

Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

PhoneX Holdings, Inc.

A Delaware Corporation

150 Executive Dr., Suite Q
Edgewood, NY 11717
212-213-6805

www.wesellcellular.com

nik@phonexinc.com

SIC Code: 7200

Annual Report

For the Period Ending: December 31, 2020
(The "Reporting Period")

As of March 31, 2021, the number of shares outstanding of our Common Stock was: 28,408,020

As of December 31, 2020, the number of shares outstanding of our Common Stock was 28,408,020

As of September 30, 2020, the number of shares outstanding of our Common Stock was: 28,408,020

As of June 30, 2020, the number of shares outstanding of our Common Stock was: 29,464,686

As of March 31, 2020, the number of shares outstanding of our Common Stock was: 29,464,686

As of December 31, 2019, the number of shares outstanding of our Common Stock was: 29,464,686

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: No: (Double-click and select "Default Value" to check)

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: No:

Indicate by check mark whether a Change in Control¹ of the company has occurred over this reporting period:

Yes: No:

¹ "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

1) Name of the issuer and its predecessors (if any)

In answering this item, please also provide any names used by predecessor entities and the dates of the name changes.

uSell.com, Inc.	07/23/2012 to 5/06/2019
Upstream Worldwide, Inc.	06/11/2010 to 07/22/2012
Money4Gold Holding, Inc.	05/23/2008 to 06/10/2010
Effective Profitable Software, Inc.	05/10/2005 to 05/22/2008
Modena 2, Inc.	11/18/2003 to 05/09/2005

Date and state (or jurisdiction) of incorporation (also describe any changes to incorporation since inception, if applicable) Please also include the issuer’s current standing in its state of incorporation (e.g. active, default, inactive):

Incorporated on November 18, 2003 in the state of Delaware. No changes to incorporation since inception. Incorporation is active.

Has the issuer or any of its predecessors ever been in bankruptcy, receivership, or any similar proceeding in the past five years?

Yes: No:

2) Security Information

Trading symbol:	PXHI
Exact title and class of securities outstanding:	Common Shares, Warrants 775,000 shares outstanding
CUSIP:	71922R106
Par or stated value:	\$0.0001 per value per share

Total shares authorized:	43,333,333 shares of common	as of date: 03/31/2021
Total shares outstanding:	28,408,020 shares of common	as of date: 03/31/2021
Number of shares in the Public Float ² :	4,127,972	as of date: 03/31/2021
Total number of shareholders of record:	131	as of date: 03/31/2021

Additional class of securities (if any):

Trading symbol:	_____
Exact title and class of securities outstanding:	_____
CUSIP:	_____
Par or stated value:	_____
Total shares authorized:	_____ as of date: _____
Total shares outstanding:	_____ as of date: _____

Transfer Agent

Name: Equity Stock Transfer, LLC
Phone: (212) 575-5757
Address: 237 W 37th Ave, Suite 602
New York, NY 10018
Email: nora@equitystock.com

Is the Transfer Agent registered under the Exchange Act?³ Yes: No:

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors:

N/A

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

² “Public Float” shall mean the total number of unrestricted shares not held directly or indirectly by an officer, director, any person who is the beneficial owner of more than 10 percent of the total shares outstanding (a “control person”), or any affiliates thereof, or any immediate family members of officers, directors and control persons.

³ To be included in the Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

N/A

3) Issuance History

The goal of this section is to provide disclosure with respect to each event that resulted in any direct changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period.**

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services. Using the tabular format below, please describe these events.

A. Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods:

Shares Outstanding as of Second Most Recent Fiscal Year End:		*Right-click the rows below and select "Insert" to add rows as needed.							
Date 01/01/2019		Common: 29,548,332 Preferred: 0							
Date of Transaction	Transaction type (e.g. new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to (entities must have individual with voting / investment control disclosed).	Reason for share issuance (e.g. for cash or debt conversion) OR Nature of Services Provided (if applicable)	Restricted or Unrestricted as of this filing?	Exemption or Registration Type?
3/01/2019	New Issuance	100,000	Common	\$0.17	No	See below	Director stock compensation	R	4(a)(2) & Rule 506
3/01/2019	New Issuance	20,000	Common	\$0.17	No	See below	Director stock compensation	R	4(a)(2) & Rule 506
5/08/2019	New Issuance	18,020	Common	\$0.15	No	See below	Issued for services	R	4(a)(2) & Rule 506
11/14/2019	Stock Purchase	(21,666)	Common	\$0.13	No	See below	Stock Repurchase Plan	R	
11/22/2019	Stock Purchase	(200,000)	Common	\$0.075	No	See below	Stock Repurchase Plan	R	
7/31/2020	Stock Purchase	(1,056,666)	Common	\$0.12	No	See below	Stock Repurchase Plan	R	
Shares Outstanding on Date of This Report:									
Date 03/31/2021		Common: 28,408,020 Preferred: 0							

Example: A company with a fiscal year end of December 31st, in addressing this item for its quarter ended September 30, 2018, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2016 through September 30, 2018 pursuant to the tabular format above.

Use the space below to provide any additional details, including footnotes to the table above:

The Issuance Report reflects names, dates, number of shares, the value and what is restricted. All issuances were new issuances of common stock and were exempt from registration under Section 4(a)(2) and Rule 506 thereunder. The reasons for issuance are as follows:

- On March 1, 2019, Peter Benz received 100,000 shares issued upon delivery of previously issued restricted stock units
- On March 1, 2019, Grant Fitzwilliam received 20,000 shares issued upon delivery of previously issued restricted stock units
- On May 8, 2019, Jennifer Calabrese received 18,020 shares issues upon delivery of previously issued restricted stock units.
- On November 14, 2019, the Company purchased 21,666 shares for a purchase price of \$2,817 pursuant to its stock repurchase program
- On November 22, 2019, the Company purchased 200,000 shares for a purchase price of \$15,000 pursuant to its stock repurchase program
- On July 31, 2020, the Company purchased 1,056,666 shares for a purchase price of \$126,800 pursuant to its stock repurchase program

B. Debt Securities, Including Promissory and Convertible Notes

Use the chart and additional space below to list and describe all outstanding promissory notes, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities..

