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: March 31, 2024
(The "Reporting Period")

The number of shares outstanding of our Common Stock was 35,722,568 as of May 15, 2024

The number of shares outstanding of our Common Stock was 35,875,902 as of March 31, 2024

Shell Status

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: ☒

Change of Control

Indicate by check mark whether a Change in Control[1] 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, provide the current name of the issuer and any names used by predecessor entities along with the dates of the name changes.

PhoneX Holdings, Inc.	05/07/2019 to present
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

Current State and Date of Incorporation or Registration: Incorporated on November 18, 2003 in the State of Delaware
Standing in this jurisdiction: Active

Prior Incorporation Information for the issuer and any predecessors during the past five years: None

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 issuer's 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 Yes, provide additional details below: -N/A

2) Security Information

Transfer Agent

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

Publicly Quoted or Traded Securities:

The goal of this section is to provide a clear understanding of the share information for its publicly quoted or traded equity securities. Use the fields below to provide the information, as applicable, for all outstanding classes of securities that are publicly traded/quoted.

Trading symbol:	PXHI
Exact title and class of securities outstanding:	Common Shares
CUSIP:	71922R106
Par or stated value:	$0.0001 par value per share
Total shares authorized:	60,000,000 shares of common as of date: 05/15/2024

Total shares outstanding:	35,722,568 shares of common as of date: 05/15/2024
Total number of shareholders of record:	104 as of date: 05/15/2024

Please provide the above referenced information for all other classes of authorized or outstanding equity securities: *N/A*

Other classes of authorized or outstanding equity securities:
The goal of this section is to provide a clear understanding of the share information for its other classes of authorized or outstanding equity securities (e.g. preferred shares). Use the fields below to provide the information, as applicable, for all other authorized or outstanding equity securities.

Please provide the above referenced information for all other classes of authorized or outstanding equity securities:

Trading symbol:	N/A
Exact title and class of securities outstanding:	Preferred Shares
CUSIP:	N/A
Par or stated value:	$0.0001 par value per share
Total shares authorized:	5,000,000
Total shares outstanding:	0
Total number of shareholders of record:	N/A

Security Description:

The goal of this section is to provide a clear understanding of the material rights and privileges of the securities issued by the Company. Please provide the below information for each class of the Company's equity securities, as applicable:

1. **For common equity, describe any dividend, voting and preemption rights.**

   Each outstanding share of common stock is entitled to one vote at all meetings of shareholders, is entitled to dividends if and when declared by the board of directors and has no preemptive rights.

2. **For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions.**

   N/A – no preferred shares issued or outstanding

3. **Describe any other material rights of common or preferred stockholders.**

   N/A

4. **Describe any material modifications to rights of holders of the Company's securities that have occurred over the reporting period covered by this report.**

   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

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:

No: ☐ Yes: ☒ (If yes, you must complete the table below)

Shares Outstanding Opening Balance: Date 01/01/2022 Common: 43,124,002 Preferred: 0	*Right-click the rows below and select "Insert" to add rows as needed.								
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 ***You must disclose the control person(s) for any entities listed.**	**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?**
01/15/2022	Stock Purchase	(3,330,427)	Common	$0.925	No	See below	Stock Repurchase Agreement		
01/2022	Stock Purchase	(7,602)	Common	$0.87	No	See below	Stock Repurchase Plan		
02/10/2022	Stock Purchase	(168,659)	Common	$0.92	No	See below	Stock Repurchase Agreement		
02/2022	Stock Purchase	(5,200)	Common	$0.85	No	See below	Stock Repurchase Plan		
03/2022	Stock Purchase	(11,400)	Common	$0.71	No	See below	Stock Repurchase Plan		
04/2022	Stock Purchase	(4,400)	Common	$0.87	No	See below	Stock Repurchase Plan		
5/11/2022	New Issuance	90,000	Common	$0.70	No	See below	Employee stock plan		
06/2022	Stock Purchase	(400)	Common	$0.91	No	See below	Stock Repurchase Plan		
06/29/2022	Stock Purchase	(200,000)	Common	$0.15	No	See below	Stock Repurchase Plan		
08/3/2022	New Issuance	83,333	Common	$0.19	No	See below	Employee stock plan		
08/15/2022	Stock Purchase	(3,100)	Common	$0.98	No	See below	Stock Repurchase Plan		
9/15/2022	Stock Purchase	(22,100)	Common	$0.93	No	See below	Stock Repurchase Plan		

