - Related Party – Chief Financial Officer

During the three months ended March 31, 2024, the remaining 5,101 stock options vested.

Stock-based compensation expense for the three months ended March 31, 2024 and 2023 was \$ 6,196 and \$9,294, respectively.

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**SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024**

Year Ended December 31, 2023

Stock Options - Related Party – Chief Financial Officer

During the year December 31, 2023, 5,101 stock options vested.

Stock Options - Employees

The Company granted 104,272 seven (7) year stock options to various employees for services rendered, having a fair value of \$ 576,625. These options have an exercise price of \$6.45 per share.

The fair value of these stock options was determined using a Black-Scholes option pricing model with the following inputs:

Expected term	7 years
Expected volatility	106%
Expected dividends	0%
Risk free interest rate	3.88%

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**SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024**

Warrants

Warrant activity for the three months ended March 31, 2024 and the year ended December 31, 2023 are summarized as follows:

Warrants	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
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Outstanding - December 31, 2022	5,681,392	\$ 5.05	1.85	\$ 10,026,387
Vested and Exercisable - December 31, 2022	5,681,392	\$ 5.05	1.85	\$ 10,026,387
Unvested - December 31, 2022	-	\$ -	0.00	\$ -
Granted	-	\$ -	-	-
Exercised	(43,814)	\$ 4.73	-	-
Cancelled/Forfeited	(63,325)	\$ 26.39	-	-
Outstanding - December 31, 2023	5,574,253	\$ 4.81	0.86	\$ 9,348,348
Vested and Exercisable - December 31, 2023	5,574,253	\$ 4.81	0.86	\$ 9,348,348
Unvested - December 31, 2023	-	\$ -	-	\$ -
Granted	-	\$ -	-	-
Exercised	(1,953,308)	\$ 4.73	-	-
Cancelled/Forfeited	(1,667)	\$ 12.50	-	-
Outstanding - March 31, 2024	3,619,278	\$ 4.85	0.61	\$ -
Vested and Exercisable - March 31, 2024	3,619,278	\$ 4.85	0.61	\$ -
Unvested and non-exercisable - March 31, 2024	-	\$ -	-	\$ -

Note 10 – Segment Information

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

The Company evaluated the performance of its operating segments based on revenue and operating loss. All data below is prior to intercompany eliminations.

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SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

Segment information for the Company's operations for the three months ended March 31, 2024 and 2023, are as follows:

	For the Three Months Ended March 31,	
	2024	2023
Revenues		
Mobile Virtual Network Operators	\$ 28,892,590	\$ 28,659,384
Comprehensive Platform Services	2,530,589	2,934,346
Lead Generation	-	3,170,845
Other	5,956	11,868
Total	\$ 31,429,135	\$ 34,776,443
Cost of revenues		
Mobile Virtual Network Operators	\$ 20,760,199	\$ 21,311,859
Comprehensive Platform Services	2,481,806	2,891,613
Lead Generation	1,619	2,877,988
Other	2,844	500
Total	\$ 23,246,468	\$ 27,081,960
Operating expenses		
Mobile Virtual Network Operators	\$ 34,831	\$ 49,476
Comprehensive Platform Services	719,364	325,677
Lead Generation	81,255	288,393
Other	215	300
Corporate overhead	5,595,141	2,325,575
Total	\$ 6,430,806	\$ 2,989,421
Income (loss) from operations		
Mobile Virtual Network Operators	\$ 8,097,560	\$ 7,298,049
Comprehensive Platform Services	(670,581)	(282,944)
Lead Generation	(82,871)	4,464
Other	2,897	11,068
Corporate overhead	(5,595,141)	(2,325,575)
Total	\$ 1,751,861	\$ 4,705,062

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SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

Segment information for the Company's assets and liabilities at March 31, 2024 and December 31, 2023, are as follows:

	March 31, 2024	December 31, 2023
Total Assets		

Mobile Virtual Network Operators	\$	40,722,619	\$	32,502,760
Comprehensive Platform Services		4,959,204		2,584,245
Lead Generation		1,327,811		1,596,236
Other		138,447		135,548
Corporate overhead		22,437,092		5,106,518
Total	\$	69,585,173	\$	41,925,307

Total Liabilities

Mobile Virtual Network Operators	\$	2,297,116	\$	2,426,964
Comprehensive Platform Services		1,904,778		155,295
Lead Generation		542,516		899,485
Other		198,197		198,197
Corporate overhead		8,457,067		9,841,902
Total	\$	13,399,674	\$	13,521,843

All intercompany accounts are separately presented above as both a component of the assets and liabilities. These amounts net to \$ 0 in the Company's consolidated balance sheets.

Note 11 – Installment Sale Liability

Agreement

In 2022, the Company executed a two-year (2) financing arrangement with Affordable Connectivity Financing (“ACF”, “Seller”) to receive up to \$25,000,000 to purchase devices for sale.

This agreement was based upon the Company submitting a purchase order and ACF approving the request. The Company could cancel the purchase order prior to ACF paying for the devices. The agreement could be extended by a period of one (1) year upon mutual consent.

Under the terms of the agreement, ACF was directly purchasing products and reselling to the Company at a markup. At December 31, 2022, the markup was 9.85%. Effective April 1, 2023 and each quarter thereafter, this amount was subject to increase based upon the secured overnight financing rate.

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SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

Repayment Period

Each installment sale contract was to be repaid over a period of nine (9) months.

Security

This arrangement was fully secured by all assets of the Company.

Minimum Outstanding Balance

3 month rolling average of 70% of the installment sale credit amount.

Prepayment Penalty

The Company was subject to a cancellation fee of 3% during the first year and 2% during the second year.

Administrative Fee

The Company was required to pay \$ 2,000 per month.

Default Rate

For any unpaid amounts under this agreement, the Company was subject to a fee of 1.35% per month (16.2% annualized).

Commitment Fee

ACF charged a 2% commitment fee on the initial installment sale, and 2% for each incremental increase of \$5,000,000 in the installment sale credit amount.

For example, if the initial installment sale credit amount is \$15,000,000, the credit availability fee would be \$300,000 (2%). Any subsequent increase of \$5,000,000 or more would result in an additional fee of \$100,000 (2%). Commitment fees are paid over a period of 12 months as part of the Seller's monthly invoicing.

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SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

Covenants

At December 31, 2023, the Company was in compliance with all of the following ratios:

1. Company adjusted EBITDA,
2. Total Leverage Ratio,

3. Fixed Charge Coverage Ratio,
4. Minimum Subscriber Base; and
5. Minimum Liquidity

Additionally, the Company is required to provide various data to the vendor on a periodic basis. The Company has not received notice from the vendor regarding any instances of non-compliance.

