

REFINITIV

DELTA REPORT

10-Q

ELA - ENVELA CORP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 976

█ CHANGES 50

█ DELETIONS 496

█ ADDITIONS 430

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

FORM 10-Q

☒

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

For the quarterly period ended **September 30, 2023****March 31, 2024**

OR

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

REPORT

PURSUANT TO

SECTION 13

OR 15(d) OF

THE

SECURITIES

EXCHANGE

ACT OF 1934

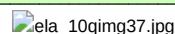
For the

Transition

Period From to

For the Transition Period From _____ to _____

Commission File Number **001-11048**



ENVELA CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Nevada

(STATE OF INCORPORATION)

88-0097334

(I.R.S. EMPLOYER IDENTIFICATION NO.)

1901 GATEWAY DRIVE, STE 100, IRVING, TX 75038

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(972) 587-4049

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

www.envela.com

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

Title of each class

Trading Symbol

Name of exchange on which registered

COMMON STOCK, Common Stock, par value

\$0.01 per share

ELA

NYSE American

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 8, 2023, May 7, 2024 the registrant had 26,700,000 26,276,427 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements **ITEM 1: FINANCIAL STATEMENTS**

ENVELA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Revenue:						
Sales	\$ 36,266,271	\$ 45,197,686	\$ 134,958,838	\$ 135,252,502	\$ 39,857,780	\$ 49,809,532
Cost of goods sold	26,531,989	33,342,029	103,052,607	102,207,811	29,537,096	38,399,630
Gross margin	9,734,282	11,855,657	31,906,231	33,044,691	10,320,684	11,409,902
Expenses:						
Selling, General & Administrative Expenses	7,446,380	7,862,085	23,714,237	21,707,789		
Depreciation and Amortization	337,713	534,964	1,028,238	1,106,427		
Selling, general and administrative					7,636,976	7,905,303
Depreciation and amortization					343,565	354,351
Total operating expenses	7,784,093	8,397,049	24,742,475	22,814,216	7,980,541	8,259,654
Operating income	1,950,189	3,458,608	7,163,756	10,230,475	2,340,143	3,150,248
Other income/(expense):						
Other income	192,437	43,119	556,868	91,160	238,528	210,779
Interest expense	117,166	119,957	348,918	364,238	(120,854)	(117,064)

Income before income taxes	2,025,460	3,381,770	7,371,706	9,957,397	2,457,817	3,243,963
Income tax expense	317,967	64,061	1,534,187	144,605	(550,278)	(717,646)
Net income	\$ 1,707,493	\$ 3,317,709	\$ 5,837,519	\$ 9,812,792	\$ 1,907,539	\$ 2,526,317
Basic earnings per share:						
Net income	\$ 0.06	\$ 0.12	\$ 0.22	\$ 0.36	\$ 0.07	\$ 0.09
Diluted earnings per share:						
Net income	\$ 0.06	\$ 0.12	\$ 0.22	\$ 0.36	\$ 0.07	\$ 0.09
Weighted average shares outstanding:						
Basic	26,809,778	26,924,631	26,884,221	26,924,631	26,419,039	26,924,631
Diluted	26,824,778	26,939,631	26,899,221	26,939,631	26,434,039	26,939,631

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

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ENVELA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Assets				
Current assets:				
Cash and cash equivalents	\$ 17,305,389	\$ 17,169,969	\$ 19,783,867	\$ 17,853,853
Trade receivables, net of allowances	8,934,862	7,949,775		
Notes receivable, net of allowances	-	578,250		
Accounts receivable, net of allowances			4,597,054	7,811,159
Notes receivable			3,383	4,700
Inventories	23,050,857	18,755,785	25,622,436	23,146,177
Prepaid expenses	1,065,955	1,231,817	1,296,667	1,082,425
Other current assets	76,030	35,113		
Total current assets	50,433,093	45,720,709	51,303,407	49,898,314
Property and equipment, net	10,447,600	9,393,802	11,048,221	10,764,224
Right-of-use assets from operating leases	4,616,902	5,872,681	3,757,873	4,189,621
Goodwill	3,921,453	3,621,453	3,921,453	3,921,453
Intangible assets, net	4,475,120	4,993,545	4,513,017	4,499,170
Deferred tax asset	102,607	1,488,258		
Other assets	201,446	186,761	201,447	201,447
Total assets	\$ 74,198,221	\$ 71,277,209	\$ 74,745,418	\$ 73,474,229
Liabilities and stockholders' equity				
Current liabilities:				
Accounts payable-trade	\$ 3,521,781	\$ 3,358,881		
Accounts payable			\$ 3,747,804	\$ 3,126,743
Notes payable	1,331,586	1,250,702	1,475,625	1,361,443

Operating lease liabilities	1,775,883	1,686,997	1,840,082	1,807,729
Accrued expenses	2,229,767	2,286,594	2,375,661	2,486,423
Customer deposits and other liabilities	566,567	282,482		
Other liabilities			741,808	211,651
Total current liabilities	9,425,584	8,865,656	10,180,980	8,993,989
Deferred tax liability			21,177	38,668
Notes payable, less current portion	13,914,961	14,726,703	13,146,097	13,572,048
Operating lease liabilities, less current portion	3,022,058	4,368,400	2,085,918	2,560,671
Total liabilities	26,362,603	27,960,759	\$ 25,434,172	\$ 25,165,376
Commitments and contingencies				
Contingencies (Note 16)				
Stockholders' equity:				
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; no shares issued and outstanding	-	-	-	-
Common stock, \$0.01 par value; 60,000,000 shares authorized; 26,924,631 shares issued and 26,700,000 shares outstanding as of September 30, 2023; 26,924,631 shares issued and outstanding as of December 31, 2022	269,246	269,246		
Treasury stock at cost, 224,631 and 0 shares, as of September 30, 2023 and December 31, 2022, respectively	(1,318,351)	-		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 26,924,631 shares issued and 26,307,318 shares outstanding as of March 31, 2024; 26,924,631 shares issued and 26,508,658 shares outstanding as of December 31, 2023	269,246	269,246		
Treasury stock at cost, 617,313 and 415,973 shares, as of March 31, 2024 and December 31, 2023, respectively	(3,060,195)	(2,155,049)		
Additional paid-in capital	40,173,000	40,173,000	40,173,000	40,173,000
Retained earnings	8,711,723	2,874,204	11,929,195	10,021,656
Total stockholders' equity	47,835,618	43,316,450	49,311,246	48,308,853
Total liabilities and stockholders' equity	\$ 74,198,221	\$ 71,277,209	\$ 74,745,418	\$ 73,474,229

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

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ENVELA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30,	2023		2022	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operations				
Net income	\$ 5,837,519		\$ 9,812,792	
Adjustments to reconcile net income to net cash provided by operations:				
Depreciation, amortization, and other	1,028,239		1,106,427	
Bad debt expense	400,493		73,418	
Deferred taxes	1,385,651		-	

Changes in operating assets and liabilities:		
Trade receivables	(1,385,580)	(97,994)
Inventories	(4,295,072)	(4,014,627)
Prepaid expenses	165,863	(1,213,187)
Intangible assets	-	(15,300)
Other assets	(55,601)	311,420
Accounts payable and accrued expenses	106,071	1,924,658
Operating leases	(1,677)	24,123
Customer deposits and other liabilities	284,085	(186,590)
Net cash provided by operations	3,469,991	7,725,140
Investing		
Purchase of property and equipment	(1,563,612)	(227,197)
Investment in note receivable	578,250	-
Acquisition of Steven Kretchmer, Inc.	(300,000)	-
Adjustment to the purchase price of the Avail Transaction	-	(216,988)
Net cash used in investing	(1,285,362)	(444,185)
Financing		
Payments on notes payable	(930,858)	(750,347)
Purchase of treasury stock	(1,318,351)	-
Proceeds from note payable, Steven Kretchmer, Inc. acquisition	200,000	-
Payments on line of credit	-	(1,700,000)
Net cash used in financing	(2,049,209)	(2,450,347)
Net change in cash and cash equivalents	135,420	4,830,608
Cash and cash equivalents, beginning of period	17,169,969	10,138,148
Cash and cash equivalents, end of period	\$ 17,305,389	\$ 14,968,756
Supplemental Disclosures		
Cash paid during the period for:		
Interest	\$ 349,747	\$ 372,819
Income taxes	\$ 196,165	\$ 133,000
Non cash activities		
Adjustment to the Avail Transaction purchase price allocation	\$ -	\$ 2,736,000
		Three Months Ended March 31,
(Unaudited)		
		2024
Operations		
Net income	\$ 1,907,539	\$ 2,526,317
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	343,565	354,351
Provision for credit losses	45,869	(13,091)
Deferred taxes	(17,491)	348,256
Non-cash lease expense	462,882	473,881
Changes in operating assets and liabilities:		
Accounts receivable	3,168,236	(328,487)