09/21/2022	Stock Purchase	(135,258)	Common	$0.90	No	See below	Stock Repurchase Plan		
10/15/2022	New Issuance	60,000	Common	$0.90	No	See below	Employee stock plan		
10/31/2022	Stock Purchase	(1,000)	Common	$0.915	No	See below	Stock Repurchase Plan		
10/2022	Stock Purchase	(2,062,984)	Common	$1.11	No	See below	Stock Repurchase Agreement		
11/1/2022	New Issuance	35,000	Common	$0.90	No	See below	Employee stock plan		
11/2022	Stock Purchase	(631,833)	Common	$1.15	No	See below	Stock Repurchase Agreement		
11/2022	Stock Purchase	(2,700)	Common	$1.02	No	See below	Stock Repurchase Plan		
12/2022	Stock Purchase	(136,666)	Common	$1.15	No	See below	Stock Repurchase Plan		
01/2023	Stock Purchase	(533,702)	Common	$1.15	No	See below	Stock Repurchase Agreement		
06/2023	Stock Purchase	(80,000)	Common	$1.00	No	See below	Stock Repurchase Plan		
11/30/2023	Stock Purchase	(13,000)	Common	$1.10	No	See below	Stock Repurchase Plan		
12/4/2023	Stock Purchase	(12,000)	Common	$1.10	No	See below	Stock Repurchase Plan		
12/01/2024	New Issuance	100,000	Common	$0.04	No	See below	Employee stock plan		
01/16/2024	Stock Purchase	(79,531)	Common	$1.00	No	See below	Stock Repurchase Plan		
01/30/2024	Stock Purchase	(100,000)	Common	$1.00	No	See below	Stock Repurchase Plan		
02/01/2024	Stock Purchase	(74,471)	Common	$1.00	No	See below	Stock Repurchase Plan		
04/11/2024	Stock Purchase	(153,334)	Common	$.80	No	See below	Stock Repurchase Plan		
Shares Outstanding on Date of This Report: Ending Balance:									

Date 05/15/2024	Common: 35,722,568 Preferred: 0		

Example: A company with a fiscal year end of December 31st, in addressing this item for its Annual Report, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2022 through December 31, 2023 pursuant to the tabular format above.

***** Control persons for any entities in the table must be disclosed in the table or in a footnote here.**

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:

- In January 2022, the Company purchased 3,330,427 shares for a purchase price of $3,096,048 pursuant to board approved transaction with a major shareholder.
- In January 2022, the Company purchased 7,602 shares for a purchase price of $6,613 pursuant to its stock repurchase program. These shares are currently held as treasury stock.
- In February 2022, the Company purchased 168,659 shares for a purchase price of $155,166 pursuant to its stock repurchase program.
- In February 2022, the Company purchased 5,200 shares for a purchase price of $4,405 pursuant to its stock repurchase program. These shares are currently held as treasury stock.
- In March 2022, the Company purchased 11,400 shares for a purchase price of $8,428 pursuant to its stock repurchase program. These shares are currently held as treasury stock.
- In April 2022, the Company purchased 4,400 shares for a purchase price of $3,837 pursuant to its stock repurchase plan.
- In May 2022, the Company issued 90,000 shares to employees in exchange for $63,000 pursuant to the exercise of options.
- In June 2022, the Company purchased 400 shares for a purchase price of $364 pursuant to its stock repurchase plan. These shares are currently held as treasury stock.
- In June 2022, the Company purchased 200,000 shares for a purchase price of $15,000 pursuant to its stock repurchase program.
- In August 2022, the Company issued 83,333 shares to employees in exchange for $16,333 pursuant to the exercise of options.
- In August 2022, the Company purchased 3,100 shares for a purchase price of $3,023 pursuant to its stock repurchase program.
- In September 2022, the Company purchased 157,358 shares for a purchase price of $142,344 pursuant to its stock repurchase program.
- In October 2022, the Company purchased 1,000 shares for a purchase price of $915 pursuant to its stock repurchase program.
- In October 2022, the Company issued 60,000 shares to employees as part of its employee stock plan.
- In November 2022, the Company issued 35,000 shares to a director in exchange for $31,500 pursuant to the exercise of options.
- During the period beginning October 7, 2022 and ending on November 1, 2022, the Company entered into a series of agreements whereby it repurchased 2,062,984 shares of common stock from 11 shareholders including one director and related parties in exchange for paying the shareholders $2,285,421.60. Immediately following the repurchase, the director resigned from the board of directors.
- In November 2022, the Company purchased 631,833 shares of its common stock for $726,607.
- In November 2022, the Company purchased 2,700 shares of its common stock via its stock re-purchase plan for $2,750.
- In December 2022, the Company purchased 136,666 shares of its common stock via its stock re-purchase plan for $157,165.