Lockbox

The Company will maintain a lockbox for the benefit of the Seller.

Installment Sale Liability

At December 31, 2023, the Company recorded an installment sale liability of \$ 0.

During the year ended December 31, 2023, the Company paid fees of \$ 491,536. These amounts were included as a component of cost of goods sold.

The liability was repaid in full in 2023 and the agreement was cancelled.

Note 12 – Income Taxes

Provision (benefit) for Income Taxes and Effective Income Tax Rate

	March 31, 2024	March 31, 2023
Federal		
Current	\$ 130,000	\$ -
Deferred	293,000	-
Total provision (benefit)	\$ 423,000	\$ -
State		
Current	\$ -	\$ -
Deferred	-	-
Total provision (benefit)	\$ -	\$ -

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SURGEPAYS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2024

A reconciliation of the provision for income taxes to the amount computed by applying the statutory federal income tax rate of 21% to income before provision for income taxes for the three months ended March 31, 2024 and 2023, respectively, is as follows:

	March 31, 2024	March 31, 2023
Federal income tax expense (benefit) - 19.64%	\$ 322,000	\$ 893,000
State income tax expense (benefit) - 6.5% - net of federal effect	107,000	296,000
Non-deductible items	5,000	-
Subtotal	434,000	1,189,000
Change in valuation allowance	(11,000)	(1,189,000)
Income tax expense (benefit)	\$ 423,000	\$ -
Effective tax rate	25.86%	0.00%

Deferred Tax Assets and Liabilities

As of March 31, 2024 and December 31, 2023, respectively, the significant components of deferred tax assets and liabilities is as follows:

	March 31, 2024	December 31, 2023
Deferred Tax Assets		
Reserve for uncollectible accounts	\$ 5,000	\$ 5,000
Stock based compensation	375,000	-
Net operating loss carryforwards	3,157,000	3,844,000
Total deferred tax assets	3,537,000	3,849,000
Less: valuation allowance	(779,000)	(790,000)
Net deferred tax assets	2,758,000	3,059,000
Deferred Tax Liabilities		
Depreciation	67,000	224,000
Amortization	149,000	-
Net deferred tax liabilities	216,000	224,000
Deferred income taxes - net	\$ 2,542,000	\$ 2,835,000

Deferred tax assets and liabilities are computed by applying the federal and state income tax rates in effect to the gross amounts of temporary differences and other tax attributes, such as net operating loss carryforwards. In assessing if the deferred tax assets will be realized, the Company considers whether it is more likely than not that some or all of these deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which these deductible temporary differences reverse.

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SURGEPAYS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

As of March 31, 2024, the Company had federal and state net operating loss carryforwards of approximately \$ 12,500,000 and \$12,000,000, respectively. The federal net operating losses carry forward indefinitely, and accordingly have not been reserved. The state net operating losses will expire between the years ending December 31, 2036 and 2038. The state net operating losses have been fully reserved as management does not believe that it is probable that the losses will be utilized before their expiration.

During the three months ended March 31, 2024, the valuation allowance increased by approximately \$ 11,000. The total valuation allowance results from the Company's estimate of its future recoverability of its net deferred tax assets.

The Company is in the process of analyzing their NOL and has not determined if the Company has had any change of control issues that could limit the future use of these NOL's. As of March 31, 2024, all federal NOL carryforwards that were generated after 2017 may only be used to offset 80% of taxable income and are carried forward indefinitely.

The Company follows the provisions of ASC 740, which requires the computations of current and deferred income tax assets and liabilities only consider tax positions that are more likely than not (defined as greater than 50% chance) to be sustained if the taxing authorities examined the positions. There are no significant differences between the tax provisions represented in the accompanying consolidated financial statements and that reported in the Company's income tax returns. The Company is subject to U.S. Federal and State income tax examination by taxing authorities for the years after December 31, 2020.

The Company files corporate income tax returns in the United States and State of Tennessee jurisdictions. Due to the Company's net operating loss posture, all tax years are open and subject to income tax examination by tax authorities. The Company's policy is to recognize interest expense and penalties related to income tax matters as tax expense. At December 31, 2023 and 2022, respectively, there are no unrecognized tax benefits, and there were no significant accruals for interest related to unrecognized tax benefits or tax penalties.

Note 13 – Subsequent Events

None.

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

This statement contains forward-looking statements within the meaning of the Securities Act of 1933, as amended (the 'Securities Act'). Discussions containing such forward-looking statements may be found throughout this statement. Actual events or results may differ materially from those discussed in the forward-looking statements as a result of various factors, including the matters set forth in this statement. The accompanying consolidated financial statements as of March 31, 2024 and 2023 and for the three months then ended includes the accounts of SurgePays, Inc. and its wholly owned subsidiaries during the period owned by SurgePays, Inc.

SurgePays, Inc ("SurgePays," "we" the "Company") was incorporated in Nevada on August 18, 2006, is a technology and telecom company focused on the underbanked and underserved communities. SurgePhone and Torch Wireless provide subsidized mobile broadband to over 250,000 low-income subscribers nationwide. SurgePays fintech platform empowers clerks at thousands of convenience stores to provide a suite of prepaid wireless and financial products to underbanked customers.

About SurgePays, Inc.

SurgePays, Inc. ("SurgePays," "we", the "Company") is a financial technology and telecom company focused on providing these essential services to the underbanked community. We were previously known as North American Energy Resources, Inc. and KSIX Media Holdings, Inc. Prior to April 27, 2015, we operated solely as an independent oil and natural gas company engaged in the acquisition, exploration and development of oil and natural gas properties and the production of oil and natural gas through its wholly owned subsidiary, NAER. On April 27, 2015, NAER entered into a Share Exchange Agreement with KSIX Media whereby KSIX Media became a wholly owned subsidiary of NAER and which resulted in the shareholders of KSIX Media owning approximately 90% of the voting stock of the surviving entity. While we continued the oil and gas operations of NAER following this transaction, on August 4, 2015, we changed its name to KSIX Media Holdings, Inc. On December 21, 2017, we changed its name to Surge Holdings, Inc. to better reflect the diversity of its business operations. We changed our name to SurgePays, Inc. on October 29, 2020.

As described in more detail below, we currently operate in three different business segments through the following subsidiaries: (i) Surge Blockchain, LLC, formerly Blvd. Media Group, LLC, a Nevada limited liability company; (ii) LogicsIQ, Inc., a Nevada corporation; (iii) SurgePhone Wireless, LLC, a Nevada limited liability company; (iv) SurgePays Fintech, Inc., a Nevada limited liability company; (v) ECS Prepaid, LLC, a Missouri limited liability company and (vi) Torch Wireless, LLC a Wyoming limited liability company.