Inventories		(2,476,259)	(350,053)
Prepaid expenses		(214,242)	(47,847)
Other assets		4,700	(228,959)
Accounts payable		621,060	(612,651)
Accrued expenses		(110,762)	(208,762)
Operating leases		(473,535)	(473,535)
Other liabilities		530,159	1,484,605
Net cash provided by operations		3,791,721	2,924,025
Investing			
Purchase of property and equipment		(448,242)	(8,728)
Purchase of intangible assets		(193,167)	-
Investment in notes receivable		(3,383)	578,250
Net cash (used in) provided by investing		(644,792)	569,522
Financing			
Payments on notes payable		(311,769)	(310,807)
Purchase of treasury stock		(905,146)	-
Net cash (used in) financing		(1,216,915)	(310,807)
Net change in cash and cash equivalents		1,930,014	3,182,740
Cash and cash equivalents, beginning of period		17,853,853	17,169,969
Cash and cash equivalents, end of period	\$	19,783,867	\$ 20,352,709
Supplemental disclosures			
Cash paid during the period for:			
Interest	\$	178,674	\$ 116,061
Income taxes	\$	-	\$ -

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

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ENVELA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three Months ended September 30, 2022 and 2023
(Unaudited)

For the Three Months Ended	Additional						Total Stockholders' Equity		
	Common Stock		Treasury Stock		Preferred Stock		Paid-in Capital	Retained Earnings	
March 31, 2023	Shares	Amount	Shares	Amount	Shares	Amount			
(Unaudited)									
Balance as of January 1, 2023	26,924,631	\$ 269,246	-	\$ -	-	\$ -	\$ 40,173,000	\$ 2,874,204	\$ 43,316,450
Net Income								2,526,317	2,526,317
Balance as of March 31, 2023	26,924,631	\$ 269,246	-	\$ -	-	\$ -	\$ 40,173,000	\$ 5,400,521	\$ 45,842,767

	Common Stock		Treasury Stock		Preferred Stock		Additional		Total	
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Accumulated Deficit	Stockholders' Equity	
Balances at July 1, 2022	26,924,631	\$ 269,246	-	\$ -	-	\$ -	\$ 40,173,000	\$ (6,319,846)	\$ 34,122,400	
Net Income	-	-	-	-	-	-	-	3,317,709	3,317,709	
Balances at September 30, 2022	<u>26,924,631</u>	<u>\$ 269,246</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 40,173,000</u>	<u>\$ (3,002,137)</u>	<u>\$ 37,440,109</u>	
For the Three Months Ended March 31, 2024										
(Unaudited)										
	Common Stock		Treasury Stock		Preferred Stock		Additional		Total	
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	Stockholders' Equity	
Balances at July 1, 2023	<u>26,924,631</u>	<u>\$ 269,246</u>	<u>(27,421)</u>	<u>\$ (194,820)</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 40,173,000</u>	<u>\$ 7,004,230</u>	<u>\$ 47,251,656</u>	
Balance as of January 1, 2024										<u>26,924,631</u> <u>\$ 269,246</u> <u>(41</u>
Net Income	-	-	-	-	-	-	-	1,707,493	1,707,493	
Shares repurchased	-	-	<u>(197,210)</u>	<u>(1,123,531)</u>	-	-	-	<u>(1,123,531)</u>	-	<u>-</u> <u>(20</u>
Balances at September 30, 2023	<u>26,924,631</u>	<u>\$ 269,246</u>	<u>(224,631)</u>	<u>\$ (1,318,351)</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 40,173,000</u>	<u>\$ 8,711,723</u>	<u>\$ 47,835,618</u>	
Balance as of March 31, 2024										<u>26,924,631</u> <u>\$ 269,246</u> <u>(61</u>

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

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ENVELA CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Nine Months ended September 30, 2022 and 2023

(Unaudited)

	Common Stock		Treasury Stock		Preferred Stock		Additional		Total	
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Accumulated Deficit	Stockholders' Equity	
Balances at January 1, 2022	26,924,631	\$ 269,246	-	\$ -	-	\$ -	\$ 40,173,000	\$ (12,814,929)	\$ 27,627,317	

Net Income	-	-	-	-	-	-	-	-	9,812,792	9,812,792	
Balances at September 30, 2022	<u>26,924,631</u>	<u>\$ 269,246</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 40,173,000</u>	<u>\$ (3,002,137)</u>	<u>\$ 37,440,109</u>		
							Additional			Total	
			Common Stock	Treasury Stock	Preferred Stock		Paid-in	Retained		Stockholders'	
			Shares	Amount	Shares	Amount	Shares	Amount	Capital	Earnings	Equity
Balances at January 1, 2023	<u>26,924,631</u>	<u>\$ 269,246</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 40,173,000</u>	<u>\$ 2,874,204</u>	<u>\$ 43,316,450</u>		
Net Income	-	-	-	-	-	-	-	-	5,837,519	5,837,519	
Shares repurchased	-	-	<u>(224,631)</u>	<u>(1,318,351)</u>	-	-	-	-	-	<u>(1,318,351)</u>	
Balances at September 30, 2023	<u>26,924,631</u>	<u>\$ 269,246</u>	<u>(224,631)</u>	<u>\$ (1,318,351)</u>	-	<u>\$ -</u>	<u>\$ 40,173,000</u>	<u>\$ 8,711,723</u>	<u>\$ 47,835,618</u>		

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) (UNAUDITED)

NOTE 1 — BASIS OF PRESENTATION

These unaudited interim condensed consolidated financial statements of Envela Corporation, a Nevada corporation, and its subsidiaries (together with its subsidiaries, the "Company" or "Envela"), included herein have been prepared in accordance with accounting principles generally accepted in the **United States ("U.S.")** for interim financial information and with the instructions to Quarterly Reports on Form 10-Q and Article 10 of Regulation S-X prescribed by the Securities and Exchange Commission (the "SEC"). Pursuant to the SEC's rules and regulations, they do not include all of the information and notes required by accounting principles generally accepted in the U.S. ("U.S. GAAP") for complete financial statements. In the opinion of management, all adjustments, which are of a normal and recurring nature except those which have been disclosed elsewhere in this Quarterly Report on Form 10-Q (this "Form" ("Form 10-Q")), necessary for a fair presentation of the consolidated financial statements for these interim periods, have been included. Operating results presented for these interim periods are not necessarily indicative of the results that may be expected for the fiscal year ending **December 31, 2023** December 31, 2024 ("fiscal 2023" Fiscal 2024"). For further information, refer to Management suggests these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended **December 31, 2022** December 31, 2023 ("fiscal 2022" Fiscal 2023") of Envela filed with the SEC on March 16, 2023 (the "2022 March 21, 2024 ("2023 Annual Report").

Contemporaneously with filing our Quarterly Report Form 10-Q for the period ending March 31, 2023, we updated our two reportable segments by renaming the ECHG segment the "Commercial" segment and the DGSE segment the "Consumer" segment. The segment name changes did not result in any change to the composition of the Company's operations and therefore did not result in any change to the historical results. Our operations conducted by each of our segments are more specifically described in the following notes to our condensed consolidated financial statements.

Starting January 1, 2023, expenses previously classified as other expenses related to the Company's corporate campus overhead have been included in selling, general, and administrative expenses. Since the presentation of these expenses changed January 1, 2023, management believes the presentation of the 2022 corporate campus overhead should be reclassified to selling, general, and administrative expense for comparison purposes for the three and nine months ended September 30, 2022.

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 — PRINCIPLES OF CONSOLIDATION AND NATURE OF OPERATIONS

Throughout this document, Envela Corporation is referred to as "we," "us," "our," "Envela," or the "Company."

Envela **serves as a holding company, conducting its operations via subsidiaries engage in diverse business various businesses and activities within the recommerce sector. These activities include being one of the nation's premier authenticated recommerce retailers of luxury hard assets; providing end-of-life asset re-commerce and recycling sectors. The products and resale to businesses, organization and retail consumers; offering data destruction and IT asset management; and providing products, services and solutions to industrial and commercial companies.** we offer are delivered by these subsidiaries under their distinct brands, rather than directly by Envela **operates primarily**

via Corporation itself. Our operations are organized into two operating and reportable segments. segments: commercial and consumer, which additionally are the Company's reporting units.