- In January 2023, the Company purchased 533,702 shares of its common stock from 3 related shareholders for a purchase price of $613,757.
- In June 2023, the Company purchased 80,000 shares of its common stock for a purchase price of $80,000.
- In November 2023, the Company purchased 13,000 shares of its common stock for a purchase price of $14,300.
- In December 2023, the Company purchased 12,000 shares of its common stock for a purchase price of $13,200.
- In December 2023, the Company issued 100,000 shares to employees as part of its employee stock plan for an average exercise price of $0.04
- In January 2024, the Company purchased 79,531 shares of its common stock for a purchase price of $79,531.
- In January 2024, the Company purchased 100,000 shares of its common stock for a purchase price of $100,000.
- In February 2024, the Company purchased 74,471 shares of its common stock for a purchase price of $74,471.
- In April 2024, the Company purchased 153,334 shares of its common stock for a purchase price of $122,667.

B. Promissory and Convertible Notes

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities.

No: ☒ Yes: ☐ (If yes, you must complete the table below)

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.)

***** Control persons for any entities in the table above must be disclosed in the table or in a footnote here.**

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

4) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations.

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.

1st Quarter 2024 Financial Highlights

Key financial metrics are as follows:

- Revenues decreased by $7,015,524 or 13.9%, to $43,620,238 for the period ended March 31, 2024, from $50,635,762 for the period ended March 31, 2023.

- Gross profit decreased by $1,313,880, or 25.2% to $3,899,138 for the period ended March 31, 2024, from $5,213,018 for the period ended March 31, 2023.
- Operating income decreased by $1,425,765, or 50.6% to $1,393,654 for the period ended March 31, 2024, from $2,819,419 for the period ended March 31, 2023.
- Net Income decreased by $1,098,464, or 49% to $1,140,304 for the period ended March 31, 2024, from $2,238,768 for the period ended March 31, 2023.
- EBITDA, a non-GAAP financial measure decreased by $1,440,000 to $1,496,000 for the period ended March 31, 2024 compared to $2,936,000 for the period ended March 31, 2023. See "Non-GAAP Financial Measure - EBITDA" below.
- The Company had working capital of $18,961,704 at March 31, 2024 vs. working capital of $15,201,837 at March 31, 2023.

While trade in volumes for the iPhone 15 were higher than for the iPhone 14 a year earlier, the Company experienced lower margins in its Proprietary Trading business in Q1 2024 versus Q1 2023. We believe that certain macroeconomic factors, such as the reopening of China after COVID-19 lockdowns, and increased demand for preowned iPhones in Russia following Apple's departure from the region, resulted in significant competition for supply over the last four quarters, which negatively impacted margins. However, early signs in Q2 2024 point to a reversal of this trend, with margins trending higher in Q2 2024 than in Q2 2023. Based on these early signals, management believes that the market is beginning to normalize. Additionally, we believe that the reduced margin environment over the last four quarters may have caused more thinly capitalized competitors to exit the industry. While we cannot be certain that these positive margin trends will continue, we believe that our investments in technology and operational efficiency have positioned us favorably versus our competitors.