Our Business Segments

Mobile Virtual Network Operators

We provide mobile broadband (internet connectivity), voice and SMS text messaging to both subsidized and direct retail prepaid customers through SurgePhone Wireless, LLC and Torch Wireless, LLC, wholly owned subsidiaries of SurgePays. We consider this the Mobile Virtual Network Operators (MVNO) segment of our business. Further, we provide two types of MVNO's, subsidized and non-subsidized. Our subsidized MVNO's are licensed by the Federal Communications Commission (the "FCC") to provide subsidized access to the internet through mobile broadband services to consumers qualifying under the federal guidelines of the Affordable Connectivity Program (the "ACP"). We provide these services by supplying consumers eligible for the ACP with tablet devices with mobile broadband capabilities for use in their homes. For providing mobile broadband on tablets to these eligible customers, the ACP (the successor program, as of March 1, 2022 to the Emergency Broadband Benefit program) reimburses us up to a \$100 for the cost of each tablet device we distribute and a \$30 per customer, per month subsidy for mobile broadband (internet connectivity) services. SurgePhone and Torch combined are licensed to offer subsidized mobile broadband to all fifty states. Revenue from this portion of our business for the three months ended March 31, 2024 accounted for 92% of our total revenue as compared to 82% for the three months ended March 31, 2023. However, according to the FCC website, on February 7, 2024, the ACP stopped accepting new applications and enrollments and the ACP will cease to be funded after April 2024. The Company hopes that the program will be funded by Congress, however, at this time, we cannot predict any outcome.

Through our subsidiaries we plan to roll-out LinkUp Mobile in the second quarter of 2024. This non-subsidized portion of our MVNO business will leverage the volume of buying power we have with our subsidized subscriber base to build low-cost plans using SIM kits in convenience stores transacting on the

SurgePays network. Our market will be to penetrate rural America where there is less competition and higher consumer pricing and offer incentivized family plans to the rapidly growing base of subsidized customer households. The revenue will be generated by subscribers paying a monthly fee for talk, text and data carrier services on a prepaid basis. If the ACP is not funded, we plan to competitively market our non-subsidized MVNO business to our current ACP customers and hope to be able to retain them as customers in this segment.

Comprehensive Platform Services

We provide financial technology and a wireless top-up platform to independently owned convenience stores throughout the country via our subsidiaries SurgePays Fintech, ECS Prepaid, LLC, Electronic Check Services, Inc. and Central States Legal Services, Inc. We consider these services the "Comprehensive Platform Services" segment of our business.

Specifically, our Comprehensive Platform Services provides ACH banking relationships and a fintech transactions platform that processes thousands of transactions a day at independently owned convenience stores. The Comprehensive Platform Service also provides wireless top-up transactions and wireless product aggregation for our nationwide network of convenience stores. By linking together, the customer, the carrier plan and the convenience store to allow all parties to have one location to get what they need.

Our revenue is derived from the transaction that takes place when an individual using a prepaid cellular carrier plan needs to add more minutes to their cellular phone. These services are vital to convenience store operations and we believe we can utilize our relationships with convenience stores from our ACP services to expand the network for our Comprehensive Platform Services. The Company expects this segment to be the biggest percent of year-over-year revenue growth opportunity for 2024 and hired a new head of sales for our Comprehensive Platform Service segment to tap into such growth opportunity.

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Lead Generation

We refer to LogicsIQ, Inc. as the Lead Generation segment of our business. LogicsIQ is a lead generation and case management solutions company primarily serving law firms in the mass tort industry. Revenues from this segment of our business are earned from our lead generation retained services offerings and call center activities through CenterCom. Lead generation consist of sourcing leads, which requires us to drive traffic to our landing pages for a specific marketing campaign. We also achieve this in certain marketing campaigns by using third-party preferred vendors to meet the needs of our clients. Revenues are recognized at the time the lead is delivered to the client. If payment is received in advance of the delivery of services, it is included in deferred revenue, and subsequently recognized once the performance obligation has been completed. Retained service offerings consist of turning leads into a retained legal case. To provide this service to our customers, we qualify leads through verification of information collected during the lead generation process. Additionally, we further qualify these leads using a client questionnaire which assists in determining the services to be provided. The qualification process is completed using our call center operations.

In 2023, we decided to focus less on this segment of our business and the Company is in the process of determining how best this service fits into the overall plans of SurgePays. The Company still derived revenue from this segment of our business in 2023, however, we have not received any revenue for the three months ended March 31, 2024 and plan to make a final decision on whether to maintain or discontinue the Lead Generation segment of its business in the second quarter of fiscal year ended 2024.

COMPARISON OF THREE MONTHS ENDED March 31, 2024 AND 2023

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the consolidated results of operations, stockholders' deficit, or cash flows.

We measure our performance on a consolidated basis as well as the performance of each segment.

We report our financial performance based on the following segments: Mobile Virtual Network Operators (MVNO), Comprehensive Platform Service (Top-up) and Lead Generation. The MVNO segment is further broken down into subsidized and non-subsidized components. The subsidized component or ACP is the result of the mobile broadband (internet connectivity) services provided by SurgePhone Wireless and Torch Wireless to low-income consumers and accounts for the majority of our revenue. The Comprehensive Platform Service segment is comprised of Surge Fintech and ECS as previously shown. The Lead Generation is comprised of LogicsIQ as previously shown.

The segment amounts included in MD&A are presented on a basis consistent with our internal management reporting. Additional information on our reportable segments is contained in Note 10 – Segment Information and Geographic Data of the Notes to Financial Statements.

Revenues during the three months ended years ended March 31, 2024 and 2023 consisted of the following:

	2024	2023
Revenue	\$ 31,429,135	\$ 34,776,443
Cost of revenue (exclusive of depreciation and amortization)	(23,246,468)	(27,081,960)
General and administrative	(6,430,806)	(2,989,421)
Income (Loss) from operations	\$ 1,751,861	\$ 4,705,062

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Revenue decreased overall by \$3,347,308 (9.6%) from the three months ended March 31, 2023 to the three months ended March 31, 2024. The breakout was as follows:

	For the Three Months Ended March 31,	
	2024	2023
Revenues:		
Mobile Virtual Network Operator	\$ 28,892,590	\$ 28,659,384
	2,530,589	2,934,346
Comprehensive Platform Services		
Lead Generation	-	3,170,845
Other	5,956	11,068
Total	\$ 31,429,135	\$ 34,776,443

Mobile Virtual Network Operators consisting of SurgePhone Wireless and Torch Wireless revenues (as detailed in Notes 2 and 10 of the financial statements) increased by \$233,206 (0.8%). On February 7, 2024, the ACP stopped accepting new applications and enrollments and the ACP will cease to be funded after May 20, 2024.