Check this box if there are no outstanding promissory, convertible notes or debt arrangements:

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder	Reason for Issuance (e.g. Loan, Services, etc.)
<u>2018</u>	<u>\$5,155,000</u>	<u>\$5,155,000</u>	<u>\$28,639</u>	<u>11/20/2022</u>	See below	<u>See below</u>	<u>See below</u>
<u>2018</u>	<u>\$1,002,346</u>	<u>\$0</u>	<u>\$0</u>	<u>11/20/2021</u>	None	<u>See below</u>	<u>See below</u>

Use the space below to provide any additional details, including footnotes to the table above:

- This information is limited to the indebtedness which qualifies as a security under Section 2(a)(3) of the Securities Act of 1933.
- On November 20, 2018, PhoneX Holdings, Inc. (the "Company") raised \$4.78 million and issued convertible promissory notes (the "Convertible Notes") to certain parties, including the Company's principal shareholder, a director of the Company, and the father of the Company's Chief Executive Officer (the "Offering"). The Company has entered into a Securities Purchase Agreement (the "Agreement") with each purchaser in the Offering. The Convertible Notes bear interest at the rate of 5% per annum, will mature four years from the issuance date and are convertible into the shares of common stock of the Company at \$0.30 per share. Interest is to be paid quarterly in shares of common stock of the Company, subject to meeting certain equity conditions, or in cash. Of the \$4.78 million the Company raised in the Offering, director of the Company and the Chief Executive Officer's father invested \$180,000 and \$1.2 million. On November 20, 2018, the Company also delivered to its prior senior secured lender a \$350,000 Convertible Note as partial repayment for its loan. Please refer to the Company Form 8-K filed on November 21, 2018 for additional information. The names and amounts of each party as as follows:

Name	Controlling Person	Amount
Amitabh Jhawar		\$ 180,000
Ballista Holdings, LLC	Jan Carlsson	\$ 500,000
Colin Zima		\$ 75,000
Gerald Unterman		\$ 1,000,000
Matthew Miller		\$ 25,000
Paul Cusenza		\$ 25,000
Piton Capital Partners, LLC	Rob Averick	\$ 1,800,000
Sunder Raman		\$ 1,200,000
TCUS Financial , LLC	Financial Institution	\$ 350,000
		\$ 5,155,000

- On November 20, 2018, the Company entered into a Loan and Security Agreement with Siena Lending Group, LLC (a financial institution) which provides for a revolving credit facility on the principal amount of up to \$6,000,000, which matures on November 20, 2021

4) Financial Statements

A. The following financial statements were prepared in accordance with:

- U.S. GAAP
 IFRS

B. The financial statements for this reporting period were prepared by (name of individual)⁴:

Name: Nikhil Raman
Title: CEO/CFO
Relationship to Issuer: Officer

Provide the financial statements described below for the most recent fiscal year or quarter. For the initial disclosure statement (qualifying for Pink Current Information for the first time) please provide reports for the two previous fiscal years and any subsequent interim periods.

- C. Balance sheet;
D. Statement of income;
E. Statement of cash flows;
F. Financial notes; and
G. Audit letter, if audited

You may either (i) attach/append the financial statements to this disclosure statement or (ii) file the financial statements through OTCIQ as a separate report using the appropriate report name for the applicable period end. (“Annual Report,” “Quarterly Report” or “Interim Report”).

If you choose to publish the financial statements in a separate report as described above, you must state in the accompanying disclosure statement that such financial statements are incorporated by reference. You may reference the document(s) containing the required financial statements by indicating the document name, period end date, and the date that it was posted to OTCIQ in the field below.

Financial statement information is considered current until the due date for the subsequent report (as set forth in the qualifications section above). To remain qualified for Current Information, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of each fiscal quarter-end date.

5) Issuer’s Business, Products and Services

The purpose of this section is to provide a clear description of the issuer’s current operations. In answering this item, please include the following:

⁴ The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS by persons with sufficient financial skills.

A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")

PhoneX Holdings, Inc. is building the dominant online software platform for the wholesale exchange of secondhand mobile devices. PhoneX Holdings works with major carriers, big box retailers, manufacturers, and distributors to move secondhand mobile devices throughout the world to those who need them most. The Company operates two distinct models: 1) a Proprietary Trading Model, through which it purchases devices utilizing its own balance sheet via its subsidiary We Sell Cellular LLC, and 2) a Platform Partnership Model, through which it enables suppliers to license its software via its subsidiary PhoneX, Inc. Through these licensing agreements, PhoneX enables suppliers to increase selling prices and selling velocity by using a specialized, automated platform where small retailers and distributors can purchase high volumes of inventory on demand.

Historically, PhoneX Holdings also acquired devices from individual sellers through its retail website located at uSell.com; however, on May 4th, 2019, the uSell.com website, brand, and related technology assets were sold.

2020 Financial Highlights

Key financial metrics are as follows:

- Revenues increased by \$7,042,000, or 9.4%, to \$75,032,000 for the year ended December 31, 2020, from \$67,990,000 for the year ended December 31, 2019.
- Gross profit increased by \$533,000, or 7.9% to \$6,787,000 for the year ended December 31, 2020, from \$6,254,000 for the year ended December 31, 2019.
- Operating income increased by \$89,000, or 5.3% to \$1,709,000 for the year ended December 31, 2020, from \$1,619,000 for the year ended December 31, 2019.
- Net Income decreased by \$223,000, or 17.4% to \$1,279,000 for the year ended December 31, 2020 from \$1,502,000 for the year ended December 31, 2019.
- Adjusted EBITDA, a non-GAAP financial measure decreased by \$423,000 to \$2,964,000 for the year ended December 31, 2020 compared to \$3,387,000 for the year ended December 31, 2019. See "Non-GAAP Financial Measure - Adjusted EBITDA" below.
- The Company had working capital of \$8,745,000 at December 31, 2020 vs. working capital of \$6,099,000 at December 31, 2019.

Despite a roughly six-week government mandated shut down due to COVID-19 between the end of March and the beginning of May, the Company had a positive year, driven by high demand for used mobile devices across the world.

The Company's success in the wake of the COVID-19 pandemic provides continued evidence that its substantially lower cost structure, its strategy to purchase more opportunistically, and increased activity on its online platform have fundamentally transformed the business for the better. Management will continue to focus on scaling transaction volume related to its Platform Partnership business while purchasing opportunistically through its We Sell Cellular LLC subsidiary. Management believes that a continued focus on enhancing its software will result in value creation for both the Proprietary Trading and Platform Partnership sides of the business.

Non-GAAP Financial Measure - Adjusted EBITDA

We make reference to "Adjusted EBITDA", which is a measure of financial performance not calculated in accordance with accounting principles generally accepted in the United States ("GAAP"). Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally included or excluded in the most directly comparable measure calculated and presented in accordance with GAAP.

This non-GAAP measure is not in accordance with, or an alternative to, measures prepared in accordance with GAAP and may be different from non-GAAP measures used by other companies. In addition, this non-GAAP measure is not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP. This measure should only be used to evaluate our results of operations in conjunction with the corresponding GAAP measures.

Reconciliations of Adjusted EBITDA to the most directly comparable GAAP financial measure, net loss, to the extent available without unreasonable effort, are set forth below. The Company defines Adjusted EBITDA as loss from operations before the items noted in the table below.

Management believes Adjusted EBITDA provides a meaningful representation of our operating performance that provides useful information to investors regarding our financial condition and results of operations. Adjusted EBITDA is commonly used by financial analysts and others to measure operating performance. Furthermore, management believes that this non-GAAP financial measure

may provide investors with additional meaningful comparisons between current results and results of prior periods as they are expected to be reflective of our core ongoing business. However, while we consider Adjusted EBITDA to be an important measure of operating performance, Adjusted EBITDA and other non-GAAP financial measures have limitations, and investors should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Further, Adjusted EBITDA, as we define it, may not be comparable to EBITDA, or similarly titled measures, as defined by other companies.