Consumer Segment

Our consumer segment formerly known operates in the jewelry industry, specializing in the online and brick-and-mortar sale of authenticated high-end luxury goods, fine jewelry, watches, and bullion. Our diamonds and gemstones are recycled, meaning they were previously set and then unset to become a new design – allowing for a truly low-carbon, ethical origin. The company focuses on buying and selling pre-owned luxury items, ethically sourced diamonds, gemstones, and precious metals, catering to consumers seeking environmentally responsible options for engagement rings, wedding bands, and other fine jewelry. Our profound commitment to extending the lifespan of luxury goods stems from our understanding that well-crafted items have an enduring quality, enabling them to maintain their beauty and value as the DGSE segment, operates DGSE, LLC ("DGSE"), Dallas Gold & Silver Exchange, Charleston Gold & Diamond Exchange, Steven Kretchmer, Inc. ("Kretchmer") and Bullion Express brands. they are passed from one owner to another.

Commercial Segment

Our commercial segment formerly known as specializes in the ECHG segment, operates ECHG, LLC ("ECHG"), Echo Environmental Holdings, LLC ("Echo"), de-manufacturing of end-of-life electronic assets to reclaim commodities and other materials, while also engaging in the IT asset disposition (ITAD) industry. The separated commodities, including metals, plastics, and glass, are sold to downstream processors where they are further processed and reintroduced into new products. ITAD USA Holdings, LLC ("ITAD USA"), Teladvance, LLC ("Teladvance"), CEX Holdings, LLC ("CEX") services maximize the residual value of retired IT assets by adhering to a reuse-first philosophy and Avail Recovery Solutions, LLC ("Avail"). Envela ensuring equipment is refurbished and re-marketed after data sanitization. The company focuses on offering services that manage the entire lifecycle of technology products to ensure data security, regulatory compliance, and environmental sustainability. We are proud of our role to support a Nevada corporation, headquartered in Irving, Texas. circular economy through responsible reuse and recycling of electronic devices.

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On September 12, 2023, the Company purchased all of the issued and outstanding stock of Steven Kretchmer, Inc., an Arizona corporation for 300,000 (the "Kretchmer Transaction"). Based on the terms of the purchase, the Company has concluded the Kretchmer Transaction represents a business combination pursuant to Financial Accounting Standards Board Accounting Standards Codification Topic 805, Business Combinations, or ASC 805. The Kretchmer Transaction will be incorporated into the consumer segment. See Note 3 for additional information.

Our consumer segment primarily buys and resells or recycles luxury hard assets like jewelry, diamonds, gemstones, fine watches, rare coins and related collectibles, precious-metal bullion products, gold, silver and other precious-metals. We currently operate seven jewelry stores at both the retail and wholesale levels throughout the United States via its facilities in Texas and South Carolina. The Company purchased a new retail building in Arizona, but has not commenced operations as of September 30, 2023. The consumer segment is continuing to promote and build the Bullion Express brand into a leading on-line seller of bullion. Buying and selling items for their precious-metals content is a major method by which we are marketing our brands. The consumer segment also offers jewelry repair services, custom-made jewelry and consignment items, and maintains relationships with refiners for precious-metal items that are not retained for resale. We also maintain a presence in retail markets through websites, www.dgse.com, www.cgdeinc.com, www.stevenkretchmer.com and www.bullionexpress.com.

Our commercial segment primarily buys electronic components from business and other organizations, such as school districts, for end-of-life recycling and resell, or to add life to electronic devices by data destruction and refurbishment for reuse. We also recycle and resell electronics at the retail level. We focus on end-of-life electronics recycling and sustainability, and ITAD USA provides IT equipment disposition, including compliance and data sanitization services. Teladvance, CEX and Avail operate as value-added resellers by providing offerings and services to companies looking either to upgrade capabilities or dispose of equipment. Like the consumer segment, the commercial segment also maintains relationships with refiners or recyclers to which it sells valuable materials it extracts from electronics and IT equipment that are not appropriate for resale or reuse. The commercial segment's customers are companies and organizations that are based domestically and internationally.

For additional information on the businesses of both the consumer and commercial segments, see "Item 1. Business – Operating Segments" **How We Organize Our Business**" in the Company's **2022** **2023** Annual Report.

The interim condensed consolidated financial statements have been prepared in accordance with U.S. GAAP and include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances have been eliminated.

NOTE 3 — ACCOUNTING POLICIES AND ESTIMATES

Financial Instruments

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, trade accounts receivables, prepaid expenses, other current assets, accounts payable, accrued expenses, customer deposits and other liabilities approximate fair value because of the immediate or short-term nature of these financial instruments. Notes payable approximate fair value due to the market interest rate charged.

Use of Estimates

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Examples of estimates and assumptions include: revenue recognition, determining the nature and timing of satisfaction of the performance obligations, variable consideration, and other obligations such as product returns and refunds; loss contingencies; the fair value of and/or potential

impairment of goodwill and intangible assets for the reporting units; useful lives of our tangible and intangible assets; allowances for credit losses; the market value of, and demand for, our inventory and the potential outcome of uncertain tax positions that have been recognized on our consolidated financial statements or tax returns. Actual results and outcomes may differ from management's estimates and assumptions.

Revenue Recognition

Accounting Standards Codification ("ASC") ASC 606, Revenue Recognition provides guidance to identify performance obligations for revenue-generating transactions. The Company applies a five-step approach in determining the amount and timing of revenue to be recognized: (1) identifying the contract with a customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the corresponding performance obligation is satisfied.

Consumer Segment

For the consumer segment, revenue for monetary transactions (i.e., cash and receivables) with wholesale customers are recognized when the merchandise is delivered or at point of sale for retail customers, and payment has been made either by immediate payment or through a receivable obligation. For e-commerce, revenue is recognized upon when the customer has fulfilled their obligation to pay, or promise to pay and goods have been shipped.

Revenue on precious metals requiring an assay are recognized upon transfer of title, based on the determination of the underlying weight and price of the associated metals.

The Company offers the option of third-party financing for customers wishing to borrow money for the purchase. Revenue is recognized from the sale upon transfer of title, with the promise of the third-party financing company to pay.

Commercial Segment

The commercial segment recognizes revenue at an amount that reflects the consideration to which the entities expect to be entitled in exchange for transferring goods or services to the customer.

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The commercial segment recognizes refining revenue when our inventory arrives at the destination port and the performance obligation is satisfied by transferring the control of the promised goods that are identified in the customer contract. The initial invoice is recognized in full when our performance obligation is satisfied, as stated in the first sentence. Under the guidance of ASC 606, an estimate of the variable consideration that are expected to be entitled is included in the transaction price stated at the current precious metal spot price and weight of the precious metal. An adjustment to revenue is made in the period once the underlying weight and any precious metal spot price movement is resolved, which is usually around six (6) weeks. Any adjustment from the resolution of the underlying uncertainty is netted with the settlement due from the original contract. Historically, these amounts have been insignificant.

The commercial segment also provides recycling services according to a Scope of Work ("SOW"). Recycling services are primarily recognized based on the number of units processed by a preset price per unit or weight measurements, and revenue is recognized upon completion of the SOW.

The commercial segment provides freight arrangement services related to inbound asset or material movements to our facilities. Freight arrangement services are recognized at settlement with our inbound customers which occurs when the SOW has been completed. Under the guidance of ASC 606 the Company is deemed to be a principal and as such records freight arrangement services as a component of revenue and the associated expense is recorded as a component of cost of goods sold.

The commercial segment recognizes revenue on outright sales when terms and transaction price are agreed to, product is shipped, and title is transferred.

See Note 10 – Revenue for further detail.

Sales Returns and Allowances

Sales are recorded, net of expected returns. In some cases, the consumer and commercial segment's customers may return a product purchased within 30 days of receipt. Our allowance for estimated returns is based on our review of historical returns experience and reduces our reported revenues and cost of sales accordingly.

For the three months ended March 31, 2024 and March 31, 2023, the consumer segment's allowance for returns was \$28,402 and \$0, respectively. For the three months ended March 31, 2024 and March 31, 2023, the commercial segment's allowance for returns was \$6,578 and \$0, respectively.

Concentrations and Credit Risk

The Company is potentially subject to concentrations of credit risk in its accounts receivable. A significant amount of revenue stems from one precious metals partner, which accounted for 6% of our sales for the period ended March 31, 2024, and 6% of our sales for the period ended March 31, 2023. However, the Company believes that the products it sells are marketable to numerous sources at competitive prices.

Shipping and Handling Costs

Within the consumer and commercial segments shipping and handling costs are accounted for as fulfillment costs within costs of goods sold.

For the three months ended March 31, 2024 and March 31, 2023, the consumer segment's shipping and handling costs were \$439 and \$0, respectively. For the three months ended March 31, 2024 and March 31, 2023, the commercial segment's shipping and handling costs were \$1,394,077 and \$1,689,941, respectively.

Advertising Costs

The consumer and commercial segment's advertising costs are expensed as incurred.