Lead Generation services consisting of LogicsIQ revenues decreased by \$3,170,845 as a result of operational changes by management in late 2023. The Company plans to make a final decision on whether to maintain or discontinue the Lead Generation segment of its business in the second quarter of fiscal year ended 2024.

Comprehensive Platform Services revenues decreased by \$403,757 as a result of focusing our efforts on our MVNO segment, specifically the ACP component of the MVNO segment while we strategized on how to enhance our sales and on-boarding approach to adding convenience stores to our platform. The Company expects this segment to be the biggest percent of year-over-year revenue growth opportunity for the remainder of 2024.

If the ACP is fully funded, we expect revenue to grow overall for the Company in 2024 and we will be focusing our business efforts on the continued growth of our Mobile Virtual Network Operators. Specifically, we realigned our management team to best produce results in all facets of the Company. We hired a new head of sales with substantial experience and connections with convenience store to specifically increase revenue and store counts. However, if the ACP is not renewed, we expect revenue for the Company in 2024 to substantially decrease because ACP reimbursement is a substantial portion of our revenue. Additionally, the Company plans to make a final decision on whether to maintain or discontinue the Lead Generation segment of its business in the second quarter of fiscal year ending 2024.

Cost of Revenue, Gross Profit and Gross Margin

For the three months ended March 31, 2024, cost of revenue for services primarily consists of data plan expenses (\$8,979,344), devices (\$3,900,413), marketing (\$5,799,322), advertising (\$2,937,608) and other expenses such as royalties and call-center expenses (\$1,849,779). For the three months ended March 31, 2023, cost of revenue for services primarily consists of data plan expenses (\$10,490,657), devices (\$6,225,403), marketing (\$5,518,680), advertising (\$2,703,759) and other expenses such as royalties and call-center expenses (\$2,143,461).

We expect that our cost of revenue will increase or decrease to the extent that our revenue increases and decreases.

The Company expects to continue the improvement of gross margin in the MVNO segment, assuming the ACP program continues to be fully funded for 2024. The Company expects the overall cost to acquire a new ACP subscriber will decrease in 2024 as we introduce our connections to convenience stores and new social media approaches to capture new subscribers. We anticipate the cost of device acquisition will continue to be lower in 2024 as we transition from buying devices to using SIM cards to capture and switch subscribers to our services. As we roll out new approaches to acquire an ACP subscriber, our marketing-related expenses should decrease.

In addition, the Company plans to implement a new sales force for Comprehensive Platform Services to capture what we believe is an untapped underbanked convenience store market.

	For the Three Months Ended March 31,	
	2024	2023
Cost of Revenue (exclusive of depreciation and amortization):		
Mobile Virtual Network Operator	\$ 20,760,199	\$ 21,311,859
Comprehensive Platform Services	2,481,806	2,891,613
Lead Generation	1,619	2,877,988
Other	2,844	500
Total	\$ 23,246,468	\$ 27,081,960

Gross profit margin is calculated as revenue less cost of revenue. Gross profit margin is gross profit expressed as a percentage of revenue. Our gross profit in future periods will depend on a variety of factors, including market conditions that may impact our pricing, sales mix among devices, sales mix changes among consumables, excess and obsolete inventories, and the cost of our products from manufacturers. Our gross profit in future periods will vary based upon our revenue stream mix and may increase or decrease based upon our distribution channels. If the ACP is not continually funded by Congress, we expect the gross margins to initially decrease overall as we transition from subsidized subscribers to non-subsidized subscribers through our LinkUp mobile service line.

	For the Three Months Ended March 31,	
	2024	2023
Gross Profit (Loss) (exclusive of depreciation and amortization):		
Mobile Virtual Network Operator	\$ 8,132,391	\$ 7,347,525
Comprehensive Platform Services	48,783	42,733
Lead Generation	(1,619)	292,857
Other	3,112	11,368
Total	\$ 8,182,667	\$ 7,694,483

The Company expects to continue the improvement of gross margin in all segments, assuming the ACP program is fully funded for 2024.

	For the Three Months Ended March 31,	
	2024	2023
Gross Margin:		
Mobile Virtual Network Operator	% 28.1	% 25.6
Comprehensive Platform Services	1.9	1.5
Lead Generation	-	9.2
Other	52.2	95.8
Total	% 26.0	% 22.1

We expect that our gross profit margin for product and service will increase over the long term as our sales and production volumes increase and our cost per unit decreases due to efficiencies of scale.

General and administrative during the three months ended March 31, 2024 and 2023 consisted of the following:

	2024	2023
Depreciation and amortization	\$ 289,467	\$ 266,023
Selling, general and administration	6,141,339	2,723,398
Total	<u>\$ 6,430,806</u>	<u>\$ 2,989,421</u>

The increase in depreciation and amortization costs for the three months ended March 31, 2024 compared to the three months ended March 31, 2023 is the result of amortizing internal-use software development costs capitalized in 2023 associated with software enhancements to our various software platforms continuing in 2024. There were no such costs incurred in the first quarter of 2024.

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Selling, general and administrative expenses during the three months ended March 31, 2024 and 2023 consisted of the following:

	2024	2023
Contractors and consultants	\$ 1,224,879	\$ 549,634
Professional services	703,447	301,058
Compensation	3,188,028	854,018
Computer and internet	209,547	158,561
Advertising and marketing	16,806	32,336
Insurance	283,875	321,266
Other	514,757	506,525
Total	<u>\$ 6,141,339</u>	<u>\$ 2,723,398</u>

Selling, general and administrative costs (S, G & A) increased by \$3,417,941 (125.5%). The changes are discussed below:

- Contractors and consultants expense increased by \$675,245 or 122.9% from \$549,634 for the three months ended March 31, 2023 to \$1,224,879 for the three months ended March 31, 2024. The Company engaged several contractors to overhaul the financial platform to allow for the conversion to a tablet-based transaction at the store level from the outdated VeriFone terminal. The Company also engaged with consultants to provide advisory services specifically in the area of investment relations to identify opportunities to increase our shareholder value.
- Professional services increased \$402,389 or 133.7% from the three months ended March 31, 2023 to the three months ended March 31, 2024 primarily due to an increase in legal fees of \$305,792. Specifically, the legal fees for the Blue Skies Connections, LLC litigation increased by \$253,423 from the three months ended March 31, 2023 to the three months ended March 31, 2024.
- Compensation increased from \$854,018 for the three months March 31, 2023 to \$3,188,028 for the three months ended March 31, 2024 primarily as a result of one-time non-cash component for stock compensation for the CEO and CFO of \$1,359,931, per their employment agreements and accruals for bonuses related to 2024 of \$382,500.
- Computer and internet costs increased \$50,986 or 32.2% from the three months ended March 31, 2023 to the three months ended March 31, 2024. The increase was primarily the result of increased programming and support services related to the maintenance and enhancements of the Clearline platform purchased in January of 2024.
- Advertising and marketing costs decreased to \$16,806 for the three months ended March 31, 2024 from \$32,336 for the three months ended March 31, 2023 primarily as a result of the Company slowing expenditures related to Affordable Connectivity Program ("ACP") stopped accepting new applications and enrollments effective February 7, 2024.
- Insurance expense decreased to \$283,875 for the three months ended March 31, 2024 from \$321,266 for the three months ended March 31, 2023 primarily as a result of improved premium rates for the renewal of coverage in 2023/2024.
- Other costs increased \$8,232 or 1.6% from the three months ended March 31, 2023 to the three months ended March 31, 2024.