The following table presents Adjusted EBITDA, a non-GAAP financial measure, and provides a reconciliation of Adjusted EBITDA to the directly comparable GAAP measure reported in the Company's consolidated financial statements:

	Year Ended December 31,	
	2020	2019
Net income (loss)	\$ 1,279,000	\$ 1,502,000
Stock-based compensation expense	52,000	68,000
Depreciation and amortization	1,203,000	1,374,000
Interest expense	447,000	443,000
Interest income	(17,000)	—
Adjusted EBITDA	<u>\$ 2,964,000</u>	<u>\$ 3,387,000</u>

- B. Describe any subsidiaries, parents, or affiliated companies, if applicable, and a description of their business contact information for the business, officers, directors, managers or control persons. Subsidiary information may be included by reference

We Sell Cellular, LLC. PhoneX Inc. The officers of the subsidiaries are the same as those of the issuer.

- C. Describe the issuers' principal products or services, and their markets

PhoneX Holdings operates under two distinct business models. The first is characterized by a Proprietary Trading Model, through which the Company purchases devices via its wholly-owned subsidiary, We Sell Cellular LLC, which was acquired in the fourth quarter of 2015. We Sell Cellular is among a handful of top tier wholesalers whose primary business is to buy used smartphones that have been traded in with the major carriers and the big box retailers, fully inspect and grade these devices, and then sell these devices wholesale and retail to a global customer base. These customers include brick and mortar retailers, online retailers, large and small wholesalers, small repair shops, and large refurbishing providers. Approximately sixty percent of We Sell Cellular's customer base is in the United States, with the balance abroad. We Sell Cellular is one of a select group of wholesalers that has qualified for R2 certification, the industry standard for both data destruction and environmental protection.

PhoneX Holdings' second operating model is characterized by a Platform Partnership Model, through which it licenses its software via its wholly-owned subsidiary, PhoneX, Inc. PhoneX has developed an online software platform that enables large distributors of mobile devices to sell inventory online and automate many of the processes associated with selling mobile devices in bulk. By licensing PhoneX's software, large suppliers can increase sales prices and sales velocity, while getting access to PhoneX's analytics and pricing engine. PhoneX licenses its software to WeSellCellular LLC through an intercompany agreement.

Revenue Model

PhoneX Holdings generates revenue by either taking possession of devices and selling these devices for a premium ("Principal Device Revenue") or by facilitating transactions between buyers and sellers and collecting a commission ("Agent Commission Revenue"). Under its PhoneX, Inc. licensing agreements, the Company also earns revenue for providing integration services ("Services Revenue").

Business derived from its PhoneX Inc. licensing agreements generates not only Services Revenue but also Agent Commission Revenue, as PhoneX Inc. provides integration services to new partners during an initial integration period, and then earns a commission on total Gross Merchandise Volume (GMV) sold through the platform. Devices sourced wholesale through PhoneX Holdings' subsidiary, We Sell Cellular, are all bought and sold using the Principal Device Revenue model.

6) Issuer's Facilities

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

The Company warehouse is located in Edgewood New York. The Company leases approximately 23,000 square feet of warehouse and office space. A portion of the Company's computer servers are hosted at their warehouse location and a portion of the Company's computer servers are hosted by a large third party specializing in providing such services.

7) Officers, Directors, and Control Persons

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial shareholders.

Using the tabular format below, please provide information regarding any person or entity owning 5% or more of the issuer, as well as any officer, and any director of the company, regardless of the number of shares they own. **If any listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information of an individual representing the corporation or entity in the note section.**

Name of Officer/Director and Control Person	Affiliation with Company (e.g. Officer/Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Note
Nikhil Raman	Chief Executive Officer, Director	Brooklyn, New York	1,186,666	Common	4.2%	As of March 31, 2021
Scott Tepfer	Executive Vice President, Director	Edgewood, New York	3,503,000	Common	12.3%	As of March 31, 2021
Daniel Brauser	Director	Lighthouse Point, Florida	748,900	Common	2.6%	As of March 31, 2021
Robert Averick(1)	Director	Stamford, CT	7,656,666	Common	26.9%	As of March 31, 2021
Piton Capital Partners LLC (1)	5% owner	Stamford, CT	6,482,666	Common	22.8%	As of March 31, 2021
PVAM Perlus Microcap Fund L.P.	5% owner	San Francisco, CA	4,000,000	Common	14.1%	As of March 31, 2021
Gerald Unterman	5% owner	New York, New York	1,757,683	Common	6.2%	As of March 31, 2021

- 1) Mr. Robert Averick's shares the power to vote and dispose the share beneficially owned by Piton Capital Partners, LLC. The address is listed as 201 Tresser Blvd., 3rd floor, Stamford, CT
- 2) Based on a schedule 13D/A filed with the Securities and Exchange Commission on November 28, 2017, Mr. Steven Druskin is the authorized signatory of PVAM Perlus Microcap Fund L.P. The address is listed as 600 Montgomery St., 5th floor, San Francisco, CA

8) Legal/Disciplinary History

A. Please identify whether any of the persons listed above have, in the past 10 years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
No.
2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
No.
3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
No.
4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.
No.

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.
None.

9) Third Party Providers

Please provide the name, address, telephone number and email address of each of the following outside providers:

Securities Counsel

Name: Michael D. Harris, Esq.
Firm: Nason, Yeager, Gerson, Harris & Fumero, P.A.
Address 1: 3001 PGA Boulevard Suite 305
Address 2: Palm Beach Gardens, FL 33410
Phone: Direct: 561-471-3507
Email: mharris@nasonyeager.com

Accountant or Auditor

Name: Howard Mann
Firm: Raich Ende Malter & Co. LLP
Address 1: 175 Broad Hollow Rd., Suite 250
Address 2: Melville, NY 11747
Phone: (516) 222-8312
Email: hmann@rem-co.com

Investor Relations Consultant – N/A

Other Service Providers - N/A

Provide the name of any other service provider(s), including, counsel, advisor(s) or consultant(s) **that assisted, advised, prepared or provided information with respect to this disclosure statement**, or provided assistance or services to the issuer during the reporting period.

10) Issuer Certification

Principal Executive Officer:

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities).

The certifications shall follow the format below:

I, Nikhil Raman certify that:

1. I have reviewed this annual disclosure statement of PhoneX Holdings, Inc. for the period ending December 31, 2020;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

03/31/2021

/s/ Nikhil Raman

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

Principal Financial Officer:

I, Nikhil Raman certify that:

1. I have reviewed this annual disclosure statement of PhoneX Holdings, Inc. for the period ending December 31, 2020;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

03/31/2021

/s/ Nikhil Raman

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

PHONEX HOLDINGS, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS USELL.COM, INC)
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

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PhoneX Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2020 and 2019