In an effort to expand the Company's market share, management will continue to seek strategies to expand the Company's reach. We believe that we can leverage our scale and technological advantages to drive efficiencies and gain advantage over less efficient, more thinly capitalized competitors. We continue to invest in our remanufacturing operation, which we believe will result in long-term market share expansion and margin growth. This endeavor has already begun to generate positive economic value for the Company. We have also embarked on a lean transformation of our distribution center to reduce our costs. To drive these initiatives, the Company will make investments in personnel and infrastructure during the upcoming quarters. The success of We Sell Cellular's growth strategy depends on its ability to execute and its ability to continue to scale its volumes despite uncertain market conditions.

The Company continued to generate meaningful software revenue via licensing agreements 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. Our goal is to transform into a scalable cloud-based software company generating high-margin, recurring revenues. The Company has completed a redesign of its software, with a particular focus on scalability, internationalization, and multi-tenancy. This investment has substantially expanded our total addressable market, as we can now license our SaaS product to distributors of all sizes throughout the world. In addition, in 2023 the Company launched PhoneX Connect, a service that enables smaller resellers to connect to and pre-sell inventory of larger suppliers. PhoneX Connect enables larger suppliers, like We Sell Cellular, to expand distribution while enabling smaller resellers to grow without a substantial investment in inventory. Our initial test of PhoneX Connect with We Sell Cellular was a success, and we are now adding additional suppliers to the network. In addition to several implementations, we have a growing pipeline of both large and enterprise clients that plan to license our technology and leverage PhoneX Connect.

The Company plans to continue to invest in technologies that enhance multi-tenancy, internationalization, high-availability, and scalability. All of our initiatives are geared toward increasing the long-term value of the enterprise. We have made substantial strides on our machine learning initiatives, which seek to develop algorithms to assist our customers in making intelligent pricing decisions. Furthermore, we are starting development of an industry-specific Warehouse Management tool that will integrate seamlessly with our existing products. This product will enable clients to dynamically route inventory through their processing, polishing, and repair operations, enabling them to maximize value and collect data at every step of the reverse-manufacturing process. We believe that there are hundreds of potential clients for this product in the mobile device industry alone. We also believe that the problems solved by our WMS apply to any remanufacturing business.

The success of any of the above endeavors hinges on the Company's ability to successfully market and distribute its cloud-based software offering. While we have developed a substantial pipeline of significant industry participants, no assurance can be given that PhoneX will successfully capitalize on these opportunities.

Cautionary Note Regarding Forward Looking Statements

This report contains forward-looking statements, including statements regarding the Company's efforts to build the dominant cloud based software as a service solution for the wholesale exchange of pre-owned mobile devices, positive gross margin trends, our plans to leverage our scale and technological advantage, our focus on growing Software Licensing Revenues, our goals with PhoneX Connect, expected licensing of our technology, our increasing our long-term shareholder value, and the scope of the potential market for our Warehouse Management tool. Forward-looking statements can be identified by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects” and similar references to future periods.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you therefore against relying on any of these forward-looking statements, which are neither statements of historical fact nor guarantees or assurances of future performance. The results anticipated by any or all of these forward-looking statements might not occur. Important factors, uncertainties and risks that may cause actual results to differ materially from these forward-looking statements include the risks arising from sales of iPhone 15 and future iPhone launches, our ability to continue to procure higher volumes of devices at favorable prices, potential adverse effects of increased interest rates in response to inflation, continued uncertainty in the financial sector and national and global economies, the continued demand for mobile devices and infrastructure and software offerings on which our business focuses and depends which may, among other factors, be negatively affected by a recession and is dependent on mobile phone manufacturers and other third parties which are beyond our control, the possibility that our efforts to grow our business and the perceived benefits of these efforts do not come to fruition, including due to inaccurate or incomplete assumptions, expectations or estimates on which our growth strategies are based and despite the potential deployment of substantial capital and other resources towards such efforts, which may, among other things, be adversely impacted by the risks and contingencies outlined elsewhere in this report, and our ability to continue to effectively navigate challenges posed by the complex industries we serve including the potential for rapid and unpredictable technological change, regulatory burdens and an intense competitive environment. We undertake no obligation to publicly update or revise any forward-looking statements, whether as the result of new information, future events or otherwise.