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Other (expense) income during the three months ended March 31, 2024 and 2023 consisted of the following:

	2024	2023
Interest, net	\$ (132,583)	\$ (192,326)
Gain (loss) on equity investment in Centercom	16,153	33,029
Total other (expense) income	<u>\$ (116,430)</u>	<u>\$ (159,297)</u>

Interest expense decreased to \$132,583 in the three months ended March 31, 2024 from \$192,326 in the three months ended March 31, 2023.

The equity investment in Centercom increased by \$16,153 in the three months ended March 31, 2024 compared to an increase of \$33,029 in the three months ended March 31, 2023.

Provision for income tax benefit (expense) during the three months ended March 31, 2024 and 2023 consisted of the following:

	2024	2023
Current	\$ 130,000	\$ -
Deferred	293,000	-
Total provision (benefit)	<u>\$ 423,000</u>	<u>\$ -</u>

Equity Transactions for the Three Months Ended March 31, 2024

Stock Issued for Cash - Capital Raise

In 2024, the Company issued 3,080,356 shares of common stock for gross proceeds of \$17,249,994 (\$5.60/share).

In connection with the capital raise, the Company paid cash as direct offering costs totaling \$1,395,000, resulting in net proceeds of \$15,854,994.

This offering was made pursuant to the Company's registration statement on Form S-3 (File No. 333-273110) previously filed with the Securities and Exchange Commission (the "SEC") on July 3, 2023, as amended, and declared effective by the SEC on November 3, 2023.

A preliminary and final prospectus supplement were filed with the Securities and Exchange Commission pursuant to Rule 424(b) under the Securities Act of 1933 (the "Securities Act") on January 17, 2024 and January 19, 2024, respectively. The Offering closed on January 22, 2024.

Exercise of Warrants - Cash

During 2024, the Company issued 1,860,308 shares of common stock in connection with the exercise of 1,860,308 warrants for \$8,799,257 (\$4.73/share). See warrant table below.

Exercise of Warrants - Cashless

During 2024, the Company issued 40,238 shares of common stock in connection with the cashless exercise of warrants (\$0.001/share). The transaction had a net effect of \$0 on stockholders' equity. See warrant table below.

Stock Issued for Services

The Company issued 47,386 shares of common stock for services rendered, having a fair value of \$411,740 (\$3.85 - \$7.34/share), based upon the quoted closing trading price.

See separate discussion below for the issuance and related vesting of common stock granted to the Company's officers and directors.

Segment Information

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

The Company evaluated the performance of its operating segments based on revenues and operating income (loss). Segment information for the three months ended March 31, 2024 and 2023, are as follows:

	For the Three Months Ended March 31,	
	2024	2023
Revenues		
Mobile Virtual Network Operator	\$ 28,892,590	\$ 28,659,384
Comprehensive Platform Services	2,530,589	2,934,346
Lead Generation	-	3,170,845
Other	5,956	11,868
Total	\$ 31,429,135	\$ 34,776,443
Cost of revenues		
Mobile Virtual Network Operator	\$ 20,760,199	\$ 21,311,859
Comprehensive Platform Services	2,481,806	2,891,613
Lead Generation	1,619	2,877,988
Other	2,844	500
Total	\$ 23,246,468	\$ 27,081,960
Operating expenses		
Mobile Virtual Network Operator	\$ 34,831	\$ 49,476
Comprehensive Platform Services	719,364	325,677
Lead Generation	81,255	288,393
Other	215	300
Corporate overhead	5,595,141	2,325,575
Total	\$ 6,430,806	\$ 2,989,421
Income from operations		
Mobile Virtual Network Operator	\$ 8,097,560	\$ 7,298,049
Comprehensive Platform Services	(670,581)	(282,944)
Lead Generation	(82,871)	4,464
Other	2,897	11,068
Corporate overhead	(5,595,141)	(2,325,575)
Total	\$ 1,751,861	\$ 4,705,062

Segment information for the Company's assets and liabilities at March 31, 2024 and December 31, 2023, are as follows:

	March 31, 2024	December 31, 2023
Total Assets		
Mobile Virtual Network Operator	\$ 40,722,619	\$ 32,502,760
Comprehensive Platform Services	4,949,204	2,584,245
Lead Generation	1,327,811	1,596,236
Other	138,447	135,548
Corporate overhead	22,437,092	5,106,518
Total	\$ 69,585,173	\$ 41,925,307
Total Liabilities		
Mobile Virtual Network Operator	\$ 2,297,116	\$ 2,426,964

Comprehensive Platform Services	1,904,778	155,295
Lead Generation	542,516	899,485
Other	198,197	198,197
Corporate overhead	8,457,067	9,841,902
Total	<u>\$ 13,399,674</u>	<u>\$ 13,521,843</u>

All intercompany accounts are separately presented above as both a component of the assets and liabilities. These amounts net to \$0 in the Company's consolidated balance sheets.

Mobile Virtual Network Operator

The Affordable Connectivity Program (ACP) revenue for the three months ended March 31, 2024 increased by \$233,206 as compared to the three months ended March 31, 2023. Cost of revenues for the three months ended March 31, 2024, decreased by \$551,660 from the same period ended March 31, 2023, as a result of the purchases of devices (\$3,900,413), data usage expenses (\$6,706,958) and marketing services paid of (\$5,799,322) for the ACP program. The operating income increased from an operating income of \$7,298,049 as of the three months ended March 31, 2023, to operating income of \$8,097,560 as of three months ended March 31, 2024. As of this filing, the ACP has not been funded by Congress. We expect revenues and associated gross margin to be lower in the second quarter of 2024.

Lead Generation

The revenue for the three months ended March 31, 2024 decreased by \$3,170,845 compared to the three months ended March 31, 2023. The revenue changed due to the continued review of the line of business and how it best fits into the overall plans of the Company.

