

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

Quarterly Report

For the Period Ending: September 30, 2021
(The "Reporting Period")

As of November 15, 2021, the number of shares outstanding of our Common Stock was: 43,825,978

As of September 30, 2021, the number of shares outstanding of our Common Stock was: 43,934,311

As of June 30, 2021, the number of shares outstanding of our Common Stock was: 27,917,645

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

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) 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.

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.

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.

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors since inception: - 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: - N/A

The address(es) of the issuers principal executive office:

150 Executive Dr., Suite Q
Edgewood, NY 11717

The address(es) of the issuer's principal place of business:

Check box if principal executive office and principal place of business are the same address: ☒

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

Yes: ☐ No: ☒

If the issuer or any of its predecessors have been the subject of such proceedings, please provide additional details in the space below:

N/A

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:	60,000,000 shares of common as of date: 11/15/2021
Total shares outstanding:	43,825,978 shares of common as of date: 11/15/2021
Number of shares in the Public Float ² :	21,267,696 as of date: 11/15/2021
Total number of shareholders of record:	131 as of date: 11/15/2021

Additional class of securities (if any): N/A

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

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.

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

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.						
<u>Opening Balance</u> 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?
<u>3/01/2019</u>	<u>New Issuance</u>	<u>100,000</u>	<u>Common</u>	<u>\$0.17</u>	<u>No</u>	<u>See below</u>	<u>Director stock compensation</u>	<u>R</u>	4(a)(2) & Rule 506
<u>3/01/2019</u>	<u>New Issuance</u>	<u>20,000</u>	<u>Common</u>	<u>\$0.17</u>	<u>No</u>	<u>See below</u>	<u>Director stock compensation</u>	<u>R</u>	4(a)(2) & Rule 506
<u>5/08/2019</u>	<u>New Issuance</u>	<u>18,020</u>	<u>Common</u>	<u>\$0.15</u>	<u>No</u>	<u>See below</u>	<u>Issued for services</u>	<u>R</u>	4(a)(2) & Rule 506
<u>11/14/2019</u>	<u>Stock Purchase</u>	<u>(21,666)</u>	<u>Common</u>	<u>\$0.13</u>	<u>No</u>	<u>See below</u>	<u>Stock Repurchase Plan</u>	<u>R</u>	
<u>11/22/2019</u>	<u>Stock Purchase</u>	<u>(200,000)</u>	<u>Common</u>	<u>\$0.075</u>	<u>No</u>	<u>See below</u>	<u>Stock Repurchase Plan</u>	<u>R</u>	
<u>7/31/2020</u>	<u>Stock Purchase</u>	<u>(1,056,666)</u>	<u>Common</u>	<u>\$0.12</u>	<u>No</u>	<u>See below</u>	<u>Stock Repurchase Plan</u>	<u>R</u>	
<u>4/27/2021</u>	<u>Stock Purchase</u>	<u>(312,106)</u>	<u>Common</u>	<u>\$0.53</u>	<u>No</u>	<u>See below</u>	<u>Stock Repurchase Plan</u>	<u>R</u>	

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

<u>05/14/2021</u>	<u>Stock Purchase</u>	<u>(178,269)</u>	<u>Comm on</u>	<u>\$0.50</u>	<u>No</u>	<u>See below</u>	<u>Stock Repurchase Plan</u>	<u>R</u>	
<u>08/12/2021</u>	<u>New Issuance</u>	<u>16,016,666</u>	<u>Comm on</u>	<u>\$0.30*</u>	<u>Yes</u>	<u>See below</u>	<u>Conversion of convertible Notes</u>	<u>R</u>	4(a)(2) & Rule 506
<u>10/29/2021</u>	<u>Stock Purchase</u>	<u>(108,333)</u>	<u>Comm on</u>	<u>\$0.90</u>	<u>No</u>	<u>See below</u>	<u>Stock Repurchase Plan</u>	<u>R</u>	
Shares Outstanding on Date of This Report: <div style="text-align: right;"><u>Ending Balance</u> <u>Ending Balance:</u></div> Date 11/15/2021 Common: 43,825,978 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
- On April 27, 2021, the Company purchased 312,106 shares for a purchase price of \$163,856 pursuant to its stock repurchase program
- On May 14, 2021, the Company purchased 178,269 shares for a purchase price of \$89,134 pursuant to its stock repurchase program
- In June 2021, holders of \$4,805,000 of the outstanding convertible promissory notes issued by the Company converted the notes into 16,016,666 shares of common stock at a conversion price of \$0.30 per share, which was the fixed conversion price on November 20, 2018 when the convertible notes were issued. These shares were issued on August 12, 2021 following the increase in the Company's authorized common stock as follows:

Holder	Control Person	Note Amount Converted	Shares Issued
Amitabh Jhavar		\$180,000	600,000
Ballista Holdings, LLC	Jan Carlsson	\$500,000	1,666,667
Colin Zima		\$75,000	250,000
Gerald Unterman		\$1,000,000	3,333,333
Matthew Miller		\$25,000	83,333

Paul Cusenza		\$25,000	83,333
Piton Capital Partners LLC	Rob Averick	\$1,800,000	6,000,000
Sunder Raman		\$1,200,000	4,000,000

- On October 29, 2021, the Company purchased 108,333 shares for a purchase price of \$97,499.70 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.)

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 and issued \$4.805 million of convertible promissory notes. Following that, the Company issued a similar convertible note of \$350,000 to its senior lender.
- 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.
- On April 29, 2021, the Company prepaid \$350,000 of its convertible notes held by the senior lender for a price of \$650,000 reducing the amount of convertible notes to \$4,805,000.
- In June 2021, the holders, with the exception of the Company's former senior lender, converted \$4.805 million of the convertible notes. Due to a technicality the underlying common stock was not issued until August 12, 2021.
- On July 7, 2021, the Company terminated its Loan and Security Agreement with Siena Lending Group, LLC.
- On August 12, 2021, the Company issued 16,016,666 shares of common stock following the increase in authorized capital and conversion of the remaining \$4,805,000 of its convertible notes. The convertible notes are no longer outstanding.

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:

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.

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:

- 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 cloud based, software as a service solution for the wholesale exchange of pre-owned mobile devices. PhoneX Holdings works with major mobile carriers and mobile handset distributors to facilitate global commerce related to pre-owned mobile devices. 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 its partners to license its software via its subsidiary PhoneX, Inc. Through these licensing agreements, PhoneX enables mobile carriers and mobile handset distributors to increase selling prices and selling velocity by using a specialized, automated platform where wholesale buyers of mobile devices can purchase inventory on demand.

3rd Quarter 2021 Financial Highlights

Key financial metrics are as follows:

- Revenues increased by \$4,401,000, or 19.5%, to \$27,016,000 for the three months ended September 30, 2021, from \$22,615,000 for the three months ended September 30, 2020.
- Revenues increased by \$22,602,000, or 39.7%, to \$79,472,000 for the nine months ended September 30, 2021, from \$56,870,000 for the nine months ended September 30, 2020.
- Gross profit increased by \$1,057,000, or 59.9%, to \$2,821,000 for the three months ended September 30, 2021, from \$1,764,000 for the three months ended September 30, 2020.
- Gross profit increased by \$2,843,000, or 51.4%, to \$8,379,000 for the nine months ended September 30, 2021, from \$5,536,000 for the nine months ended September 30, 2020.
- Operating income increased by \$701,000, or 135.8% to \$1,217,000 for the three months ended September 30, 2021, from \$516,000 for the three months ended September 30, 2020.
- Operating income increased by \$2,366,000, or 141.5%, to \$4,038,000 for the nine months ended September 30, 2021, from \$1,672,000 for the nine months ended September 30, 2020.
- Net income increased by \$749,000, to \$1,153,000 for the three months ended September 30, 2021 from \$404,000 for the three months ended September 30, 2020.