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:

	Period Ended March 31,	
	2024	**2023**

Net income (loss)	$ 1,140,000	$ 2,239,000
Stock-based compensation expense	78,000	83,000
Depreciation and amortization	24,000	33,000
Income tax expense	302,000	594,000
Interest income	(48,000)	(13,000)
EBITDA	$ 1,496,000	$ 2,936,000

B. List any subsidiaries, parent company, or affiliated companies.

The Company has two subsidiaries which are We Sell Cellular, LLC. and PhoneX, Inc. The officers of the subsidiaries are the same as those of the issuer.

C. Describe the issuers' principal products or services.

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 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 50% of We Sell Cellular's customer base is in the United States, with the balance abroad.

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 We Sell 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.

5) 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 and the extent in which the facilities are utilized.

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.

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 large third parties specializing in providing such services.

6) All Officers, Directors, and Control Persons

Using the table below, please provide information, as of the period end date of this report, regarding all officers and directors of the company, or any person that performs a similar function, regardless of the number of shares they own.

In addition, list all individuals or entities controlling 5% or more of any class of the issuer's securities.
If any insiders 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 (City, State) of an individual representing the corporation or entity. Include Company Insiders who own any outstanding units or shares of any class of any equity security of the issuer.

The goal of this section is to provide investors 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 owners.

Names of All Officers, Directors and Control Persons	**Affiliation with Company (e.g. Officer Title/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	6,004,218	Common	16.7%	
Scott Tepfer	Executive Vice President, Director	Edgewood, New York	3,000,000	Common	8.3%	
Robert Averick(1)(2)	Director	Delray Beach Florida	13,731,666	Common	38.2%	
Piton Capital Partners LLC (1)	5% owner	Stamford, Connecticut	12,482,666	Common	34.7%	
Gerald Unterman	5% owner	New York, New York	5,091,016	Common	14.2%	

1) Mr. Robert Averick shares the power to vote and dispose of the shares beneficially owned by Piton Capital Partners, LLC. The address is listed as 201 Tresser Blvd., 3rd floor, Stamford, CT.
2) Mr. Averick's shares also include 850,000 shares owned by two entities over which he shares the power to vote and sell, and 399,000 shares he holds individually. Mr. Averick's beneficial ownership gives effect to shares issuable upon exercise of 35,000 vested options awarded.

7) Legal/Disciplinary History

A. Identify and provide a brief explanation as to whether any of the persons or entities listed above in Section 6 have, in the past 10 years:

1. Been the subject of an indictment or conviction in a criminal proceeding or plea agreement or named as a defendant in a pending criminal proceeding (excluding minor traffic violations);

No

2. Been the subject of 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, financial- or investment-related, insurance or banking activities;

No

3. Been the subject of a finding, disciplinary order or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, a state securities regulator of a violation of federal or state securities or commodities law, or a foreign regulatory body or court, which finding or judgment has not been reversed, suspended, or vacated;

No

4. Named as a defendant or a respondent in a regulatory complaint or proceeding that could result in a “yes” answer to part 3 above; or

No

5. Been the subject 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

6. Been the subject of a U.S Postal Service false representation order, or a temporary restraining order, or preliminary injunction with respect to conduct alleged to have violated the false representation statute that applies to U.S mail.

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.

8) Third Party Providers

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

Securities Counsel (must include Counsel preparing Attorney Letters).

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: Kieron M. Ludde
Firm: Hill, Barth & King LLC
Address 1: 3 Crossways Park Dr W, Suite 100
Address 2: Woodbury, NY 11797
Phone: (516) 822-5000
Email: KLudde@hbkcpa.com

Investor Relations Consultant – N/A

All other means of Investor Communication:

X (Twitter):	None
Discord:	None
LinkedIn:	None
Facebook:	None
Other:	None

Other Service Providers - N/A
Provide the name of any other service provider(s), **that assisted, advised, prepared or provided information with respect to this disclosure statement**. This includes counsel, broker-dealer(s), advisor(s), consultant(s) or any entity/individual that provided assistance or services to the issuer during the reporting period.