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Comprehensive Platform Services

The revenue for the three months ended March 31, 2024 was \$2,530,589 compared to \$2,934,346 for the same period in 2023. The decrease of 14% was a continuing result of the Company shift to ACP. With the uncertainty of ACP, we are committed to re-focus our attention to this market segment for 2024.

Overall

The overall increase in revenue of \$3,347,308 from 2023 to 2024 for the three months ended March 31, can be attributable to opening of some new markets and the continued growth of subscribers with the Affordable Connectivity Program (ACP) program. The net operating income decreased by \$2,953,201 from three months ended March 31, 2023 to the three months ended March 31, 2024.

LIQUIDITY and CAPITAL RESOURCES

At March 31, 2024 and December 31, 2023, our current assets were \$59,060,603 and \$33,366,661, respectively, and our current liabilities were \$9,431,948 and \$12,705,044, respectively, which resulted in a working capital surplus of \$49,628,655 and of \$20,661,617, respectively. The increase in current assets is a result of a capital raise on January 15, 2024 which resulted in a net increase in cash of \$17,249,994 and the exercise of warrants during the three months ended March 31, 2024 of \$8,799,257.

Total assets at March 31, 2024 and December 31, 2023 amounted to \$69,585,173 and \$41,925,307, respectively. The increase in total assets is a result of a capital raise and exercise of warrants, whereby cash increased by \$ 28,323,018. Total assets increased by \$27,659,866 from December 31, 2023 to March 31, 2024. At March 31, 2024, assets consisted of current assets of \$59,060,603, net property and equipment of \$291,458, net intangible assets of \$1,963,093, goodwill of \$4,166,782, equity investment in Centercom of \$480,562, note receivable of \$176,851, internal use software of \$483,717, operating lease right of use asset of \$420,107, and deferred income taxes of \$2,542,000 compared to at December 31, 2023, current assets of \$33,366,661, net property and equipment of \$361,841, net intangible assets of \$2,126,470, goodwill of \$1,666,782, equity investment in Centercom of \$464,409, note receivable of \$176,851, internal use software of \$539,424, operating lease right of use asset of \$387,869, and deferred income taxes of \$2,835,000.

At March 31, 2024, our total liabilities were \$13,399,674 compared to total liabilities of \$13,524,843 at December 31, 2023. This \$125,169 decrease was related to the repayment during the three months ended March 31, 2024 of the various notes payable.

At March 31, 2024, our total stockholders' equity was \$56,185,499 as compared to \$28,403,464 at December 31, 2023.

If the ACP is fully funded, we expect positive operating income results for the remainder of 2024. If ACP is not fully funded, we expect to incur a loss for the calendar year 2024, as we transition to the non-subsidized market or LinkUp Mobile. The gross margin for the three months ended March 31, 2024 was approximately 26% compared to the three months ended March 31, 2023 of approximately 22%.

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The following table sets forth the major sources and uses of cash for the three months ended March 31, 2024 and 2023.

	<u>2024</u>	<u>2023</u>
Net cash provided by operating activities	\$ 4,040,058	\$ 2,865,796
Net cash used in investing activities	-	(157,044)
Net cash provided by (used in) financing activities	24,282,960	(882,321)
Net change in cash and cash equivalents	<u>\$ 28,323,018</u>	<u>\$ 1,826,431</u>

As a result of net positive cash provided by operating activities, a capital raise and the exercise of warrants at March 31, 2024, the cash increased in the period ended March 31, 2024 by \$28,323,018, compared to \$1,826,431 in the period ended March 31, 2023.

At March 31, 2024, the Company had the following material commitments and contingencies.

Notes payable – related party - See Note 6 to the Consolidated Financial Statements.

Notes payable and long-term debt - See Note 6 to the Consolidated Financial Statements.

Related party transactions - See Note 2 to the Consolidated Financial Statements for additional discussion.

Cash requirements and capital expenditures –At the current level of operations, the Company does not anticipate borrowing funds to meet basic operating costs.

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

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which were prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions for the reported amounts of assets, liabilities, revenue and expenses. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and any such differences may be material.

While our significant accounting policies are more fully described in *Note 2—Summary of Significant Accounting Policies* of the Notes to Consolidated Financial Statements included in *Item 8, Financial Statements and Supplementary Data* of this Annual Report on Form 10-K, we believe the following discussion addresses our most critical accounting policies, which are those that are most important to our financial condition and results of operations and which require our most difficult, subjective and complex judgments.

Use of Estimates

Preparing financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates, and those estimates may be material.

Significant estimates during the three months ended March 31, 2024 and 2023, respectively, include, allowance for doubtful accounts and other receivables, inventory reserves and classifications, valuation of loss contingencies, valuation of derivative liabilities, valuation of stock-based compensation, estimated useful lives related to intangible assets, capitalized internal-use software development costs, and property and equipment, implicit interest rate in right-of-use operating leases, uncertain tax positions, and the valuation allowance on deferred tax assets.

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Fair Value of Financial Instruments

The Company accounts for financial instruments under Financial Accounting Standards Board ("FASB") ASC 820, *Fair Value Measurements*. ASC 820 provides a framework for measuring fair value and requires disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in absence of a principal, most advantageous market for the specific asset or liability.

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs, when determining fair value.

The three tiers are defined as follows:

- Level 1 - Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 - Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and
- Level 3 - Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions.

The determination of fair value and the assessment of a measurement's placement within the hierarchy requires judgment. Level 3 valuations often involve a higher degree of judgment and complexity. Level 3 valuations may require the use of various cost, market, or income valuation methodologies applied to unobservable management estimates and assumptions. Management's assumptions could vary depending on the asset or liability valued and the valuation method used. Such assumptions could include estimates of prices, earnings, costs, actions of market participants, market factors, or the weighting of various valuation methods. The Company may also engage external advisors to assist us in determining fair value, as appropriate.

Impairment of Long-lived Assets including Internal Use Capitalized Software Costs

Management evaluates the recoverability of the Company's identifiable intangible assets and other long-lived assets when events or circumstances indicate a potential impairment exists, in accordance with the provisions of ASC 360-10-35-15 "*Impairment or Disposal of Long-Lived Assets*." Events and circumstances considered by the Company in determining whether the carrying value of identifiable intangible assets and other long-lived assets may not be recoverable include but are not limited to significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; and changes in the Company's business strategy. In determining if impairment exists, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of these assets.

If impairment is indicated based on a comparison of the assets' carrying values and the undiscounted cash flows, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Inventory Valuation

Inventory is stated at the lower of cost or net realizable value (average cost). For items manufactured by third parties, cost is determined using the weighted average cost method (WAC). We write down inventory when it has been determined that conditions exist that may not allow the inventory to be sold for at the intended price or the inventory is determined to be obsolete based on assumption about future demand and market conditions. The charge related to inventory write-downs is recorded as cost of goods sold. We evaluate inventory at least annually and at other times during the year. We have incurred and may in the future incur charges to write down inventory.