For the three months ended March 31, 2024 and March 31, 2023, the consumer segment's advertising costs were \$247,903 and \$206,075, respectively. For the three months ended March 31, 2024 and March 31, 2023, the commercial segment's advertising costs were \$71,095 and \$14,553, respectively.

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Leases

We determine if an arrangement is a lease at inception. We do not separate non-lease components from lease components to which they relate and have accounted for the combined lease and non-lease components as a single lease component. Many of our lease agreements contain renewal options; however, we do not recognize right-of-use assets or lease liabilities for renewal periods unless it is determined that we are reasonably certain of renewing the lease at inception or when a triggering event occurs.

In determining our right-of-use assets and lease liabilities, we apply a discount rate to the minimum lease payments within each lease agreement. ASC 842, Leases requires us to use the interest rate that a lessee would have to pay to borrow on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment. If we cannot readily determine the discount rate implicit in lease agreements, we utilize our incremental borrowing rate. For leases one-year or less the Company has elected not to record lease liabilities and right-of-use assets and instead recognize the expense associated with the lease payments using the straight-line basis.

Income Taxes

Income taxes are accounted for under the asset and liability method prescribed by ASC 740, Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Valuation of Deferred Tax Assets

The Company's deferred tax assets include certain future tax benefits. The Company records a valuation allowance against any portion of those deferred income tax assets when it believes, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company reviews the likelihood that the benefit of the deferred tax assets will be realized and the need for valuation allowances on a quarterly basis, or more frequently if events indicate that a review is required. We have not taken a tax position that, if challenged, would have a material effect on the consolidated financial statements or the effective tax rate for the three months ended March 31, 2024.

For the period ended March 31, 2024, the Company had a deferred tax liability of \$21,177. For the period ended December 31, 2023, the Company had a deferred tax liability of \$38,668. The Company did not have a valuation allowance for the period ended March 31, 2024 and December 31, 2023.

Segment Information

The accounting standards for reporting information about operating segments defines an operating segment as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available that is evaluated regularly by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and in assessing performance.

The Company's financial performance is based on the following segments: consumer and commercial.

The Company allocates its corporate expenses including selling, general and administrative expenses, depreciation and amortization, other income, interest expense, and income tax expense.

See Note 2 – Principles of Consolidation and Nature of Operations for further detail.

Earnings Per Share

Basic earnings per share of our common stock, par value \$0.01 per share (our "Common Stock"), is computed by dividing net earnings available to holders of the Company's Common Stock by the weighted average number of shares of Common Stock outstanding for the reporting period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts requiring the Company to issue Common Stock were exercised or converted into Common Stock. For the calculation of diluted earnings per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and warrants outstanding determined using the treasury stock method.

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Goodwill Stock-Based Compensation

Goodwill is not amortized but evaluated for impairment on an annual basis during the fourth quarter of our fiscal year, or earlier if events or circumstances indicate the carrying value may be impaired. The Company's goodwill is related to both of Envela's segments. See Note 5 – Goodwill, for the further allocation of goodwill. Both segments have their own, separate financial information to perform goodwill impairment testing. As a result of the current market and economic conditions related to surging inflation and the wars in Eastern Europe and the Middle East, in accordance with step 1 of the guidelines set forth in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 350-20-35-3A, management concluded there were no impairments of goodwill that resulted from those triggering events for the three and nine months ended September 30, 2023. Management will continue to evaluate goodwill for the commercial and consumer segments. For tax purposes, goodwill generated from asset purchases is amortized and deductible over fifteen years. Goodwill generated from the Kretchmer transaction classified as a stock purchase, is not deductible for tax purposes.

Goodwill was allocated in connection with three commercial segment acquisitions of assets, and one acquisition made by the consumer segment. The acquisitions by the commercial segment consist of the assets now held by Echo on May 20, 2019 (the "Echo Transaction"), of the assets now held by Teladvance on June 9, 2021 (the "CExchange Transaction") and of the assets now held by Avail on October 29, 2021 (the "Avail Transaction"). The preliminary goodwill associated with the Avail Transaction was \$3,491,285, which was the initial purchase price less the approximate fair value of the net assets purchased. On May 31, 2022, an additional cash payment was made of \$216,988 due to certain conditions being met concerning the cash balance upon a certain date. The cash payment increased goodwill for the Avail Transaction to \$3,708,273. During fiscal year 2022

management also identified \$2,736,000 of intangibles that were not initially included in the fair value of Avail's net assets. The separation of intangibles reduced the Avail Transaction goodwill to \$972,272. As part of the Kretchmer Transaction, the consumer segment recorded goodwill of \$300,000 as part of the initial purchase price allocation, which has not been finalized. There have been no other adjustments or impairment charges to goodwill. As of September 30, 2023, and December 31, 2022, goodwill as reported in the condensed consolidated balance sheets were \$3,921,453 and \$3,621,453, respectively.

Reclassifications

Prior period amounts included in current assets, for both right-of-use assets from operating leases and deferred tax asset, have been reclassified for current period presentation, to be included in non-current assets. The right-of-use assets from operating leases reclassified for December 31, 2022, amounted to 2.4% of the total assets at \$1,683,060. The deferred tax asset reclassified for December 31, 2022, amounted to 2.0% of the total assets at \$1,488,258.

Recent Accounting Pronouncements

In June 2016, the FASB issued a new credit loss accounting standard ASU 2016-13. The new accounting standard introduces the current expected credit losses methodology for estimating allowances for credit losses which will be based on expected losses rather than incurred losses. We will be required to use a forward-looking expected credit loss methodology for accounts receivable, loans and other financial instruments. The ASU is effective for the fiscal years beginning after December 15, 2022. We adopted this ASU as of January 1, 2023, which includes interim periods within the reporting period. ASU 2016-13 was adopted by using a modified retrospective transition approach to align our credit loss methodology with the new standard. There were no effects of this standard on our financial position, results of operations or cash flows.

There were no other new accounting standards that had a material impact on the Company's consolidated financial statements during the three and nine-month periods ended September 30, 2023. There were no other new accounting standards or pronouncements that were issued but not yet effective as of September 30, 2023 that the Company expects to have a material impact on its consolidated financial statements.

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NOTE 4 — INVENTORIES

A summary of inventories is as follows:

	September 30, 2023	December 31, 2022
Consumer		
Resale	\$ 21,517,831	\$ 16,462,749
Recycle	- <hr/>	46,697 <hr/>
Subtotal	21,517,831 <hr/>	16,509,446 <hr/>
Commercial		
Resale	1,089,567	1,858,519
Recycle	443,459 <hr/>	387,820 <hr/>
Subtotal	1,533,026 <hr/>	2,246,339 <hr/>
	\$ 23,050,857	\$ 18,755,785

NOTE 5 — GOODWILL

The change in goodwill is as follows:

	September 30, 2023	December 31, 2022
Opening balance		
	\$ 3,621,453	\$ 6,140,465
Additions/(Reductions) (1)	300,000 <hr/>	(2,519,012) <hr/>
Goodwill	\$ 3,921,453 <hr/>	\$ 3,621,453 <hr/>

(1) The reduction in goodwill of \$2,519,012 for fiscal 2022, is a combination of an additional cash payment made on May 31, 2022 of \$216,988, increasing goodwill for the Avail Transaction, offset by the effect of identifying \$2,736,000 of intangible assets that was not initially included in the fair value of Avail's net assets, reducing goodwill and increasing intangible assets. The increase in goodwill of \$300,000, for the three and nine months ended September 30, 2023, is the addition from the Kretchmer Transaction. Goodwill was initially recorded at \$300,000, and adjustments will be made once assets and liabilities are evaluated and quantified. There have been no other adjustments or impairment charges to goodwill for the three and nine months ended September 30, 2023.

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NOTE 6 — PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 30, 2023	December 31, 2022
Consumer		
Land	\$ 1,824,892	\$ 1,640,219
Building and improvements	3,859,052	2,798,975
Leasehold improvements	1,450,695	1,450,695
Machinery and equipment	1,149,891	1,078,595
Furniture and fixtures	656,817	603,944
Vehicles	22,859	22,859
Less: accumulated depreciation	(2,878,117)	(2,651,832)
Sub-Total	6,086,089	4,943,455
Commercial		
Building and improvements	151,647	151,647
Machinery and equipment	1,098,098	1,082,026
Vehicles	222,832	98,610
Furniture and fixtures	145,950	145,950
Less: accumulated depreciation	(742,725)	(515,673)
Sub-Total	875,802	962,560
Corporate		
Land	1,106,664	1,106,664
Building and improvements	2,502,216	2,502,216
Computer software	54,398	-
Machinery and equipment	28,627	28,627
Less: accumulated depreciation	(206,196)	(149,720)
Sub-Total	3,485,709	3,487,787
	\$ 10,447,600	\$ 9,393,802

On May 4, 2023, the consumer segment closed the purchase of a new retail building located at 6030 North 19th Avenue in Phoenix, Arizona for \$1,231,150. During the three months ended September 30, 2023, \$184,673 of the purchase price, was allocated to the land. The purchase was paid through operating cash flow without the use of borrowed funds. As of September 30, 2023, the building has not been placed into service. Once the new location is placed into service, the building will begin to be depreciated.