9) Disclosure & Financial Information

A. This Disclosure Statement was prepared by (name of individual):

Name:	**Yasemin Kaya**
Title:	**Controller**
Relationship to Issuer:	**Controller**

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

☒ U.S. GAAP
☐ IFRS

C. The financial statements for this reporting period were prepared by (name of individual)[2]:

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

Describe the qualifications of the person or persons who prepared the financial statements: Our CEO/CFO has been involved with our Company for over 5 years and holds an M.B.A from Harvard University.

Provide the following qualifying financial statements:

a. Audit letter, if audited:
b. Balance sheet;
c. Statement of income;
d. Statement of cash flows;
e. Statement of Retained Earnings (Statement of Changes in Stockholders' Equity)
f. Financial notes

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) in each Quarterly or Annual Report.

The certifications shall follow the format below:

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

I, Nikhil Raman certify that:

1. I have reviewed this quarterly disclosure statement of PhoneX Holdings, Inc. for the period ending March 31, 2024;

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.

05/15/2024

___/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 March 31, 2024;

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.

05/15/2024

_____/s/ Nikhil Raman________________

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

PHONEX HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

March 31, 2024

Index to Consolidated Financial Statements

PhoneX Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	March 31 2024	December 31 2023
Assets		
Current Assets:		
Cash and cash equivalents	$ 6,136,544	$ 6,266,946
Accounts receivable, net	3,711,847	3,823,715
Inventory	10,870,755	10,227,611
Prepaid expenses and other current assets	286,253	159,482
Total Current Assets	**21,005,399**	**20,477,754**
Property and equipment, net	290,055	264,425
Deferred Tax Asset Non-Current (net)	2,286,000	2,286,000
Operating lease right-of-use asset	669,690	735,380
Other assets	40,775	40,775
Total Assets	**$ 24,291,919**	**$ 23,804,334**
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 516,954	$ 479,755
Accrued expenses	1,134,758	1,230,429
Deferred revenue	122,819	475,219
Capital lease obligation	—	266,203
Operating lease liability, current portion	269,164	—
Total Current Liabilities	**2,043,695**	**2,451,606**
Operating lease liability, net of current portion	425,428	494,089
Total Liabilities	**2,469,123**	**2,945,695**
Stockholders' Equity:		
Preferred stock; $0.0001 par value; 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock; $0.0001 par value; 60,000,000 shares authorized; 35,947,110 shares and 36,201,112 issued and outstanding, respectively	3,595	3,621
Treasury Stock	(7)	(7)
Additional paid-in capital	72,721,756	72,897,877
Accumulated deficit	(50,902,548)	(52,042,852)
Total Stockholders' Equity	**21,822,796**	**20,858,639**
Total Liabilities and Stockholders' Equity	**$ 24,291,919**	**$ 23,804,334**

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 2024	Three months ended March 31, 2023
Revenue	$ 43,620,238	$ 50,635,762
Cost of Revenue	39,721,100	45,422,744
Gross Profit	**3,899,138**	**5,213,018**
Operating Expenses:		
Sales and marketing	324,285	291,056
General and administrative	2,181,099	2,102,543
Total operating expenses	2,505,484	2,393,599
Income (Loss) from Operations	**1,393,654**	**2,819,419**
Other (Expense) Income:		
Interest income	48,150	13,349
Interest expense	—	—
Other income	—	—
Total Other (Expense) Income, Net	48,150	13,349
Income (Loss) before income tax expense	**1,441,804**	**2,832,768**
Income tax expense	301,500	594,000
Net Income	**$** 1,140,304	**$ 2,238,768**
Basic and Diluted Income per Common Share:		
Net income per common share – basic	**$ 0.03**	**$ 0.06**
Net income per common share – diluted	**$ 0.03**	**$ 0.06**
Weighted average number of common shares outstanding during the period – basic	**36,014,736**	**36,223,854**
Weighted average number of common shares outstanding during the period – diluted	**36,618,452**	**36,716,769**

See accompanying notes to consolidated financial statements.