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Internal Use Software Development Costs

We capitalize certain internal use software development costs associated with creating and enhancing internally developed software related to our technology infrastructure. These costs include personnel and related employee benefits expenses for employees who are directly associated with and

who devote time to software projects, and external direct costs of materials and services consumed in developing or obtaining the software. Software development costs that do not meet the qualification for capitalization, as further discussed below, are expensed as incurred and recorded in general and administrative expenses in the consolidated results of operations.

Revenue from Contracts with Customers

We account for revenue earned from contracts with customers under ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), and ASC 842, *Leases* ("ASC 842"). The core principle of ASC 606 is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when, or as, the company satisfies a performance obligation.

Stock-Based Compensation

The Company accounts for our stock-based compensation under ASC 718 "*Compensation – Stock Compensation*" using the fair value-based method. Under this method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. This guidance establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

The Company uses the fair value method for equity instruments granted to non-employees and use the Black-Scholes model for measuring the fair value of options.

The fair value of stock-based compensation is determined as of the date of the grant or the date at which the performance of the services is completed (measurement date) and is recognized over the vesting periods.

Stock Warrants

In connection with certain financing (debt or equity), consulting and collaboration arrangements, the Company may issue warrants to purchase shares of its common stock. The outstanding warrants are standalone instruments that are not puttable or mandatorily redeemable by the holder and are classified as equity awards. The Company measures the fair value of warrants issued for compensation using the Black-Scholes option pricing model as of the measurement date. However, for warrants issued that meet the definition of a derivative liability, fair value is determined based upon the use of a binomial pricing model.

Warrants issued in conjunction with the issuance of common stock are initially recorded at fair value as a reduction in additional paid-in capital of the common stock issued. All other warrants (for services) are recorded at fair value and expensed over the requisite service period or at the date of issuance if there is not a service period.

Recent Accounting Pronouncements

In the normal course of business, we evaluate all new accounting pronouncements issued by the Financial Accounting Standards Board, SEC, or other authoritative accounting bodies to determine the potential impact they may have on our Consolidated Financial Statements. Refer to Note 2 - *Summary of Significant Accounting Policies* of the Notes to Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act). Our management has determined that, as of March 31, 2024, the Company's disclosure controls are effective, but the Company lacks segregation of duties similar to other companies our size.

PART II - OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

From time to time, we may be engaged in various lawsuits and legal proceedings in the ordinary course of our business. Except as described below, we are currently not aware of any legal proceedings the ultimate outcome of which, in our judgment based on information currently available, would have a material adverse effect on our business, financial condition or results of operations.

The following is a summary of threatened, pending, asserted or unasserted claims against us or any of our wholly owned subsidiaries for which there have been material developments since December 31, 2023.

- (1) Juno Financial v. AATAC and Surge Holdings Inc. AND Surge Holdings Inc. v. AATAC; Circuit Court of Hillsborough County, Florida, Case # 20-CA-2712 DIV A: Breach of Contract, Account Stated and Open Account claims against Surge by a factoring company. Surge has filed a cross-complaint against defendant AATAC for Breach of Contract, Account Stated, Open Account and Common Law Indemnity. Case is in discovery. Following analysis by our litigation counsel stating that there is a good defense, management has decided that a reserve is not necessary.

- (2) On December 17, 2021, *Ambess Enterprises, Inc. v SurgePays, Inc.*, Blair County Pa. case number 2021 GN 3222. Plaintiff alleges breach of contract and prays for damages of approximately \$73,000, plus fees, costs and interest. Litigation counsel is managing the motion practice and discovery process. The case was settled and dismissed in 2023 for \$60,000, which has been recorded as a component of general and administrative expenses.
- (3) *Blue Skies Connections, LLC, and True Wireless, Inc. v. SurgePays, Inc., et al.*: In the District Court of Oklahoma County, OK, CJ-2021-5327, filed on December 13, 2021. Plaintiffs petition alleges breach of a Stock Purchase Agreement by SurgePays, SurgePhone Wireless, LLC, and Kevin Brian Cox, and makes other allegations related to SurgePays' consulting work with Jonathan Coffman, a True Wireless employee. Blue Skies believes the Defendants are in violation of their non-competition and non-solicitation agreements related to the sale of True Wireless from SurgePays to Blue Skies. Oklahoma state law does not recognize non-compete agreements and non-solicitation agreements in the manner alleged by Plaintiffs, as such we believe SurgePays, SurgePhone, and Cox have a strong defense against the claims asserted by Blue Skies and True Wireless. The matter continues in the discovery process. Mr. Coffman is no longer working for True Wireless. An attempt at mediation in July, 2022 did not achieve a settlement. The petition requests injunctive relief, general damages, punitive damages, attorney fees and costs for alleged breach of contract, tortious interference with a business relationship, and fraud. Plaintiffs have made a written demand for damages and the parties continue to discuss a potential resolution. This matter is an anti-competitive attempt by Blue Skies and True Wireless to damage SurgePays, SurgePhone, and Cox. Written discovery is winding down and depositions began in the third quarter of 2023 and are expected to continue in 2024. The case is anticipated set for trial in January 2025.

In the Circuit Court of Tennessee for the 30th Judicial District at Memphis, Docket # CT-3219-23. On August 8, 2023, a complaint was filed by SurgePays for breach of a promissory note by Blue Skies Connections, LLC. The note at issue is dated June 14, 2021, and requires Blue Skies Connections to repay the principal sum of \$176,850.56, by monthly payments of \$7,461.37 commencing on June 1, 2023. Blue Skies Connections has failed to make any payments due under the terms of the note, and this breach entitles SurgePays to demand payment of the entire amount of the note together with all accrued interest. Blue Skies Connections has responded by preparing a Motion to Dismiss or, in the alternative, a Motion to Stay, taking the position that, under the prior suit pending doctrine, the subject promissory note is subject to the prior litigation instituted by Blue Skies Connections against SurgePays, styled *Skies Connections, LLC and True Wireless, Inc. v. SurgePays, Inc.*, et al., Case No. CJ-2021-5327, District Court of Oklahoma County, Oklahoma. Counsel for Blue Skies Connections has requested that Surge Pays either voluntarily dismiss the subject action or agree to stay the subject action until conclusion of the Oklahoma litigation.