- Net income increased by \$2,708,000, to \$4,058,000 for the nine months ended September 30, 2021 from \$1,350,000 for the nine months ended September 30, 2020.
- EBITDA, a non-GAAP financial measure, increased by \$557,000, or 66.7%, to \$1,393,000 for the three months ended September 30, 2021, from \$836,000 for the three months ended September 30, 2020. See “Non-GAAP Financial Measure - EBITDA” below
- EBITDA, a non-GAAP financial measure, increased by \$2,536,000, or 94.6%, to \$5,217,000 for the nine months ended September 30, 2021, from \$2,681,000 for the nine months ended September 30, 2020. See “Non-GAAP Financial Measure - EBITDA” below
- The Company had working capital of \$11,119,000 at September 30, 2021 vs. working capital of \$8,841,000 at September 30, 2020.

The Company’s Proprietary Trading unit continued to execute on its measured growth strategy, as trade-in volumes remained strong throughout the summer months. In an effort to augment demand for its products, We Sell Cellular LLC began offering 30-day credit terms to qualified buyers during the third quarter of 2021. All terms are substantially insured by a third party. Management believes that, given the capital constrained nature of its customer base, this offering will enable it to expand its customer base and gain a greater market share. Since launching the program in July, we have seen early traction and a positive response from customers. The success of the strategy, however, depends on We Sell Cellular LLC’s ability to continue to procure a higher volume of devices at favorable prices.

In addition, the Company continued to generate meaningful software revenue via a licensing agreement effected through its PhoneX, Inc. subsidiary. Management will focus on growing Software Licensing Revenue related to its Platform Partnership business while investing in long-term growth, with the goal of transforming into a scalable cloud-based software company generating high-margin, recurring revenues. The Company has completed a redesign of its software, with a special focus on scalability, internationalization, and multi-tenancy. Management believes that this investment will substantially expand its total addressable market, as it can now license its SaaS product to distributors of all sizes throughout the world. We believe that there is significant overlap between We Sell Cellular’s customer base and the customers that will benefit from PhoneX’s software offering, and we plan to leverage this synergy.

In line with the aforementioned strategy, PhoneX, Inc. has significantly expanded both its onshore and offshore technology team throughout the course of the 2021. The Company plans to continue to invest in technologies that enhance multi-tenancy, internationalization, high-availability, and scalability. We have begun to pursue research and development in the field of machine learning in an effort to develop algorithms to assist our customers in making intelligent pricing decisions. All of our initiatives are geared toward increasing the long-term value of the enterprise. Management anticipates an increase in its cost structure in the short and medium term; however, we will seek to maintain operating leverage by contracting functions where management deems appropriate. The success of any of the above endeavors hinges on the Company’s ability to successfully market and distribute its cloud-based software offering. Early signs indicate a positive reception by the market

Non-GAAP Financial Measure - EBITDA

We make reference to “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 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 EBITDA as loss from operations before the items noted in the table below.

Management believes EBITDA provides a meaningful representation of our operating performance that provides useful information to investors regarding our financial condition and results of operations. 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 EBITDA to be an important measure of operating performance, 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, EBITDA, as we define it, may not be comparable to EBITDA, or similarly titled measures, as defined by other companies.

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

	Three Months Ended September 30,		Nine months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	\$ 1,153,000	\$ 404,000	\$ 4,058,000	\$ 1,350,000
Depreciation and amortization	169,000	312,000	538,000	969,000
Interest expense	60,000	112,000	592,000	322,000
Interest Income	(1,000)		(3,000)	
EBITDA	<u>\$ 1,381,000</u>	<u>\$ 828,000</u>	<u>\$ 5,185,000</u>	<u>\$ 2,641,000</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 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 pre-owned 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 fifty 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 a cloud based, software solution that enables large and small 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 as a service, distributors can increase sales prices and sales velocity, while getting access to PhoneX's analytics and pricing engine. PhoneX licenses its software to WeSell Cellular 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 licensing its software as a service to third parties ("Software Licensing 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 Software Licensing Revenue but also Services Revenue, as PhoneX Inc. may provide integration services to new partners during an initial integration period. 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. The Company's computer servers are hosted by a large third party specializing in providing such services.