	December 31,	
	2020	2019
Assets		
Current Assets:		
Cash and cash equivalents	\$ 5,576,203	\$ 2,920,473
Accounts receivable, net	325,835	279,790
Inventory	3,973,592	4,209,548
Prepaid expenses and other current assets	118,925	115,730
Total Current Assets	9,994,555	7,525,541
Property and equipment, net	70,595	91,569
Intangible assets, net	686,732	1,395,950
Capitalized technology, net	367,286	815,710
Other assets	35,000	45,275
Total Assets	\$ 11,154,168	\$ 9,874,045
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 249,591	\$ 305,703
Accrued expenses	707,193	754,312
Deferred revenue	279,490	350,107
Capital lease obligation	13,077	16,853
Total Current Liabilities	1,249,351	1,426,975
Convertible promissory notes	5,155,000	5,155,000
Revolving credit facility	1,002,346	1,345,671
Capital lease obligation, net of current portion	546	13,623
PPP Loan	609,700	—
Total Liabilities	8,016,943	7,941,269
Stockholders' Equity:		
Convertible Series A preferred stock; \$0.0001 par value; 325,000 shares authorized; no shares issued and outstanding	—	—
Convertible Series B preferred stock; \$0.0001 value per share; 4,000,000 shares authorized; no shares issued and outstanding	—	—
Convertible Series C preferred stock; \$0.0001 value per share; 146,667 shares authorized; no shares issued and outstanding	—	—
Convertible Series E preferred stock; \$0.0001 value per share; 103,232 shares authorized; no shares issued and outstanding	—	—
Common stock; \$0.0001 par value; 43,333,333 shares authorized; 28,408,020 shares and 29,464,686 issued and outstanding, respectively	2,841	2,947
Additional paid-in capital	75,712,879	75,787,556
Accumulated deficit	(72,578,495)	(73,857,727)
Total Stockholders' Equity	3,137,225	1,932,776
Total Liabilities and Stockholders' Equity	\$ 11,154,168	\$ 9,874,045

See accompanying notes to consolidated financial statements.

PhoneX Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2020 and 2019

	Year Ended December 31,	
	2020	2019
Revenue	\$ 75,032,128	\$ 67,990,121
Cost of Revenue	68,244,724	61,735,881
Gross Profit	6,787,404	6,254,240
Operating Expenses:		
Sales and marketing	469,013	471,331
General and administrative	4,609,005	4,163,433
Total operating expenses	5,078,018	4,634,765
Income (Loss) from Operations	1,709,386	1,619,476
Other Income (Expense):		
Interest income	17,162	2,245
Interest expense	(447,316)	(444,890)
Other income	—	325,000
Gain on extinguishment of note payable	—	—
Total Other Expense, Net	(430,154)	(117,645)
Net Income (Loss)	\$ 1,279,232	\$ 1,501,831
Basic and Diluted Income (Loss) per Common Share:		
Net income (loss) per common share – basic	\$ 0.04	\$ 0.05
Net income (loss) per common share – diluted	\$ 0.04	\$ 0.05
Weighted average number of common shares outstanding during the period – basic	29,464,686	29,631,873
Weighted average number of common shares outstanding during the period – diluted	29,979,565	30,535,317

See accompanying notes to consolidated financial statements.

PhoneX Holdings, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2020 and 2019

	Common Stock, \$0.0001 Par Value		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance, January 1, 2019	29,548,332	\$ 2,955	\$ 75,736,986	\$ (75,359,558)	\$ 380,383
Repurchase and retirement of common stock	(221,666)	(22)	(17,794)	—	(17,816)
Stock based compensation	138,020	14	68,364	—	68,378
Net income	—	—	—	1,501,831	1,501,831
Balance, December 31, 2019	29,464,686	2,947	75,787,556	(73,857,727)	1,932,776
Repurchase and retirement of common stock	(1,056,666)	(106)	(126,694)	—	(126,800)
Stock based compensation	—	—	52,017	—	52,017
Net income	—	—	—	1,279,232	1,279,232
Balance, December 31, 2020	28,408,020	\$ 2,841	\$ 75,712,879	\$ (72,578,495)	\$ 3,137,225

See accompanying notes to consolidated financial statements.

PhoneX Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	Year Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 1,279,232	\$ 1,501,831
Adjustments to reconcile net income (loss) to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization	1,203,099	1,374,014
Provision (recovery) of bad debt expense	—	19,727
Stock based compensation	52,017	68,378
Gain on extinguishment of note payable	—	—
Interest and forbearance fees added to principal balance of note payable	—	—
Amortization of debt issue costs into interest expense	—	—
Changes in operating assets and liabilities:		
Accounts receivable	(46,045)	(28,031)
Inventory	235,956	(1,455,315)
Due from related party	—	—
Prepaid expenses and other current assets	(3,195)	(25,085)
Other assets	10,275	(912)
Accounts payable	(56,112)	(1,533,634)
Accrued expenses	(47,119)	(37,667)
Deferred revenue	(70,617)	35,321
Net Cash and Cash Equivalents (Used In) Provided By Operating Activities	2,557,491	(81,373)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Website development costs	—	(574,278)
Cash paid to purchase property and equipment	(24,483)	(6,406)
Net Cash and Cash Equivalents Used In Investing Activities	(24,483)	(580,684)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	74,792,607	69,154,467
Payment for repurchase and retirement of common stock	(126,800)	(17,816)
Repayments of revolving credit facility	(75,135,932)	(68,367,215)
Principal repayments of note payable	—	—
Payment of capital lease obligations	(16,853)	(15,576)
Proceeds from PPP Loan	609,700	—
Net Cash and Cash Equivalents Provided By (Used In) Financing Activities	122,722	753,860
Net Increase in Cash and Cash Equivalents	2,655,730	91,803
Cash and Cash Equivalents - Beginning of Year	2,290,473	2,828,670
Cash and Cash Equivalents - End of Year	\$ 5,576,203	\$ 2,920,473
SUPPLEMENTARY CASH FLOW INFORMATION:		
Cash Paid During the Period for:		
Interest	\$ 262,593	\$ 409,060

See accompanying notes to consolidated financial statements.

PhoneX Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Note 1 - Organization and Business

PhoneX Holdings, Inc. (formerly known as uSell.com, Inc.), through its wholly-owned subsidiaries (collectively, “PhoneX Holdings,” or the “Company”) is building the dominant online software platform for the wholesale exchange of secondhand mobile devices. PhoneX Holdings works with major carriers, big box retailers, manufacturers, and distributors to move secondhand mobile devices throughout the world to those who need them most. The Company operates two distinct models: 1) a Proprietary Trading Model, through which it purchases devices utilizing its own balance sheet via its subsidiary We Sell Cellular LLC, and 2) a Platform Partnership Model, through which it enables suppliers to license its software via its subsidiary PhoneX, Inc. Through these licensing agreements, PhoneX enables suppliers to increase selling prices and selling velocity by using a specialized, automated platform where small retailers and distributors can purchase high volumes of inventory on demand. On May 6, 2019, the Company changed its name from uSell.com, Inc. to PhoneX Holdings, Inc.

Liquidity

At December 31, 2020, the Company had cash and cash equivalents of \$5,576,203, working capital of \$8,745,204, and an accumulated deficit of \$72,578,495. In addition, the Company generated net income of \$1,279,232 and cash used in operating activities amounted to \$2,557,491 for the year ended December 31, 2020.

In November 2018, the Company entered into a Loan and Security Agreement with Siena Lending Group, which provides for a revolving credit facility on the principal amount of up to \$6,000,000, which matures on November 20, 2021 (see Note 6). In addition, in November 2018, the Company raised \$4,805,000 of convertible promissory notes, which mature on November 20, 2022 (see Note 8). A portion of the proceeds were used to repay the Company’s prior existing indebtedness.