NOTE 7 — INTANGIBLE ASSETS

Intangible assets consist of the following:

	September 30, 2023	December 31, 2022
Consumer		
Domain names	\$ 41,352	\$ 41,352
Point of sale system	330,000	330,000
	371,352	371,352

Less: accumulated amortization	<u>(362,602)</u>	<u>(335,502)</u>
Subtotal	<u>8,750</u>	<u>35,850</u>
Commercial		
Trademarks (1)	1,483,000	1,483,000
Customer Contracts (1)	1,873,000	1,873,000
Trademarks/Trademarks (2)	114,000	114,000
Customer Relationships (2)	345,000	345,000
Trademarks/Trademarks (3)	1,272,000	1,272,000
Customer Relationships (3)	1,464,000	1,464,000
	<u>6,551,000</u>	<u>6,551,000</u>
Less: accumulated amortization	<u>(2,084,630)</u>	<u>(1,593,305)</u>
Subtotal	<u>4,466,370</u>	<u>4,957,695</u>
	\$ 4,475,120	\$ 4,993,545

(1) Intangibles relate to the Echo Transaction on May 20, 2019.

(2) Intangibles relate to the CExchange Transaction on June 9, 2021.

(3) Intangibles relate to the Avail Transaction on October 29, 2021.

The following table outlines the estimated future amortization expense related to intangible assets held as of September 30, 2023:

	Consumer	Commercial	Total
2023 (excluding the nine months ending September 30, 2023)	3,250	163,775	167,025
2024	5,500	655,100	660,600
2025	-	655,100	655,100
2026	-	655,100	655,100
2027	-	655,100	655,100
Thereafter	-	<u>1,682,195</u>	<u>1,682,195</u>
	\$ 8,750	\$ 4,466,370	\$ 4,475,120

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NOTE 8— ACCRUED EXPENSES

Accrued expenses consist of the following:

	September 30, 2023	December 31, 2022
Consumer		
Accrued interest	\$ 11,508	\$ 11,624
Payroll	103,958	146,817
Property taxes	214,474	115,222
Sales tax	60,982	153,039
Other administrative expenses	-	424
Subtotal	390,922	427,126
Commercial		
Accrued interest	7,985	8,228
Payroll	187,587	336,226
Unvouchered payables - inventory/COGS	1,185,907	1,032,808
Other accrued expenses	118,201	7,392

Subtotal	<u>1,499,680</u>	<u>1,384,654</u>
<u>Corporate</u>		
Accrued interest	7,072	7,543
Payroll	12,796	25,179
Professional fees	134,049	199,508
Property Tax	64,555	87,275
Federal & state Income tax	120,693	155,309
Subtotal	<u>339,165</u>	<u>474,814</u>
	<u>\$ 2,229,767</u>	<u>\$ 2,286,594</u>

NOTE 9 — SEGMENT INFORMATION

As stated in Note 1 – Basis of Presentation, we updated our two reportable segments by renaming the ECHG segment to the "Commercial" segment and the DGSE segment to the "Consumer" segment. The segment name changes did not result in any change to the composition of the Company's operations and therefore did not result in any changes to historical results. Our operations conducted by each of our segments are more specifically described below.

We determine our business segments based upon an internal reporting structure. The Company's financial performance is based on the following segments: consumer and commercial.

The consumer segment includes Dallas Gold & Silver Exchange, which has six operating retail stores in the Dallas/Fort Worth Metroplex ("DFW"), one retail location in Mt. Pleasant, South Carolina and one location in Phoenix, Arizona, as stated in a footnote to Note 6 – Property and Equipment, which has not yet been placed in service. Kretchmer has one retail location in Scottsdale, Arizona. The consumer segment also operates the on-line Bullion Express brand.

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The commercial segment includes Echo, ITAD USA, Teladvice, CEX and Avail. These five companies are involved in recycling and the reuse of electronic components.

A portion of certain corporate costs and expenses is allocated, including information technology as well as rental income and expenses relating to our corporate headquarters, to the business segments. These income and expenses are included in selling, general and administrative ("SG&A") expenses, depreciation and amortization, other income, interest expense and income tax expense. The management team evaluates each segment and makes decisions about the allocation of resources according to each segment's profit. Allocation amounts are generally agreed upon by management and may differ from arms-length allocations.

The following separates the consumer and the commercial financial results of operations for the three months ended September 30, 2023 and 2022:

	For The Three Months Ended September 30,					
	2023			2022		
	Consumer	Commercial	Consolidated	Consumer	Commercial	Consolidated
Revenue:						
Sales	\$ 26,881,202	\$ 9,385,069	\$ 36,266,271	\$ 30,427,254	\$ 14,770,432	\$ 45,197,686
Cost of goods sold	<u>23,291,939</u>	<u>3,240,050</u>	<u>26,531,989</u>	<u>26,677,891</u>	<u>6,664,138</u>	<u>33,342,029</u>
Gross profit	<u>3,589,263</u>	<u>6,145,019</u>	<u>9,734,282</u>	<u>3,749,363</u>	<u>8,106,294</u>	<u>11,855,657</u>
Expenses:						
Selling, general and administrative expenses (1)	2,588,628	4,857,752	7,446,380	2,369,588	5,492,497	7,862,085
Depreciation and amortization	<u>75,842</u>	<u>261,871</u>	<u>337,713</u>	<u>103,022</u>	<u>431,942</u>	<u>534,964</u>
	<u>2,664,470</u>	<u>5,119,623</u>	<u>7,784,093</u>	<u>2,472,610</u>	<u>5,924,439</u>	<u>8,397,049</u>
Operating income	<u>924,793</u>	<u>1,025,396</u>	<u>1,950,189</u>	<u>1,276,753</u>	<u>2,181,855</u>	<u>3,458,608</u>
Other income/expense:						
Other income (1)	22,851	169,586	192,437	5,957	37,162	43,119
Interest expense	<u>59,631</u>	<u>57,535</u>	<u>117,166</u>	<u>60,619</u>	<u>59,338</u>	<u>119,957</u>

Income before income taxes	888,013	1,137,447	2,025,460	1,222,091	2,159,679	3,381,770
Income tax expense	120,637	197,330	317,967	20,243	43,818	64,061
Net income	\$ 767,376	\$ 940,117	\$ 1,707,493	\$ 1,201,848	\$ 2,115,861	\$ 3,317,709

(1) Starting January 1, 2023, expenses previously classified as other expenses related to the Company's corporate campus overhead have been included in selling, general, and administrative expenses. Since the presentation of these expenses changed January 1, 2023, management believes the presentation of the 2022 corporate campus overhead should be reclassified to selling, general, and administrative expense for comparison purposes for the three months ended September 30, 2022. No other presentation changes have been made to prior periods.

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The following separates the consumer and the commercial financial results of operations for the nine months ended September 30, 2023 and 2022:

	For The Nine Months Ended September 30,					
	2023			2022		
	Consumer	Commercial	Consolidated	Consumer	Commercial	Consolidated
Revenue:						
Sales	\$ 103,227,033	\$ 31,731,805	\$ 134,958,838	\$ 96,549,253	\$ 38,703,249	\$ 135,252,502
Cost of goods sold	91,558,160	11,494,447	103,052,607	84,387,844	17,819,967	102,207,811
Gross profit	11,668,873	20,237,358	31,906,231	12,161,409	20,883,282	33,044,691
Expenses:						
Selling, general and administrative expenses (1)	7,457,628	16,256,609	23,714,237	6,803,054	14,904,735	21,707,789
Depreciation and amortization	253,385	774,853	1,028,238	311,419	795,008	1,106,427
	7,711,013	17,031,462	24,742,475	7,114,473	15,699,743	22,814,216
Operating income	3,957,860	3,205,896	7,163,756	5,046,936	5,183,539	10,230,475
Other income/expense:						
Other income (1)	70,315	486,553	556,868	29,970	61,190	91,160
Interest expense	177,458	171,460	348,918	183,523	180,715	364,238
Income before income taxes	3,850,717	3,520,989	7,371,706	4,893,383	5,064,014	9,957,397
Income tax expense	778,150	756,037	1,534,187	48,811	95,794	144,605
Net income	\$ 3,072,567	\$ 2,764,952	\$ 5,837,519	\$ 4,844,572	\$ 4,968,220	\$ 9,812,792

(1) Starting January 1, 2023, expenses previously classified as other expenses related to the Company's corporate campus overhead have been included in selling, general, and administrative expenses. Since the presentation of these expenses changed January 1, 2023, management believes the presentation of the 2022 corporate campus overhead should be reclassified to selling, general, and administrative expense for comparison purposes for the nine months ended September 30, 2022. No other presentation changes have been made to prior periods.