7) Company Insiders (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 The percentages give effect to the issuance of common stock on August 12, 2021 upon conversion of the convertible notes
Nikhil Raman	Chief Executive Officer, Director	Brooklyn, New York	6,004,218	Common	13.7%	
Scott Tepfer	Executive Vice President, Director	Edgewood, New York	3,500,000	Common	8.0%	
Daniel Brauser	Director	Lighthouse Point, Florida	748,900	Common	1.7%	
Robert Averick(1)	Director	Stamford, CT	13,656,666	Common	30.7%	
Piton Capital Partners LLC (1)	5% owner	Stamford, CT	12,482,666	Common	28.1%	
Perlus Microcap Fund L.P. (2)	5% owner	San Francisco, CA	4,000,000	Common	9.1%	
Gerald Unterman	5% owner	New York, New York	5,091,016	Common	11.6%	

- 1) Mr. Robert Averick shares the power to vote and dispose of the shares beneficially owned by Piton Capital Partners, LLC. Also includes 850,000 shares owned by two entities over which he shares the power to vote and sell. Includes 500,000 shares held by Scott Tepfer. Piton Capital Partners LLC has an option to purchase these shares at \$1.00 per share expiring on December 20, 2021. 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.
- 3) On October 28, 2021, 4,817,552 shares of common stock were transferred to Nikhil Raman by a family member increasing his ownership to 6,004,218

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 quarterly disclosure statement of PhoneX Holdings, Inc. for the period ending September 30, 2021;
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.

11/15/2021

/s/ Nikhil Raman

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

Principal Financial Officer:

I, Nikhil Raman certify that:

1. I have reviewed this quarterly disclosure statement of PhoneX Holdings, Inc. for the period ending September 30, 2021;
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.

11/15/2021

/s/ Nikhil Raman

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

PHONEX HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SEPTEMBER 30, 2021

Index to Consolidated Financial Statements

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	September 30, 2021 (unaudited)	December 31, 2020
Assets		
Current Assets:		
Cash and cash equivalents	\$ 5,466,765	\$ 5,576,203
Accounts receivable, net	1,180,882	325,835
Inventory	5,311,807	3,973,592
Prepaid expenses and other current assets	249,501	118,925
Total Current Assets	12,208,955	9,994,555
Property and equipment, net	51,529	70,595
Intangible assets, net	405,806	686,732
Capitalized technology, net	147,071	367,286
Other assets	41,175	35,000
Total Assets	\$ 12,854,536	\$ 11,154,168
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 239,578	\$ 249,591
Accrued expenses	787,463	723,193
Deferred revenue	61,891	279,490
Capital lease obligation	1,357	13,077
Total Current Liabilities	1,090,289	1,249,351
Convertible promissory notes	-	5,155,000
Revolving credit facility	-	1,002,346
Paycheck Protection Program loan	-	609,700
Capital lease obligation, net of current portion	-	546
Total Liabilities	1,090,289	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; 60,000,000 shares authorized at 9/30/2021 and 43,333,333 shares authorized at 12/31/2020; 43,934,311 shares issued and outstanding at 9/30/2021 and 28,408,020 shares issued and outstanding at 12/31/2020	4,394	2,841
Additional paid-in capital	80,295,845	75,712,879
Accumulated deficit	(68,535,992)	(72,594,495)
Total Stockholders' Equity	11,764,247	3,137,225
Total Liabilities and Stockholders' Equity	\$ 12,854,536	\$ 11,154,168

See accompanying notes to the condensed consolidated financial statements.