Historically, the principal source of liquidity has been the issuance of debt and equity securities. The Company does not believe it will need to raise additional funds in order to meet expenditures required for operating its business.

Risks and Uncertainties

Management continues to evaluate the impact of the COVID-19 pandemic and has concluded that while it is reasonably possible that the virus could have a negative effect on the Company’s financial position, results of its operations and/or continuing operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of PhoneX Holdings and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the dates of the consolidated financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from these estimates.

PhoneX Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Cash and Cash Equivalents

All highly liquid investments with an original maturity of 90 days or less when purchased are considered to be cash equivalents. Cash equivalents are stated at cost, which approximates market value. Cash equivalents generally consist of money market accounts.

Accounts Receivable

Accounts receivable represent obligations from the Company's customers and are recorded net of allowances for cash discounts, doubtful accounts, and sales returns. The Company's policy is to reserve for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are written off after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts was \$0 at December 31, 2020 and 2019.

Inventory, net

Inventory, comprised of all finished goods, is stated at the lower of cost (average cost method) or net realizable value. Inventory is recorded net of allowances.

Allowances for slow-moving or obsolete inventory are provided based on historical experience of a variety of factors, including sales volume, product life and levels of inventory at the end of the year. The inventory reserve was approximately \$12,000 and \$12,000 as of December 31, 2020 and 2019, respectively.

Substantially all of the Company's inventory purchases are paid for before inventory is received in the Company's warehouse. Prepaid inventory amounted to approximately \$200,000 and \$239,000 at December 31, 2020 and 2019, respectively, and is included in inventory, net in the accompanying consolidated balance sheets.

Property and Equipment

Property and equipment represent costs associated with leasehold improvements, software, and computer and office equipment. Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation on property and equipment is calculated on the straight-line basis over the estimated useful lives of the related assets, which typically range from three to five years. Leasehold improvements are amortized over the shorter of the estimated useful lives or the remaining lease term. Maintenance and repairs are expensed as incurred; expenditures that enhance the value of property or extend their useful lives are capitalized. When assets are sold or returned, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in income.

Intangible Assets

The Company accounts for intangible assets in accordance with Accounting Standards Codification ("ASC") 350, "Intangibles – Goodwill and Other" ("ASC 350"). ASC 350 requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

Intangible assets represent customer relationships and trade names/trademarks related to We Sell Cellular. Finite lived assets are amortized on a straight-line basis over the estimated useful lives of the assets. Indefinite lived intangible assets are not amortized, but instead are subject to annual impairment evaluation.

The Company periodically reviews the carrying values of its intangible assets and other long-lived assets when events or changes in circumstances indicate that it is more likely than not that their carrying values may exceed their fair values, and records an impairment charge when considered necessary. When circumstances indicate that an impairment of value may have occurred, the Company tests such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying amount of the asset over its estimated fair value, is recognized. The cash flow estimates used in such calculations are based on estimates and assumptions, using all available information that management believes is reasonable. Fair value, for purposes of calculating impairment, is measured based on estimated future cash flows, discounted at a market rate of interest. During the years ended December 31, 2020 and 2019, the Company noted no indicators of impairment.

PhoneX Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Capitalized Technology Costs

In accordance with ASC 350-40, “Internal-Use Software,” the Company capitalizes certain external and internal computer software costs incurred during the application development stage. The application development stage generally includes software design and configuration, coding, testing and installation activities. Training and maintenance costs are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Capitalized technology costs are amortized over the estimated useful lives of the software assets on a straight-line basis, generally not exceeding three years.

Debt Issuance Costs

Debt issuance costs incurred in connection with the Company’s debt are capitalized and amortized as interest expense over the term of the related debt. In accordance with Accounting Standards Update (“ASU”) No. 2015-03, “Interest—Imputation of Interest,” the Company presents debt issuance costs as a reduction from the carrying amount of debt.

Convertible Instruments

The Company reviews all of its convertible instruments for the existence of an embedded conversion feature, which may require bifurcation, if certain criteria are met. These criteria include circumstances in which:

- a) The economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract,
- b) The hybrid instrument that embodies both the embedded derivative instrument and the host contract is not remeasured at fair value under otherwise applicable GAAP with changes in fair value reported in earnings as they occur, and
- c) A separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to certain requirements (except for when the host instrument is deemed to be conventional).

A bifurcated derivative financial instrument may be required to be recorded at fair value and adjusted to market at each reporting period end date. In addition, the Company may be required to classify certain stock equivalents issued in connection with the underlying debt instrument as derivative liabilities.

For convertible instruments that the Company has determined should not be bifurcated from their host instruments, the Company records discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. Also when necessary, the Company records deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the financing transaction and the effective conversion price embedded in the preferred shares.

Finally, if necessary, the Company will determine the existence of liquidated damage provisions. Liquidated damage provisions are not marked to market, but evaluated based upon the probability that a related liability should be recorded. There was no bifurcation or liquidated damage provisions at December 31, 2020 and 2019.

Common Stock Purchase Warrants and Derivative Financial Instruments

The Company reviews any common stock purchase warrants and other freestanding derivative financial instruments at the balance sheet dates and classifies them on the consolidated balance sheets as:

- a) Equity if they (i) require physical settlement or net-share settlement, or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement), or
- b) Assets or liabilities if they (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the Company’s control), or (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

The Company assesses classification of its common stock purchase warrants and other freestanding derivatives at the reporting date to determine whether a change in classification between assets and liabilities is required. The Company determined that its outstanding common stock purchase warrants satisfied the criteria for classification as equity instruments at December 31, 2020 and 2019.

PhoneX Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Revenue Recognition

The Company follows the guidance of ASC 606 – “Revenue from Contracts with Customers” (“ASC 606”). Under ASC 606, a performance obligation is a promise within a contract to transfer a distinct good or service, or a series of distinct goods and services, to a customer. Revenue is recognized when performance obligations are satisfied and the customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for goods or services. Under the standard, a contract’s transaction price is allocated to each distinct performance obligation. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identifies the contracts with a customer; (ii) identifies the performance obligations within the contract, including whether they are distinct and capable of being distinct in the context of the contract; (iii) determines the transaction price; (iv) allocates the transaction price to the performance obligations in the contract; and (v) recognizes revenue when, or as, the Company satisfies each performance obligation.

Principal Device Revenue

The Company, through its subsidiary We Sell Cellular LLC, generates revenue from the sales of its cellular telephones and related equipment. The Company recognizes revenue “FOB shipping point” on such sales. Delivery to the customer is deemed to have occurred when the customer takes title to the product. Generally, title passes to the customer when the products leave the Company’s warehouse. Payment terms generally require payment once an order is placed. The Company allows customers to return product within 30 days of shipment if the product is defective. Allowances for product returns are recorded as a reduction of sales at the time revenue is recognized based on historical data. The estimate of the allowance for product returns amounted to \$246,000 and \$241,000 at December 31, 2020 and 2019, respectively, and is recorded in accrued expenses in the accompanying consolidated balance sheets.

Agent Commission Revenue

The Company, through its subsidiary PhoneX Inc., (“PhoneX”) has historically generated revenue selling cellular telephones and related equipment on behalf of its supply partners. Goods were drop shipped directly from PhoneX’s supply partners to its customers. PhoneX earned a commission on the sale of these devices. As such, the Company recognized Agent Commission Revenue upon shipment of the goods from its supply partner’s warehouse.