NOTE 10 — REVENUE RECOGNITION

ASC 606 provides guidance to identify performance obligations for revenue-generating transactions. The initial step is to identify the contract with a customer created with the sales invoice or a repair ticket. The second step is to identify the performance obligations in the contract as we promise to deliver the purchased item or promised repairs in return for payment or future payment as a receivable. The third step is determining the transaction price of the contract obligation as in the full ticket price, negotiated price or a repair price. The next step is to allocate the transaction price to the performance obligations as we designate a separate price for each item. The final step in the guidance is to recognize revenue as each performance obligation is satisfied.

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The following disaggregation of total revenue is listed by sales category and segment for the three months ended September 30, 2023 and 2022:

CONSOLIDATED	Three Months Ended September 30,					
	2023			2022		
	Revenues	Gross Profit	Margin	Revenues	Gross Profit	Margin
<u>Consumer</u>						
Resale	\$ 23,807,040	\$ 2,791,390	11.7 %	\$ 28,172,732	\$ 3,251,153	11.5%
Recycled	<u>3,074,162</u>	<u>797,873</u>	<u>26.0 %</u>	<u>2,254,522</u>	<u>498,210</u>	<u>22.1%</u>
Subtotal	<u>26,881,202</u>	<u>3,589,263</u>	<u>13.4 %</u>	<u>30,427,254</u>	<u>3,749,363</u>	<u>12.3%</u>
<u>Commercial</u>						
Resale	6,990,285	4,802,548	68.7 %	11,518,168	6,465,386	56.1%
Recycled	<u>2,394,784</u>	<u>1,342,471</u>	<u>56.1 %</u>	<u>3,252,264</u>	<u>1,640,908</u>	<u>50.5%</u>
Subtotal	<u>9,385,069</u>	<u>6,145,019</u>	<u>65.5 %</u>	<u>14,770,432</u>	<u>8,106,294</u>	<u>54.9%</u>
	<u>\$ 36,266,271</u>	<u>\$ 9,734,282</u>	<u>26.8 %</u>	<u>\$ 45,197,686</u>	<u>\$ 11,855,657</u>	<u>26.2%</u>

The following disaggregation of total revenue is listed by sales category and segment for the nine months ended September 30, 2023 and 2022:

CONSOLIDATED	Nine Months Ended September 30,					
	2023			2022		
	Revenues	Gross Profit	Margin	Revenues	Gross Profit	Margin
<u>Consumer</u>						
Resale	\$ 94,172,640	\$ 9,450,156	10.0 %	\$ 90,014,891	\$ 10,713,959	11.9%
Recycled	<u>9,054,393</u>	<u>2,218,717</u>	<u>24.5 %</u>	<u>6,534,362</u>	<u>1,447,450</u>	<u>22.2%</u>
Subtotal	<u>103,227,033</u>	<u>11,668,873</u>	<u>11.3 %</u>	<u>96,549,253</u>	<u>12,161,409</u>	<u>12.6%</u>
<u>Commercial</u>						
Resale	23,114,611	15,653,011	67.7 %	30,200,026	16,606,161	55.0%
Recycled	<u>8,617,194</u>	<u>4,584,347</u>	<u>53.2 %</u>	<u>8,503,223</u>	<u>4,277,121</u>	<u>50.3%</u>
Subtotal	<u>31,731,805</u>	<u>20,237,358</u>	<u>63.8 %</u>	<u>38,703,249</u>	<u>20,883,282</u>	<u>54.0%</u>
	<u>\$ 134,958,838</u>	<u>\$ 31,906,231</u>	<u>23.6 %</u>	<u>\$ 135,252,502</u>	<u>\$ 33,044,691</u>	<u>24.4%</u>

For the consumer segment, revenue for monetary transactions (i.e., cash and receivables) with wholesale dealers and the retail public are recognized when the merchandise is delivered, and payment has been made either by immediate payment or through a receivable obligation at one of our over-the-counter retail stores. Revenue is recognized upon the shipment of goods when retail and wholesale customers have fulfilled their obligation to pay, or promise to pay, through e-commerce or phone sales. Shipping and handling costs are accounted for as fulfillment costs after the customer obtains control of the goods.

Crafted-precious-metal items at the end of their useful lives are sold for its precious metal contained. The metal is assayed to determine the precious metal content, a price is agreed upon and payment is made usually within two days. Revenue is recognized from the sale once the performance obligation is satisfied.

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In limited circumstances, merchandise is exchanged for similar merchandise and/or monetary consideration with both dealers and retail customers, for which revenue is recognized in accordance with ASC 845, Nonmonetary Transactions. When merchandise is exchanged for similar merchandise and there is no monetary component to the exchange, there is no revenue recognized. Instead, the basis of the merchandise relinquished becomes the basis of the merchandise received, less any indicated impairment of value of the merchandise relinquished. When merchandise is exchanged for similar merchandise and there is a monetary component to the exchange, revenue is recognized to the extent of the monetary assets received that determines the cost of sale based on the ratio of monetary assets received to monetary and non-monetary assets received multiplied by the cost of the assets surrendered.

The Company offers the option of third-party financing for customers wishing to borrow money for the purchase. The customer applies on-line with the third party and upon going through the credit check will be approved or denied. If accepted, the customer is allowed to purchase according to the limits set by the finance company. Revenue is recognized from the sale upon the promise of the financing company to pay.

Our return policy covers retail transactions. In some cases, customers may return a product purchased within 30 days of the receipt of the items for a full refund. Also, in some cases customers may cancel the sale within 30 days of making a commitment to purchase the items. Additionally, a customer may return an item for full refund if they can demonstrate that the item is not authentic, or there was an error in the description of the piece. Returns are accounted for as a reversal of the original transaction, with the effect of reducing revenues, and cost of sales, and returning the merchandise to inventory. The consumer segment has established an allowance for estimated returns based on our review of historical returns experience and reduces our reported revenues and cost of sales accordingly. For the three and nine months ended September 30, 2023 and 2022, the allowance for returns remained the same at approximately \$28,000.

A significant amount of revenue stems from sales to two precious metal refining and bullion partners. One partner constitutes 27.2% and 25.3% of the revenues for the three and nine months ended September 30, 2023, respectively. The second partner constitutes 11% and 9.9% of the revenues for the three and nine months ended September 30, 2023, respectively. However, the Company believes that the products it sells are marketable to numerous sources at competitive prices.

The commercial segment has several revenue streams and recognizes revenue according to ASC 606 at an amount that reflects the consideration to which the entities expect to be entitled in exchange for transferring goods or services to the customer. The revenue streams are as follows:

Outright sales are recorded when product is shipped and title transferred. Once the price is established and the terms are agreed to and the product is shipped and title is transferred, the revenue is recognized. The commercial segment has fulfilled its performance obligation with an agreed upon transaction price, payment terms and shipping the product.

We recognize refining revenue when our inventory arrives at the destination port and the performance obligation is satisfied by transferring control of the promised goods that are identified in the customer contract. The initial invoice is recognized in full when our performance obligation is satisfied, as stated in the first sentence. Under the guidance of ASC 606, an estimate of the variable consideration that is expected to be entitled is included in the transaction price stated at the current precious metal spot price and weight of the precious metal. An adjustment to revenue is made in the period once the underlying weight and any precious metal spot price movement is resolved, which is usually around six (6) weeks. Any adjustment from the resolution of the underlying uncertainty is netted with the settlement due from the original contract.

The commercial segment also provides recycling services according to a Scope of Work ("SOW"). Services are recognized based on the number of units processed by a preset price per unit. Activity reports are produced weekly with the counts and revenue is recognized based on the billing from the weekly reports. Recycling services can be conducted at our facility, or they can be performed at the client's facility. The SOW will determine the charges and whether the service will be completed at our facility or at the client's facility.

Payment terms are also dictated in the SOW.