PhoneX Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine months Ended September 30,	
	2021	2020	2021	2020
Revenue	\$ 27,016,829	\$ 22,615,088	\$ 79,472,805	\$ 56,870,375
Cost of Revenue	24,195,265	20,851,194	71,093,398	51,334,622
Gross Profit	2,821,564	1,763,894	8,379,407	5,535,753
Operating Expenses:				
Sales and marketing	142,804	117,055	412,971	369,375
General and administrative	1,462,244	1,130,931	3,928,485	3,494,564
Total operating expenses	1,605,048	1,247,986	4,341,456	3,863,939
Income (Loss) from Operations	1,216,516	515,908	4,037,951	1,671,814
Other Expense:				
Interest income	373	4,849	2,742	14,240
Interest expense	(63,278)	(117,213)	(591,890)	(335,723)
Other Income	-	-	609,700	-
Net Income (Loss)	\$ 1,153,611	\$ 403,544	\$ 4,058,503	\$ 1,350,331
Basic and Diluted Income per Common Share:				
Net income per common share – basic	\$ 0.03	\$ 0.01	\$ 0.12	\$ 0.05
Net income per common share – diluted	\$ 0.03	\$ 0.01	\$ 0.12	\$ 0.05
Weighted average number of common shares outstanding during the period – basic	43,934,311	28,672,187	33,375,205	29,198,591
Weighted average number of common shares outstanding during the period – diluted	44,841,835	29,195,270	33,215,701	29,713,470

See accompanying notes to the condensed consolidated financial statements.

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

	Nine months Ended September 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,058,503	\$ 1,350,331
Adjustments to reconcile net income to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization	538,397	968,712
Stock based compensation	31,092	40,256
Changes in operating assets and liabilities:		
Accounts receivable	(855,047)	(33,471)
Inventory	(1,338,215)	(503,595)
Prepaid expenses and other current assets	(130,576)	4,295
Other assets	(6,175)	10,275
Accounts payable	(10,013)	(74,964)
Accrued expenses	64,270	(4,764)
Deferred revenue	(217,599)	(60,902)
Net Cash and Cash Equivalents Provided By Operating Activities	<u>2,134,637</u>	<u>1,696,173</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Website development costs	—	—
Cash paid to purchase property and equipment	(18,190)	(18,654)
Net Cash and Cash Equivalents Used In Investing Activities	<u>(18,190)</u>	<u>(18,654)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	(251,573)	-
Purchase of common stock	-	(126,800)
Proceeds from revolving credit facility	52,023,088	56,689,250
Repayments of revolving credit facility	(53,025,434)	(56,768,737)
Prepayment of convertible note	(350,000)	-
Proceeds from Paycheck Protection Program loan	-	609,700
Forgiveness of Paycheck Protection Program loan	(609,700)	-
Payment of capital lease obligations	(12,266)	(12,514)
Net Cash and Cash Equivalents Provided By (Used In) Financing Activities	<u>(2,225,885)</u>	<u>390,899</u>
Net Increase in Cash and Cash Equivalents	(109,438)	2,068,418
Cash and Cash Equivalents - Beginning of Year	<u>5,576,203</u>	<u>2,920,473</u>
Cash and Cash Equivalents - End of Year	<u>\$ 5,466,765</u>	<u>\$ 4,988,891</u>
SUPPLEMENTARY CASH FLOW INFORMATION:		
Cash Paid During the Period for:		
Interest	<u>\$ 675,315</u>	<u>\$ 335,723</u>
Taxes	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes to the condensed consolidated financial statements.

PhoneX Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 2021
(Unaudited)

Note 1 - Organization and Business

PhoneX Holdings, Inc. is building the dominant cloud based, software as a service solution for the wholesale exchange of pre-owned mobile devices. PhoneX Holdings works with major mobile carriers and mobile handset distributors to facilitate global commerce related to pre-owned mobile devices. 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 its partners to license its software via its subsidiary PhoneX, Inc. Through these licensing agreements, PhoneX enables mobile carriers and mobile handset distributors to increase selling prices and selling velocity by using a specialized, automated platform where wholesale buyers of mobile devices can purchase inventory on demand.