Services Fee Revenue

Represents the services related to integrating the Company’s online platform through which used smartphones are sold to third-party businesses (the “Platform”).

Deferred Revenue

Deferred revenue represents amounts billed to customers or payments received from customers prior to providing services and for which the related revenue recognition criteria have not been met.

Revenue is comprised of the following for the years ended December 31, 2020 and 2019:

	Years Ended December 31,	
	2020	2019
Principal Device	\$ 74,484,853	\$ 66,450,216
Agent Commission	302,979	459,187
Services Fee	200,000	1,000,000
Other	44,298	80,718
Total	\$ 75,032,129	\$ 67,990,121

PhoneX Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Shipping and Handling Costs

The Company follows the provisions of ASC Topic 605-45 regarding shipping and handling costs. Shipping and handling costs included in cost of revenue were approximately \$246,000 and \$348,000 for the years ended December 31, 2020 and 2019, respectively.

Advertising

Advertising costs are expensed as they are incurred and are included in sales and marketing expenses. Advertising expense amounted to approximately \$84,000 and \$85,000 for the years ended December 31, 2020 and 2019, respectively.

Share-Based Payment Arrangements

The Company accounts for stock options in accordance with ASC 718, "Compensation - Stock Compensation." ASC 718 requires generally that all equity awards be accounted for at their "fair value." This fair value is measured on the grant date for stock-settled awards, and at subsequent exercise or settlement for cash-settled awards. Fair value is equal to the underlying value of the stock for "full-value" awards such as restricted stock and performance shares and is estimated using an option-pricing model with traditional inputs for "appreciation" awards such as stock options and stock appreciation rights.

Costs equal to these fair values are recognized ratably over the requisite service period based on the number of awards that are expected to vest, or in the period of grant for awards that vest immediately and have no future service condition. For awards that vest over time, cumulative adjustments in later periods are recorded to the extent actual forfeitures differ from the Company's initial estimates: previously recognized compensation cost is reversed if the service or performance conditions are not satisfied and the award is forfeited. The expense resulting from share-based payments is recorded in general and administrative expense in the accompanying consolidated statements of operations.

Subsequent modifications to outstanding awards result in incremental cost if the fair value is increased as a result of the modification. Thus, a value-for-value stock option repricing or exchange of awards in conjunction with an equity restructuring does not result in additional compensation cost.

Income Taxes

The Company complies with the accounting and reporting requirements of ASC Topic 740, "Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

ASC Topic 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. There were no unrecognized tax benefits as of December 31, 2019 and 2018. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

The Company may be subject to potential income tax examinations by federal or state authorities. These potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with federal and state tax laws. Management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

The Company's policy for recording interest and penalties associated with audits is to record such expense as a component of income tax expense. There were no amounts accrued for penalties or interest as of December 31, 2020 and 2019.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable.

The Company minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institutions. At times, the Company's cash may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit of \$250,000 per institution, per entity. At December 31, 2020 and 2019, the Company had approximately \$4,843,000 and \$2,027,000, respectively, in excess of the FDIC limits.

PhoneX Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Concentrations of credit risk with respect to accounts receivables is minimal due to the large number of customers comprising the Company's customer base and generally short payment terms.

Fair Value of Financial Instruments

Financial instruments, including cash and cash equivalents, accounts receivable and accounts payable are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments. The fair value of debt approximates its carrying amounts as a market rate of interest is attached to the repayment.

Note 3 - Property and Equipment

Property and equipment consists of the following at December 31, 2020 and 2019:

	December 31,	
	2020	2019
Machinery and equipment	\$ 88,515	\$ 121,851
Leasehold improvements	159,215	159,215
Computer software	--	21,564
	247,730	302,630
Less: Accumulated depreciation and amortization	(177,135)	(211,061)
Property and equipment, net	\$ 70,595	\$ 91,569

Related depreciation and amortization expense on property and equipment amounted to \$48,793 and \$59,000 for the years ended December 31, 2019 and 2018, respectively.

Note 4 – Intangible Assets, Net

Intangible assets, net at December 31, 2020 and 2019 is as follows:

	Life, in years	December 31,	
		2020	2019
Trade Name	7	\$ 2,622,000	\$ 2,622,000
Customer Relationships	5	0	2,008,000
eBay Reputation Relationship	1	0	369,000
Non-Compete Agreement	1	0	283,000
		2,622,000	5,282,000
Less: Accumulated amortization		(1,935,268)	(3,886,050)
Intangible assets, net		\$ 686,732	\$ 1,395,950

Intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense amounted to \$709,000 and \$776,000 for the each of the years ended December 31, 2020 and 2019, respectively and is included in general and administrative expenses in the accompanying consolidated statements of operations.

PhoneX Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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Future annual estimated amortization expense is summarized as follows:

<u>Years ending December 31,</u>	
2021	\$ 374,568
2022	312,164
2023	---
	<u>\$ 686,732</u>

Note 5 – Capitalized Technology, Net

Capitalized technology consists of the following at December 31, 2020 and 2019:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Gross value	\$ 2,268,502	\$ 2,268,502
Accumulated amortization	(1,901,217)	(1,452,792)
Net value	<u>\$ 367,286</u>	<u>\$ 815,710</u>

Capitalized technology is amortized on a straight-line basis over their estimated useful lives of three years. Amortization expense amounted to approximately \$448,000 and \$549,000 for the years ended December 31, 2020 and 2019, respectively, and is included in cost of revenue.

Future annual estimated amortization expense is summarized as follows:

<u>Years ending December 31,</u>	
2021	\$ 273,677
2022	93,609
2023	---
	<u>\$ 367,286</u>

Note 6 – Revolving Credit Facility

On November 20, 2018 (the “Closing Date”), the Company entered into a Loan and Security Agreement (the “Loan Agreement”) with Siena Lending Group LLC (the “Senior Lender”). The Loan Agreement provides for a revolving credit facility in the principal amount of up to \$6,000,000 (the “Maximum Facility Amount”), which matures on November 20, 2021. Borrowings under the Loan Agreement will bear interest at 3% per annum above the base rate (the “Base Rate”). The Base Rate is defined as the greater of (i) the prime rate published by The Wall Street Journal, (ii) the sum of the Federal Funds Rate plus 0.5%, (iii) the LIBOR Rate plus 1%, and (iv) 5% per annum.

The outstanding balance of the borrowings under the Loan Agreement may not exceed in the aggregate at any given time the lesser of (i) the Maximum Facility Amount reduced by permitted reserves, and (ii) the borrowing base, calculated pursuant to the Loan Agreement on the basis of eligible inventory.

The Company paid the Senior Lender a one-time closing fee of \$45,000. The Company agreed to pay a collateral monitoring fee of \$108,000, payable in each case in installments over a period of time as provided for in the Loan Agreement. The Company also agreed to pay the following fees to the Senior Lender, in each case payable monthly: (i) an unused line fee of 0.5% per annum calculated pursuant to the Loan Agreement, and (ii) a minimum borrowing fee equal to the difference between the interest which would have been payable each month if, at all times during such month, the principal balance under the Loan Agreement was equal to \$1,000,000, and the interest payable in such month on the actual principal balance.