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Accounts Receivable: We record trade receivables when revenue is recognized. The new accounting standard introduces a new expected credit losses methodology for estimating allowances for credit losses which is based on expected losses rather than incurred losses. We are required to use a forward-looking expected credit loss methodology for accounts receivable. This new methodology is effective for the fiscal years beginning January 1, 2023. We will record an allowance for doubtful accounts, which is primarily determined by an analysis of our trade receivables aging, using the new expected losses methodology. The allowance is determined based on historical experience of collecting past due amounts, based on the degree of their aging. In addition, specific accounts that are considered and expected to be uncollectable are included in the allowance. These provisions are reviewed to determine the adequacy of the allowance for doubtful accounts. Trade receivables are charged off when there is certainty as to their being uncollectible. Trade receivables are considered delinquent when payment has not been made within contract terms. The consumer segment had no allowance for doubtful accounts balance as of September 30, 2023 and December 31, 2022. Some of the commercial segment's customers are on payment terms, and although low risk, occasionally the need may arise to record an allowance for receivables that are deemed high risk using the new expected loss methodology. The commercial segment's allowance for doubtful accounts, as of September 30, 2023 and December 31, 2022 was \$207,462 and \$51,734, respectively. The increase in allowance for doubtful accounts ending September 30, 2023, as compared to December 31, 2022 is primarily due to the new forward looking methodology of estimating future expected losses.

Income Taxes: Income taxes are accounted for under the asset and liability method prescribed by ASC 740, Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not such assets will be realized. During fiscal 2022, management determined that it was more likely than not that the deferred tax assets could be utilized in the future. As of September 30, 2023, the Company had a deferred tax asset of \$102,607 with \$0 offsetting valuation allowance. As of December 31, 2022, the Company had a deferred tax asset of \$1,488,258 with an offsetting valuation allowance of \$0.

We account for our position in tax uncertainties in accordance with ASC 740, Income Taxes. The guidance establishes standards for accounting for uncertainty in income taxes. The guidance provides several clarifications related to uncertain tax positions. Most notably, a "more likely-than-not" standard for initial recognition of tax positions, a presumption of audit detection and a measurement of recognized tax benefits based on the largest amount that has a greater than 50 percent likelihood of realization. The guidance applies a two-step process to determine the amount of tax benefit to be recognized in the financial statements. First, we must determine whether any amount of the tax benefit may be recognized. Second, we determine how much of the tax benefit should be recognized (this would only apply to tax positions that qualify for recognition.) We have not taken a tax position that, if challenged, would have a material effect on the financial statements or the effective tax rate for the three and nine months ended September 30, 2023 and 2022.

NOTE 11 — LEASES

In determining our right-of-use assets and lease liabilities, we apply a discount rate to the minimum lease payments within each lease agreement. ASC 842 requires us to use the interest rate that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. If we cannot readily determine the discount rate implicit in lease agreements, we utilize our incremental borrowing rate. For leases one-year or shorter, lessees can elect not to record lease liabilities and right-of-use assets and instead recognize the expense associated with the lease payments using the straight-line basis.

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The Company has nine operating leases as of September 30, 2023—five in DFW, two in Mt. Pleasant, South Carolina and two in Chandler, Arizona. The leases for the consumer segment are: 1) the flagship store located at 13022 Preston Road, Dallas, Texas expiring on January 31, 2027, with an option to extend the lease for an additional five years, at the prevailing market rate for comparable space in comparable buildings in the vicinity; 2) the Grand Prairie, Texas lease expiring June 30, 2027, with an option to extend the lease for an additional five years; 3) the two leases for the Mt. Pleasant, South Carolina location expiring on April 30, 2025, with no additional renewal options; and 4) the lease for the Euless, Texas location expiring June 30, 2025, with an option to extend the lease for an additional five years. The leases for the commercial segment are: 1) the Echo location on W. Belt Line Road, in Carrollton, Texas, expiring January 31, 2026, with an option to extend the lease an additional five years; 2) the lease for the Teladvance location, which also houses ITAD USA and CEX, on Realty Road in Carrollton, Texas expires January 31, 2027, with no additional renewal options; and 3) the two leases for the Avail location in Chandler, Arizona expiring on May 31, 2025, with no additional renewal options. All of the Company's nine leases as of September 30, 2023 are triple net, for which it pays its proportionate share of common area maintenance, property taxes and property insurance. Leasing costs for the three months ended September 30, 2023 and 2022 were \$686,354 and \$655,669 respectively, comprised of a combination of minimum lease payments and variable lease costs. Leasing costs for the nine months ended September 30, 2023 and 2022 were \$2,048,238 and \$1,938,392, respectively, comprised of a combination of minimum lease payments and variable lease costs.

As of September 30, 2023, the weighted average remaining lease term and weighted average discount rate for operating leases were 2.3 years and 4.4%, respectively. For the three months ended September 30, 2023 and 2022, the Company's cash paid for operating lease liabilities was \$680,019 and \$654,471 respectively. For the nine months ended September 30, 2023 and 2022, the Company's cash paid for operating lease liabilities was \$2,042,911 and \$1,934,791, respectively.

Future annual minimum lease payments as of September 30, 2023:

	Operating Leases
Consumer	
2023 (excluding the nine months ending September 30, 2023)	136,357
2024	552,414
2025	434,274
2026	355,000
2027 and thereafter	<u>50,115</u>
 Total minimum lease payments	1,528,160
Less imputed interest	<u>(94,155)</u>
 Consumer Sub-Total	<u>1,434,005</u>
 Commercial	
2023 (excluding the nine months ending September 30, 2023)	339,765
2024	1,396,129
2025	1,321,297
2026	474,326
2027 and thereafter	<u>33,455</u>
 Total minimum lease payments	3,564,972
Less imputed interest	<u>(201,036)</u>
 Commercial Sub-Total	<u>3,363,936</u>
 Total	<u>4,797,941</u>
 Current portion	<u>1,775,883</u>
 \$	<u>3,022,058</u>

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A reconciliation of basic and diluted weighted average common shares for the three months ended September 30, 2023 and 2022 is as follows:

	For the Three Months Ended	
	September 30,	
	2023	2022
Basic weighted average shares	26,809,778	26,924,631
Effect of potential dilutive securities	15,000	15,000
Diluted weighted average shares	<u>26,824,778</u>	<u>26,939,631</u>

For the three months ended September 30, 2023 and 2022, there was a total of 15,000 common stock options, warrants, and Restricted Stock Units (RSUs) unexercised. For the three months ended September 30, 2023 and 2022, there were no anti-dilutive shares.

A reconciliation of basic and diluted weighted average common shares for the nine months ended September 30, 2023 and 2022 is as follows:

	For the Nine Months Ended	
	September 30,	
	2023	2022
Basic weighted average shares	26,884,221	26,924,631
Effect of potential dilutive securities	15,000	15,000
Diluted weighted average shares	<u>26,899,221</u>	<u>26,939,631</u>

For the nine months ended September 30, 2023 and 2022, there was a total of 15,000 common stock options, warrants, and Restricted Stock Units (RSUs) unexercised. For the nine months ended September 30, 2023 and 2022, there were no anti-dilutive shares.

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On March 14, 2023, a stock repurchase program was unanimously approved by the Company's Board of Directors (the "Board"), that gave management authorization to purchase up to one million (1,000,000) shares of the Company's stock, at a per-share price not to exceed \$9, on the open market. The plan expires on March 31, 2026.

The following lists the repurchase of Company shares as of September 30, 2023:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Price Paid \$	Shares available
				to purchase under the plan
Beginning Balance				1,000,000
May 1 - 31, 2023	17,029	6.73	114,621	982,971
June 1 - 30, 2023	10,392	7.72	80,199	972,579
July 1 - 31, 2023	-	-	-	972,579
August 1 - 31, 2023	197,210	5.70	1,123,531	775,369
September 1 - 30, 2023	-	-	-	775,369
Total	224,631	\$ 5.87	\$ 1,318,351	775,369

NOTE 13 — LONG-TERM DEBT

Long-term debt consists of the following:

	Outstanding Balance			
	September 30, 2023	December 31, 2022	Current Interest Rate	Maturity
<u>Consumer</u>				
Note payable, Farmers Bank (1)	\$ 2,589,824	\$ 2,668,527	3.10 %	November 15, 2026
Note payable, Truist Bank (2)	847,573	874,418	3.65 %	July 9, 2030
Note payable, Texas Bank & Trust (3)	442,387	456,187	3.75 %	September 14, 2025
Note payable, Texas Bank & Trust (4)	1,643,453	1,691,020	3.75 %	July 30, 2031
Note payable, Kretchmer (5)	200,000	-	0.00 %	October 1, 2025
Consumer Sub-Total	5,723,237	5,690,152		
<u>Commercial</u>				

Note payable, Farmers Bank (1)	<u>5,875,998</u>	6,054,565	3.10 %	November 15, 2026
Line of Credit (6)	-	-	3.10 %	November 15, 2024
Avail Transaction note (7)	<u>1,000,000</u>	1,500,000	0.00 %	April 1, 2025
Commercial Sub-Total	<u>6,875,998</u>	7,554,565		
Corporate				
Note payable, Texas Bank & Trust (8)	<u>2,647,312</u>	2,732,688	3.25 %	Novemeber 4, 2025
Sub-Total	<u>15,246,547</u>	15,977,405		
Current portion	<u>1,331,586</u>	1,250,702		
	<u>\$ 13,914,961</u>	<u>\$ 14,726,703</u>		

(1) On November 23, 2021, Farmers State Bank of Oakley, Kansas ("FSB") refinanced prior related party notes held by the consumer segment and the commercial segment. The commercial segment note was refinanced with a remaining and outstanding balance of \$6,309,962. The note is a five-year promissory note amortized over 20 years at 3.1% annual interest rate. The note has monthly principal and interest payments of \$35,292. The consumer segment note was refinanced with a remaining and outstanding balance of \$2,781,087, is a five-year promissory note amortized over 20 years at 3.1% annual interest rate. The note has monthly principal and interest payments of \$15,555.