- (4) *Robert Aliotta and Steve Vasquez, on behalf of themselves and others similarly situated v. SurgePays, Inc. d/b/a Surge Logics*, filed January 4, 2023, in the U.S. District Court for the Northern District of Illinois, Case No. 1:23-cv-00042. Plaintiffs allege violations of the Telephone Consumer Protection Act (TCPA) and the Florida Telephone Solicitations Act (FTSA) based on telephone solicitations allegedly made by or on behalf of SurgePays, Inc. Plaintiffs seek damages for themselves and seek certification of a class action on behalf of others similarly situated. Defendants intend to vigorously defend the action however most similar cases are eventually resolved by an out-of-court settlement. At this time, it is difficult to estimate the amount or range of potential loss. SurgePays Inc has been removed from the case following a Motion to Dismiss and LogicsIQ, Inc. has been named as the defendant. A Confidential Settlement Agreement and Release of Claims has been entered into in April 2024 and the parties await a Dismissal Order to be entered by the Court.
- (5) *SurgePays, Inc. et al. v. Fina et al.*, Case No. CJ-2022-2782, District Court of Oklahoma County, Oklahoma. Plaintiffs *SurgePays, Inc. and Kevin Brian Cox* initiated this case against its former officer Mike Fina, his companies Blue Skies Connections, LLC, True Wireless, Inc., Government Consulting Solutions, Inc., Mussell Communications LLC, and others. This case also arises from the June 2021 transaction by which SurgePays sold True Wireless to Blue Skies. During the litigation of CJ-2021-5327 described above, SurgePays learned information that showed Mike Fina breached his duties owed to True Wireless during his employment and consulting work for True Wireless prior to SurgePays' sale of True Wireless to Blue Skies. SurgePays alleges that Mike Fina conspired with the other defendants to damage True Wireless thereby harming the value of the company and causing its eventual sale at a greatly reduced price. SurgePays asserts claims for (i) breach of contract; (ii) breach of fiduciary duty; (iii) fraud; (iv) tortious interference; and (v) unjust enrichment. At this stage, no defendant has asserted a counterclaim against SurgePays.
- (6) *Consumer Attorney Marketing Group, LLC v. LogicsIQ, Inc. and SurgePays, Inc.* On February 13, 2024, in the Superior Court of California, Los Angeles County, Case No. 24 ST CV 03653, Consumer Attorney Marketing Group, LLC ("CAMG") filed a complaint naming SurgePays, Inc. (the "Company") a defendant and alleging claims for breach of contract, declaratory judgment and express and implied indemnity. The complaint demands that defendants indemnify CAMG for any damages or losses that CAMG may incur in the case *Robert Aliotta, et al. v. SurgePays, Inc. d/b/a SurgeLogics*, Case No. 23 C 00042, pending in the U.S. District Court for the Northern District of Illinois. CAMG's claims against the Company are solely based upon theories of participatory and vicarious liability. A Confidential Settlement Agreement and Release of Claims has been entered into in April 2024 and the parties await a Dismissal Order to be entered by the Court.

ITEM 1A: RISK FACTORS

Not applicable.

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

ITEM 3: DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4: MINE SAFETY DISCLOSURES.

Not applicable

ITEM 5: OTHER INFORMATION.

On May 8, 2024, Jeremy Gies, who served as President of the Company, tendered his resignation from his role as an officer of the Company, effective immediately. Mr. Gies will transition from his current role into a non-officer position with the Company, where Mr. Gies will continue to help the Company execute on its broader strategic agenda and lead growth initiatives. Mr. Gies' resignation was not in connection with any disagreement between Mr. Gies and the Company, its management, the Company's board of directors or any committee thereof on any matter relating to the Company's operations, policies or practices, or any other matter.

On May 8, 2024, the Nominating and Corporate Governance Committee of the Company met and appointed Kevin Brian Cox as the new President of the Company, effective immediately. Mr. Cox currently also serves as the Company's Chief Executive Officer and Chairman and will retain these titles in

connection with his appointment. For further biographical information and arrangements with Mr. Cox, please see the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023, which is incorporated herein by reference.

We are reporting the following information in lieu of reporting on a Current Report on Form 8-K under Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

ITEM 6: EXHIBITS

Exhibit Number	Exhibit Description
31.1*	Certification pursuant to 18 U.S.C. Section 1350 Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer
31.2*	Certification pursuant to 18 U.S.C. Section 1350 Section 302 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer
32.1**	Certification pursuant to 18 U.S.C. Section 1350 Section 906 of the Sarbanes-Oxley Act of 2002 - Chief Executive Officer
32.2**	Certification pursuant to 18 U.S.C. Section 1350 Section 906 of the Sarbanes-Oxley Act of 2002 - Chief Financial Officer
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

*Filed herewith.

** Furnished herewith

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SIGNATURES

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

SURGEPAYS, INC.

Date: May 13, 2024

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

Date: May 13, 2024

/s/ Anthony Evers
Anthony Evers
Chief Financial Officer
(Principal Financial and Accounting Officer)

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SURGEPAYS, INC. FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2024
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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

1. I have reviewed this report on Form 10-Q of SurgePays, Inc. (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-a15(f) and 15d-15(f) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to me by others, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's current fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

May 13, 2024

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

SURGEPAYS, INC. FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2024
CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony Evers, Chief Financial Officer, certify that:

1. I have reviewed this report on Form 10-Q of SurgePays, Inc. (the registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to me by others, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's current fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

May 13, 2024

/s/ Anthony Evers

Anthony Evers
Chief Financial Officer
(Principal Financial and Accounting Officer)

SURGEPAYS, INC. FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2024
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin Brian Cox, certify that:

1. I am the Chief Executive Officer of SurgePays, Inc.
2. Attached to this certification is Form 10-Q for the quarter ended March 31, 2024, a periodic report (the "periodic report") filed by the issuer with the Securities Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (the "Exchange Act"), which contains financial statements.
3. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - The periodic report containing the financial statements fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act, and
 - The information in the periodic report fairly presents, in all material respects, the consolidated financial condition and results of operations of the issuer for the periods presented.

May 13, 2024

/s/ Kevin Brian Cox

Kevin Brian Cox
Chief Executive Officer
(Principal Executive Officer)

SURGEPAYS, INC. FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2024
CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony Evers, certify that

1. I am the Chief Financial Officer of SurgePays, Inc.
2. Attached to this certification is Form 10-Q for the quarter ended March 31, 2024, a periodic report (the "periodic report") filed by the issuer with the Securities Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (the "Exchange Act"), which contains financial statements.
3. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - The periodic report containing the financial statements fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act, and
 - The information in the periodic report fairly presents, in all material respects, the consolidated financial condition and results of operations of the issuer for the periods presented.

May 13, 2024

/s/ Anthony Evers
Anthony Evers
Chief Financial Officer
(Principal Financial and Accounting Officer)