The Loan Agreement contains customary representations and warranties, events of default and covenants, including, among other things and subject to certain exceptions, covenants that restrict the ability of the Company and its subsidiaries to incur additional indebtedness, create

PhoneX Holdings, Inc. and Subsidiaries
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or permit liens on assets, make acquisitions, engage in mergers or consolidations, make any changes in capital structure and pay dividends or repurchase stock.

The Borrowers' obligations under the Loan Agreement are secured by a first priority lien security interest in all tangible and intangible property of the Company and all of its current and future subsidiaries.

As of December 31, 2020 and 2019, borrowings under the revolving credit facility amounted to \$1,002,346 and \$1,345,671, respectively.

Note 7 – Convertible Promissory Notes

On November 20, 2018, the Company issued \$4,805,000 of convertible promissory notes (the "Convertible Notes") to certain parties, including the Company's principal shareholder, a director of the Company, and the father of the Company's Chief Executive Officer (the "Offering"). The Convertible Notes bear interest at the rate of 5% per annum, mature on November 20, 2022, and are convertible into shares of the Company's common stock at \$0.30 per share. Interest is to be paid quarterly in shares of the Company's common stock, subject to meeting certain equity conditions, or in cash. Of the \$4,805,000 the Company raised in the Offering, a director of the Company and the Chief Executive Officer's father invested \$180,000 and \$1,200,000, respectively. On November 20, 2018, the Company also delivered to its prior senior secured lender (the "Old Lender") a \$350,000 Convertible Note as partial repayment for its loan. Additionally, Mr. Brian Tepfer, the Company's former Executive Vice President and director, agreed to sell up to 3,000,000 shares of the Company's common stock to investors in the Offering (except the Senior Lender) at \$0.20 per share based on their pro-rata amount purchased in the Offering.

All payments due under the Convertible Notes will rank junior to the indebtedness owed to the Company's Senior Lender. Until the Senior Lender has been paid in full: (i) the Company may not pay the principal of the Convertible Notes, (ii) generally, no remedies may be enforced by the Convertible Note holders and (iii) the Company may only pay cash interest on the Convertible Notes with the written consent of the Senior Lender.

The Company used a portion of the net proceeds from the sale of the Convertible Notes to repay prior existing indebtedness in the amount of \$5,029,219.

As required by ASC 470, "Debt," the Company accounted for the Convertible Notes as conventional convertible debt and did not allocate any amount of the proceeds to the embedded equity option. In addition, due to the Convertible Notes being convertible into common stock of the Company, a beneficial conversion feature analysis was performed. The intrinsic value of the conversion feature was determined to be less than the effective conversion rate and, accordingly, a beneficial conversion value was not recorded.

As of December 30, 2020 and 2019, borrowings under the Convertible Notes amounted to \$5,155,000.

Note 8 – Capital Lease Obligations

The Company is obligated under a capital lease under which the aggregate present value of the minimum lease payments amounted to \$14,000. The present value of the minimum lease payments was calculated using a discount rate of 8.6%. The future minimum lease payments under the capital lease at December 31, 2020 is as follows:

<u>Years ending December 31,</u>		
2021	\$	13,506
2022		549
		<u>14,055</u>
Less: Amounts representing interest		432
Principal portion		13,623
Less: Current portion		<u>13,077</u>
Capital lease obligations, net of current portion	\$	<u><u>546</u></u>

The capital lease obligations are collateralized by underlying property and equipment. As of December 31, 2020, the gross amount of property and equipment under non-cancelable capital leases was approximately \$80,000 and the amount of accumulated amortization was approximately \$63,000.

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Note 9 - Commitments and Contingencies

Legal Proceedings

From time to time, the Company is a party to or otherwise involved in legal proceedings arising in the normal and ordinary course of business. As of the date of this report, the Company is not aware of any proceeding, threatened or pending, against the Company which, if determined adversely, would have a material effect on its business, results of operations, cash flows or financial position.

Operating Leases

The Company leases space for its warehouse and office under a lease that expires in September 2021. The lease contains provisions requiring the Company to pay maintenance, property taxes and insurance, and require scheduled rent increases. Rent expense is recognized on a straight-line basis over the terms of the lease.

Rent expense, amounting to \$274,000 and \$312,000 for the years ended December 31, 2020 and 2019, respectively, is included in general and administrative expense in the consolidated statements of operations.

Future annual minimum payments due under the leases are summarized as follows:

<u>Years ended December 31,</u>	
2021	\$ 177,268
	<u>\$ 177,268</u>

Note 10 - Stock-Based Compensation

Stock Option Grants

On December 5, 2018, the board of directors of the Company adopted the 2018 Equity Incentive Plan (the “Equity Incentive Plan”). Employees, directors and consultants of the Company and its affiliates are eligible to participate in the Equity Incentive Plan. The Equity Incentive Plan is administered by the Committee of the Board or the full Board during such times as no committee is appointed by the Board or during such times as the Board is acting in lieu of the committee (in either case, the “Committee”). The Equity Incentive Plan provides for the grant of equity-based compensation in the form of incentive stock options, nonqualified stock options, stock appreciation rights and restricted awards. An aggregate of 1,000,000 shares of the Company’s common stock are authorized for issuance under the Equity Incentive Plan, of which there were 246,664 shares of common stock available for issuance under the Equity Incentive Plan as of December 31, 2020. The Equity Incentive Plan replaces the Company’s 2008 Equity Incentive Plan, and no further awards will be made pursuant to such plan.

The fair value of options is estimated on the date of grant using the Black-Scholes option pricing model. The valuation determined by the Black-Scholes pricing model is affected by the Company’s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The risk free rate is based on the U.S. Treasury rate for the expected life at the time of grant, volatility is based on the average of the Company’s long-term implied volatility, the expected life is based on the estimated average of the life of options using the simplified method, and forfeitures are estimated on the date of grant based on certain historical data. The Company utilizes the simplified method to determine the expected life of its options due to insufficient exercise activity during recent years as a basis from which to estimate future exercise patterns. The expected dividend assumption is based on the Company’s history and expectation of dividend payouts.

Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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On April 2, 2020, the Company granted 150,000 stock options to an employee for future services. These options had a fair value of \$13,500, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.29%
Expected dividend yield	0%
Expected volatility	342.80%
Expected term	3.5 years

The options are exercisable over a five-year term and vest over three years. The Company recorded \$3,000 during the year ended December 31, 2020 as compensation expense pertaining to these grants.

On September 28, 2020, the Company granted 200,000 stock options to an employee for future services. These options had a fair value of \$38,000, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.17%
Expected dividend yield	0%
Expected volatility	330.80%
Expected term	3.5 years

The options are exercisable over a five-year term and vest over three years. The Company recorded \$3,168 during the year ended December 31, 2020 as compensation expense pertaining to these grants.

On November 2, 2020, the Company granted 50,000 stock options to an employee for future services. These options had a fair value of \$7,000, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.20%
Expected dividend yield	0%
Expected volatility	329.10%
Expected term	3.5 years

The options are exercisable over a five-year term and vest over three years. The Company recorded \$388 during the year ended December 31, 2020 as compensation expense pertaining to these grants.