Liquidity

At September 30, 2021, the Company had cash and cash equivalents of \$5,466,765, working capital of \$11,118,666 and an accumulated deficit of \$68,535,992. For the three months ended September 30, 2021, the Company generated net income of \$1,153,611 and cash generated by operating activities amounted to \$2,134,637 for the nine months ended September 30, 2021. In addition, the Company converted its remaining long-term debt to equity during the period. 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.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed 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 condensed 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 condensed 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 condensed 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 condensed 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.

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 \$61,000 and \$12,000 as of September 30, 2021 and December 31, 2020, 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 \$165,000 and \$200,000 at September 30, 2021 and December 31, 2020, respectively, and is included in inventory, net in the accompanying condensed consolidated balance sheets.

PhoneX Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 2021
(Unaudited)

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.

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 \$100,000 and \$84,000 for the three months ended September 30, 2021 and 2020, respectively, and \$308,000 and \$163,000 for the nine months ended September 30, 2021 and 2020, respectively.

Advertising

Advertising costs are expensed as they are incurred and are included in sales and marketing expenses. Advertising expense amounted to approximately \$35,000 and \$23,000 for the three months ended September 30, 2021 and 2020, respectively, and \$82,000 and \$61,000 for the nine months ended September 30, 2021 and 2020, respectively.

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 September 30, 2021 and September 30, 2020, the Company had approximately \$4,472,000 and \$4,076,000, respectively, in excess of the FDIC limits.

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.

Note 3 - 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.

Risks and Uncertainties

Management is currently evaluating the impact of the COVID-19 pandemic on the industry and has concluded that while it is reasonably possible that the virus could have a negative effect on the Company’s financial position and results of its operations, the specific

PhoneX Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 2021
(Unaudited)

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 4 – Loan Payable

On May 3, 2020, the Company received loan proceeds in the amount of approximately \$610,000 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its employee headcount and payroll levels. The amount of loan forgiveness will be reduced if the borrower reduces its total number of employees or reduces salaries by more than 25% during the 24-week period following the loan disbursement or does not use at least 60% of the loan for payroll costs. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first nine months. In February of 2021, \$364,000 of the PPP loan was forgiven. In April of 2021, the remaining \$246,000 of the PPP loan was forgiven.

Note 5 - Stock-Based Compensation

Stock Option Grants

The following table summarizes the Company’s stock option activity for the nine months ended September 30, 2021:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding – January 1, 2021	858,336	\$ 0.31	3.4	\$ 12,100
Granted	50,000	—		
Exercised	—	—		
Forfeited or canceled	(62,500)	--		
Outstanding – September 30, 2021	<u>845,836</u>	<u>\$ 0.31</u>	<u>2.6</u>	<u>\$ 576,819</u>
Exercisable – September 30, 2021	<u>579,169</u>	<u>\$ 0.37</u>	<u>2.0</u>	<u>\$ 365,527</u>

The Company recorded non-cash compensation expense of \$5,900 and \$3,800 for the three months ended September 30, 2021 and 2020, respectively, and \$25,200 and \$28,100 for the nine months ended September 30, 2021 and 2020, respectively, pertaining to stock option grants.

Total unrecognized compensation expense related to unvested stock options at September 30, 2021 amounts to \$49,900 and is expected to be recognized over a weighted average period of 1.9 years.

The following table summarizes the Company’s stock option activity for non-vested options for the nine months ended September 30, 2021:

	Number of Options	Weighted Average Grant Date Fair Value
Balance at December 31, 2020	433,334	\$ 0.19
Granted	50,000	0.34
Vested	(154,167)	(0.17)
Forfeited or canceled	(62,500)	—
Balance at September 30, 2021	<u>266,667</u>	<u>\$ 0.19</u>

PhoneX Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 2021
(Unaudited)

Restricted Stock Awards and Restricted Stock Units

A summary of the restricted stock award activity for the nine months ended September 30, 2021 is as follows:

	Number of Shares
Unvested Outstanding at December 31, 2020	483,750
Granted	—
Forfeited	—
Vested	(163,750)
Unvested Outstanding at September 30, 2021	<u>320,000</u>

The Company recorded non-cash compensation expense of \$2,000 and \$4,200 for the three months ended September 30, 2021 and 2020, respectively, and \$5,900 and \$11,200 for the nine months ended September 30, 2021 and 2020, respectively.