PhoneX Holdings, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

Three months ended March 31, 2024

	Common Stock, $0.0001 Par Value		Treasury Stock		Additional	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Paid in Capital	Deficit	Equity (Deficit)
Balance, January 1, 2024	**36,201,112**	**$3,621**	**(71,208)**	$(7)	**$72,897,876**	**$(52,042,852)**	**$20,858,638**
Stock based compensation					77,856		77,856
Repurchase and retirement of common stock	(254,002)	(25)			(253,977)		(254,002)
Net Income						1,140,304	1,140,304
Balance, March 31, 2024	**35,947,110**	**$3,595**	**(71,208)**	$ (7)	**$72,721,756**	**$(50,902,548)**	**$21,822,796**

Three months ended March 31, 2023

	Common Stock, $0.0001 Par Value		Treasury Stock		Additional	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Paid in Capital	Deficit	Equity (Deficit)
Balance, January 1, 2023	**36,875,072**	**$3,688**	**(206,466)**	$(21)	**$73,288,762**	**$(58,868,102)**	**$14,424,327**
Stock based compensation					83,688		83,688
Repurchase and retirement of common stock	(533,702)	(53)			(613,704)		(613,757)
Net Income						2,238,768	2,238,768
Balance, March 31, 2023	**36,341,370**	**$3,635**	**(206,466)**	$ (21)	**$72,758,746**	**$(56,629,334)**	**$16,133,026**

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2024	**2023**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,140,304	$ 2,238,768
Adjustments to reconcile net income to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization	24,042	32,937
Stock based compensation	77,856	83,688
Changes in operating lease right-of-use asset	68,219	—
Changes in operating assets and liabilities:		
Accounts receivable	111,868	(245,159)
Inventory	(643,144)	1,992,626
Prepaid expenses and other current assets	(126,771)	(278,272)
Other assets	—	—
Accounts payable	37,199	28,127
Accrued expenses	(95,671)	1,031,674
Deferred revenue	(352,400)	(835,367)
Payments of operating lease liability	(68,229)	—
Net Cash and Cash Equivalents (Used In) Provided By Operating Activities	**173,273**	**4,049,022**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Website development costs	—	—
Cash paid to purchase property and equipment	(49,672)	(17,048)
Net Cash and Cash Equivalents Used In Investing Activities	**(49,672)**	**(17,048)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of capital lease obligations	—	—
Proceeds from sale of common stock	(254,003)	(613,757)
Net Cash and Cash Equivalents Provided By (Used In) Financing Activities	**(254,003)**	**(613,757)**
Net Increase in Cash and Cash Equivalents		
Cash and Cash Equivalents - Beginning of Period	6,266,946	4,964,172
Cash and Cash Equivalents - End of Period	**$ 6,136,544**	**$ 8,382,389**
SUPPLEMENTARY CASH FLOW INFORMATION:		
Cash Paid During the Period for:		
Income Taxes	$ --	$ --

See accompanying notes to consolidated financial statements.

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. and 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 March 31, 2024, the Company had cash and cash equivalents of $6,136,544, working capital of $18,961,704 and an accumulated deficit of $50,902,548. In addition, the Company generated net income of $1,140,304 and cash generated by operating activities amounted to $173,273 for the period ended March 31, 2024. 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 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.

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.

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 $81,730 and $2,892 at March 31, 2024 and March 31, 2023, respectively.

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 $65,000 and $55,000 as of March 31, 2024 and March 31, 2023, 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 $394,000 and $553,000 at March 31, 2024 and March 31, 2023, respectively, and is included in inventory, net in the accompanying condensed 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 periods ended March 31, 2024 and 2023, the Company noted no indicators of impairment.

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.

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 March 31, 2024 and 2023.

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, 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 $307,000 and $584,000 at March 31, 2024 and 2023, respectively, and is recorded in accrued expenses in the accompanying consolidated balance sheets.

Software Licensing Revenue

The Company, through its subsidiary PhoneX Inc., generates revenue by licensing its software as a service to third parties.

Services Revenue

Under its PhoneX, Inc. licensing agreements, the Company also earns revenue for providing integration services.

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.