On December 9, 2020, the Company granted 100,000 stock options to an employee for future services. These options had a fair value of \$25,000, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.21%
Expected dividend yield	0%
Expected volatility	328.70%
Expected term	3.5 years

The options are exercisable over a five-year term and vest over three years. The Company recorded \$694 during the year ended December 31, 2020 as compensation expense pertaining to these grants.

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On January 14, 2019, the Company granted 100,000 stock options to an employee for future services. These options had a fair value of \$20,000, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	2.51%
Expected dividend yield	0%
Expected volatility	322.30%
Expected term	3.5 years

The options are exercisable over a five-year term and vest over three years. The Company recorded \$6,672 during the year ended December 31, 2019 as compensation expense pertaining to these grants.

On April 17, 2019, the Company granted 50,000 stock options to an employee for future services. These options had a fair value of \$8,000, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	2.37%
Expected dividend yield	0%
Expected volatility	326.30%
Expected term	3.5 years

The options are exercisable over a five-year term and vest over three years. The Company recorded \$1,887 during the year ended December 31, 2019 as compensation expense pertaining to these grants.

The following table summarizes the Company's stock option activity for the year ended December 31, 2019:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding – December 31, 2019	567,667	\$ 0.51	2.8	\$ 5,063
Granted	500,000	0.21		
Exercised	—	—		
Forfeited or canceled	(209,331)	(0.24)		
Outstanding – December 31, 2020	<u>858,336</u>	<u>\$ 0.32</u>	<u>3.9</u>	<u>\$ 12,100</u>
Exercisable – December 31, 2020	<u>420,833</u>	<u>\$ 0.45</u>	<u>4.7</u>	<u>\$ —</u>

The Company recorded non-cash compensation expense of \$35,737 and \$53,400 for the years ended December 31, 2020 and 2019, respectively, pertaining to stock option grants.

The weighted-average grant date fair value of options granted during the years ended December 31, 2020 and 2019 was \$0.21 and \$0.19, respectively. Total unrecognized compensation expense related to unvested stock options at December 31, 2020 amounts to \$77,056 and is expected to be recognized over a weighted average period of 4.7 years.

The following table summarizes the Company's stock option activity for non-vested options for the year ended December 31, 2020:

	Number of Options	Weighted Average Grant Date Fair Value
Balance at December 31, 2019	220,833	\$ 0.21
Granted	500,000	0.17
Vested	(106,663)	(0.08)
Forfeited or canceled	(176,663)	(0.19)
Balance at December 31, 2020	<u>437,503</u>	<u>\$ 0.17</u>

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Warrants

As of December 31, 2019 and 2020, there were no warrants outstanding or exercisable..

There was no expense pertaining to warrants recorded during the years ended December 31, 20120 and 2019.

Restricted Stock Awards and Restricted Stock Units

A summary of the restricted stock award and restricted stock unit activity for the year ended December 31, 2020 is as follows:

	Number of Shares
Unvested Outstanding at December 31, 2019	698,750
Granted	40,000
Forfeited	—
Vested	(368,750)
Unvested Outstanding at December 31, 2020	370,000

The Company recorded non-cash compensation expense of \$16,280 and \$15,000 for the years December 31, 2020 and 2019, respectively.

Total unrecognized compensation expense related to unvested stock awards and unvested restricted stock units at December 31, 2020 amounted to \$13,250 and is expected to be recognized over a weighted average period of 1.6 years.

Note 11 - Income Taxes

The Company's provision for income taxes at December 31, 2020 and December 31, 2019 was as follows:

	December 31,	
	2020	2019
Current	\$ --	\$ --
Federal	--	--
Foreign	--	--
State	16,000	--
	\$ 16,000	\$ --
Deferred	\$ --	\$ --
Federal	--	--
Foreign	--	--
State	--	--
Total Provision for income taxes	\$ 16,000	\$ --

The Company recognizes deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carryforwards. The Company established a valuation allowance to reflect the likelihood of realization of deferred tax assets.

The valuation allowance at December 31, 2020 was \$5,640,000. The net change in the valuation allowance during the year ended December 31, 2020 was a decrease of \$2,045,000. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on consideration of these items, management has determined that enough uncertainty exists relative to the realization of the deferred tax asset to warrant the application of a full valuation allowance as of December 31, 2020 and 2019.

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The Company has a net operating loss carryforward totaling approximately \$16,743,000 at December 31, 2020, of which approximately \$1,057,000 will not expire and approximately \$15,686,000 expires through 2037. Pursuant to Code Sec. 382 of the Internal Revenue Code, the utilization of net operating loss carryforwards may be limited as a result of a cumulative change in stock ownership of more than 50% over a three-year period. The Company underwent such a change and consequently, the utilization of a portion of the net operating loss carryforwards is subject to certain limitations. Temporary differences are approximately as follows:

	December 31,	
	2020	2019
Stock options	\$ 70,000	\$ 1,766,000
Excess interest expense	--	215,000
Accrued expenses	118,000	130,000
Inventory reserve	3,000	3,000
Charitable contributions	--	2,000
Intangible assets	(165,000)	(154,000)
Property and equipment	(97,000)	(344,000)
Net operating loss carryover	5,711,000	6,067,000
Deferred tax assets	5,640,000	7,685,000
Less: valuation allowance	(5,640,000)	(7,685,000)
Net deferred tax assets	\$ —	\$ —

The actual tax benefit differs from the expected tax benefit for the years ended December 31, 2020 and 2019 (computed by applying the U.S. Federal Corporate income tax rate of 21%) as follows:

	Year Ended December 31,	
	2020	2019
Expected tax (provision) benefit	\$ (268,000)	\$ (315,000)
State income taxes, net of federal benefit	(33,000)	(24,000)
Stock Compensation	(1,821,000)	
Permanent items	(4,000)	2,000
True-up	81,000	41,000
Change in valuation allowance	2,045,000	296,000
Actual tax benefit	\$ —	\$ —

Note 12 – Customer and Vendor Concentrations

Customer Concentration

During the year ended December 31, 2020, no customers represented 10% or more of revenues. During the year ended December 31, 2020, 59%, 10% and 13% of the Company's revenues were originated in the United States, Nigeria and Europe, respectively. During the year ended December 31, 2019, no customers represented 10% or more of revenues. During the year ended December 31, 2019, 59% and 23% of the Company's revenues were originated in the United States and Europe, respectively.

At December 31, 2020, one customer represented at least 10% of accounts receivable, accounting for 11% of the Company's accounts receivable. At December 31, 2019, no customers represented at least 10% of accounts receivable.

Vendor Concentration

During the year ended December 31, 2020, four vendors represented 10% or more of purchases, accounting for 39%, 26%, 19%, and 12%, respectively, of the Company's purchases. During the year ended December 31, 2019, four vendors represented 10% or more of purchases, accounting for 27%, 27%, 15% and 11% respectively, of the Company's purchases.

Note 13 – Subsequent Events

The Company evaluated the activity through March 31, 2021, the date that the consolidated financial statements were available to be issued and concluded that no subsequent events have occurred that would have required adjustment or disclosure in the consolidated financial statements.