Total unrecognized compensation expense related to unvested stock awards at September 30, 2021 amounted to \$7,400 and is expected to be recognized over a weighted average period of 1.1 years.

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 interest rate at December 31, 2020 was 8%.

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 Notes to Consolidated Financial Statements December 31, 2020 and 2019 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 September 30, 2021 and December 31, 2020, borrowings under the revolving credit facility amounted to \$0 and \$1,002,346, respectively.

On July 7, 2021, the Company terminated its Loan Agreement with its Senior Lender. In connection with this termination, the Company paid \$86,500 in early termination and legal fees as well as all outstanding principal, accrued interest and service fees payable as of the date of termination.

PhoneX Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 2021
(Unaudited)

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.

On April 29, 2021, the Company extinguished \$350,000 of its convertible notes for a price of \$650,000 reducing the amount of convertible notes to \$4,805,000.

On June 22, 2021, the Company entered into an agreement to extinguish the remaining \$4,805,000 of its convertible notes for 16,016,666 shares of common stock at a price of \$0.30 per share. The 16,016,666 shares were issued on August 12, 2021. The convertible notes are no longer outstanding.

Note 8 – Customer and Vendor Concentrations

Customer Concentration

During the three months ended September 30, 2021, two customers represented 10% or more of revenue, accounting for 14% and 11%, respectively. During the three months ended September 30, 2020, one customer represented 10% or more of revenue, accounting for 19%. During the three months ended September 30, 2021, 49%, 14% and 12% of the Company’s revenues were originated in the United States, Slovakia, and Mexico, respectively. During the three months ended September 30, 2020, 60%, 12% and 11% of the Company’s revenues were originated in the United States, Europe and Nigeria, respectively.

During the nine months ended September 30, 2021, one customer represented 12% of revenues. During the nine months ended September 30, 2020, no customer represented more than 10% of revenues. During the nine months ended September 30, 2021, 50% and 12% of the Company’s revenues were originated in the United States and Slovakia, respectively. During the nine months ended September 30, 2020, 58%, 13% and 11% of the Company’s revenues were originated in the United States, Europe and Nigeria, respectively.

At September 30, 2021, two customers represented at least 10% of accounts receivable, accounting for 25% and 13% of the Company’s accounts receivables, respectively. At December 31, 2020, one customer represented at least 10% of accounts receivable, accounting for 11% of the Company’s accounts receivable.

Vendor Concentration

During the three months ended September 30, 2021, two vendors represented 10% or more of purchases, accounting for 57% and 24%, respectively, of the Company’s purchases. During the three months ended September 30, 2020, four vendors represented 10% or more of purchases, accounting for 54%, 16%, 12% and 12%, respectively, of the Company’s purchases.

PhoneX Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 2021
(Unaudited)

During the nine months ended September 30, 2021, three vendors represented 10% or more of purchases, accounting for 39%, 32% and 15%, respectively, of the Company's purchases. During the nine months ended September 30, 2020, four vendors represented 10% or more of purchases, accounting for 42%, 26%, 16% and 11%, respectively, of the Company's purchases.

Note 9 – Stock Purchase

On June 21, 2020, the Company's board of directors approved a stock repurchase plan allowing for up to \$1,000,000 of the Company's common stock to be repurchased.

On April 27, 2021, the Company purchased 312,106 shares via its stock re-purchase plan for a total \$163,856.

On May 14, 2021, the Company purchased 178,269 shares via its stock re-purchase plan for a total \$89,134.

On October 29, 2021, the Company purchased 108,333 shares via its stock re-purchase plan for a total of \$97,499.70.

Note 10 – Subsequent Events

The Company evaluates subsequent events and transactions that occur after the balance sheet date up to the date that the financial statements were issued for potential recognition or disclosure. Based upon this review, the Company did not identify any subsequent events that would be required adjustment or disclosure in the financial statements.