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 $194,000 and $243,000 for the three months ended March 31, 2024 and 2023, 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 $79,000 for the three months ended March 31, 2024 and 2023, 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 income.

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. 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 March 31, 2024 and March 31, 2023.

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 March 31, 2024 and 2023, the Company had approximately $4,767,000 and $7,205,000, 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.

Deferred Rent

The Company entered into an operating lease agreement that contains provisions for future rent increases, or periods in which rent payments are reduced (abated). The Company records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to *deferred rent*, which is reflected as a separate line item in the accompanying balance sheets.

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.

Operating Leases

The Company leases space for its warehouse and office under a lease that expires in September 2026. The lease contains provisions requiring the Company to pay maintenance, property taxes and insurance, and requires scheduled rent increases. Rent expense is recognized on a straight-line basis over the terms of the lease.

Rent expense, amounting to $83,600 and $83,400 for the periods ended March 31, 2024 and 2023, 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:

Years ended December 31,		
2024	$	194,228
2025		283,212
2026		217,152
	$	694,592

Note 4 - Stock-Based Compensation

Stock Option Grants

The following table summarizes the Company's stock option activity for the year ended March 31, 2024:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding – December 31, 2023	1,780,000	$ 0.79	2.2	$ 264,400
Granted	--			--
Exercised	--			
Forfeited or canceled	--			
Outstanding – March 31, 2024	1,780,000	$ 0.79	2.0	$ 381,425
Exercisable – March 31, 2024	1,057,501	$ 0.67	2.2	$ 353,094

The Company recorded non-cash compensation expense of $77,856 and $83,688 for the three months ended March 31, 2024 and 2023, respectively, pertaining to stock option grants.

Total unrecognized compensation expense related to unvested stock options at March 31, 2024 amounts to $728,316 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 three months ended March 31, 2024:

	Number of Options	Weighted Average Grant Date Fair Value
Balance at December 31, 2023	860,417	$ 0.98
Granted	--	--
Vested	(137,918)	(0.43)
Forfeited or canceled	--	--
Balance at March 31, 2024	722,499	$ 0.90

Restricted Stock Awards and Restricted Stock Units

There were no outstanding restricted stock awards or restricted stock units as of March 31, 2024 and March 31, 2023.

Note 5 – Customer and Vendor Concentrations

Customer Concentration

During the three months ended March 31, 2024, no customers represented 10% or more of revenue. During the three months ended March 31, 2023, one customer represented 10% or more of revenue, representing 20%. During the three months ended March 31, 2024, 74% of the Company's revenues were originated in the United States. During the three months ended March 31, 2023, 52% and 21% of the Company's revenues were originated in the United States and Mexico, respectively.

At March 31, 2024, one customer represented at least 10% of accounts receivable, accounting for 24% of the Company's accounts receivable. At March 31, 2023, one customer represented at least 10% of accounts receivable, accounting for 43% of the Company's accounts receivable.

Vendor Concentration

During the three months ended March 31, 2024, two vendors represented 10% or more of purchases, accounting for 73%, and 15%, respectively, of the Company's purchases. During the three months ended March 31, 2023, three vendors represented 10% or more of purchases, accounting for 47%, 19%, and 11%, respectively, of the Company's purchases.

Note 6 – Stock Purchase

In January 2023, the Company purchased 533,702 shares of its common stock from 3 related shareholders for a purchase price of $613,757.

In June 2023, the Company purchased 80,000 shares of its common stock for a purchase price of $80,000.

In November 2023, the Company purchased 13,000 shares of its common stock for a purchase price of $14,300.

In December 2023, the Company purchased 12,000 shares of its common stock for a purchase price of $13,200.

In January 2024, the Company purchased 179,531 shares of its common stock for a purchase price of $179,531.

In February 2024, the Company purchased 74,471 shares of its common stock for a purchase price of $74,471.

In April 2024, the Company purchased 153,334 shares of its common stock for a purchase price of $122,667.

Note 7 – Subsequent Events

The Company evaluated subsequent events and transactions that occurred after the balance sheet date up to the date that the condensed financial statements were issued. Based upon this review, the Company did not identify any subsequent events that would have required adjustment or disclosure in the condensed financial statements.