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(2) On July 9, 2020, the consumer segment closed the purchase of a retail building located at 610 E. Round Grove Road in Lewisville, Texas for \$1.195 million. The purchase was partly financed through a \$956,000, ten-year loan, bearing an annual interest rate of 3.65%, amortized over 20 years, payable to Truist Bank (f/k/a BB&T Bank). The note has monthly interest and principal payments of \$5,645.

(3) On September 14, 2020, the consumer segment closed on the purchase of a retail building located at 1106 W. Northwest Highway in Grapevine, Texas for \$620,000. The purchase was partly financed through a \$496,000, five-year loan, bearing an annual interest rate of 3.75%, amortized over 20 years, payable to Texas Bank & Trust. The note has monthly interest and principal payments of \$2,941.

(4) On July 30, 2021, the consumer segment closed the purchase of a new retail building located at 9166 Gaylord Parkway in Frisco, Texas for \$2,215,500. The purchase was partly financed through a \$1,772,000, five-year loan (the "TB&T Frisco Loan"), bearing an annual interest rate of 3.75%, amortized over 20 years, payable to Texas Bank and Trust. The note has monthly interest and principal payments of \$10,509.

(5) On September 12, 2023, the consumer segment entered into the Kretchmer Transaction to purchase all of the issued and outstanding common stock for \$300,000. The purchase was facilitated by an initial payment of \$100,000 at closing, and the remaining \$200,000 to be paid out by 8 quarterly payments starting January 1, 2024, of \$25,000 each. The installment note payable for the Kretchmer Transaction is imputed at 3.1%.

(6) On November 23, 2021, the Company secured a 36-month line of credit from FSB for \$3,500,000 at 3.1% annual interest rate. As of September 30, 2023 and December 31, 2022, the outstanding balance of the line of credit was \$0.

(7) On October 29, 2021, the commercial segment entered into the Avail Transaction to purchase all of the assets, liabilities and rights and interests of Avail AZ, for \$4.5 million. The purchase was facilitated by an initial payment of \$2.5 million at closing, and the remaining \$2.0 million to be paid out by 12 quarterly payments starting April 1, 2022, of \$166,667 each. The installment note payable for the Avail Transaction is imputed at 3.1%

(8) On November 4, 2020, 1901 Gateway Holdings, LLC, a wholly owned subsidiary of Envela Corporation, closed on the purchase of its corporate office building located at 1901 Gateway Drive, Irving, Texas for \$3.521 million. The building was partially financed through a \$2.96 million, five-year loan, bearing an interest rate of 3.25%, amortized over 20 years, payable to Texas Bank & Trust. The note has monthly interest and principal payments of \$16,792.

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Future scheduled principal payments of our notes payable as of September 30, 2023 are as follows:

Note payable, Texas Bank & Trust

Year Ending December 31,	Amount
2023 (excluding the nine months ended September 30, 2023)	\$ 16,043
2024	66,218
2025	75,213
2026	78,734
2027	80,711

Thereafter	<u>1,326,534</u>
Subtotal	<u>\$ 1,643,453</u>
<u>Note payable, Kretchmer</u>	
Year Ending December 31,	<u>Amount</u>
2023 (excluding the nine months ended September 30, 2023)	\$ -
2024	100,000
2025	<u>100,000</u>
Subtotal	<u>\$ 200,000</u>
COMMERCIAL SEGMENT	
<u>Note payable, Farmers Bank</u>	
Year Ending December 31,	<u>Amount</u>
2023 (excluding the nine months ended September 30, 2023)	\$ 60,619
2024	246,725
2025	254,482
2026	<u>5,314,172</u>
Subtotal	<u>\$ 5,875,998</u>
<u>Note payable, Avail Transaction</u>	
Year Ending December 31,	<u>Amount</u>
2023 (excluding the nine months ended September 30, 2023)	\$ 166,667
2024	666,667
2025	<u>166,666</u>
Subtotal	<u>\$ 1,000,000</u>
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CORPORATE	
<u>Note payable, Texas Bank & Trust - Envela</u>	
Year Ending December 31,	<u>Amount</u>
2023 (excluding the nine months ended September 30, 2023)	\$ 28,532
2024	116,517
2025	<u>2,502,263</u>
Subtotal	<u>\$ 2,647,312</u>
	<u>\$ 15,246,547</u>

Future scheduled aggregate amount of principal payments and maturities of our notes payable as of September 30, 2023 are as follows:

Scheduled Principal Payments and Maturities by Year:	Scheduled		
	Principal Payments	Loan Maturities	Total
2023 (excluding the nine months ended September 30, 2023)	312,423	-	312,423
2024	1,361,421	-	1,361,421
2025	872,393	2,795,617	3,668,010
2026	464,890	7,310,424	7,775,314
2027	122,792	-	122,792
Thereafter	428,239	1,578,348	2,006,587
Total	\$ 3,562,158	\$ 11,684,389	\$ 15,246,547

NOTE 14 — STOCK-BASED COMPENSATION

The Company accounts for **share-based** **stock-based** compensation by measuring the cost of employee services received in exchange for an award of equity instruments, including grants of stock options, based on the fair value of the award at the date of grant. In addition, to the extent that the Company receives an excess tax benefit upon exercise of an award, such benefit is reflected as cash flow from financing activities in the consolidated statement of cash flows.

See Note 14 – Stock-Based Compensation for further detail.

Taxes Collected from Customers

The Company's policy is to present taxes collected from customers and remitted to governmental authorities on a net basis. The Company records the amounts collected as a current liability and relieves such liability upon remittance to the taxing authority without impacting revenue or expenses.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The carrying amounts reported in the consolidated balance sheets approximate fair value.

Accounts Receivable, Net of Allowances

Accounts receivable represent amounts primarily due from customers on product and other sales. Our allowance for credit losses is primarily determined by an analysis of our trade receivables aging, using the expected losses methodology. The allowance for credit losses is determined based on historical experience of collecting past due amounts, based on the degree of their aging. In addition, specific accounts that are considered and expected to be uncollectable are included in the allowance for credit losses. Trade receivables are considered delinquent when payment has not been made within contract terms. Trade receivables are charged off when there is certainty as to their being uncollectible.

For the three months ended March 31, 2024 and March 31, 2023, the consumer segment's allowance for credit losses was \$0 and \$0, respectively. For the three months ended March 31, 2024 and March 31, 2023, the commercial segment's allowance for credit losses was \$306,727 and \$0, respectively.

Inventories

Consumer Segment

The consumer segment values inventory at the lower of cost or net realizable value. We acquire inventory based on our own internal estimate of the fair value of the items at the time of purchase. We consider factors such as the current spot market price of precious metals and current market demand for the items being purchased. Consigned inventory has a net zero balance. The majority of our inventory has some component of its value that is based on the spot market price of precious metals. Because the overall market value for precious metals regularly fluctuates, we monitor these fluctuations for any adverse impact on the carrying value of our inventory.

Commercial Segment

Our inventory primarily includes processed and unprocessed, base metals, electronic scrap materials containing precious metals as well as technology assets being held for resale. The processed and unprocessed base metals and electronic scrap materials are valued utilizing the average cost method. Our technology assets are valued utilizing the retail cost method.

See Note 4 – Inventories for further detail.

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Goodwill

Goodwill is not amortized but evaluated for impairment on an annual basis during the fourth quarter of our fiscal year, or earlier if events or circumstances indicate the carrying value may be impaired. There were no triggering events identified during the first three months of fiscal 2024 requiring an interim goodwill impairment test, and the Company did not record a goodwill impairment charge in any of the periods presented. There have been no other adjustments to goodwill in any of the periods presented.

See Note 5 – Goodwill for further detail.

Property and Equipment, Net

Property and equipment is carried at cost less accumulated depreciation and is depreciated on a straight-line basis over the estimated useful lives of the assets; except for construction in progress which has not yet been placed into service. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the

carrying amount of an asset may not be recoverable. Expenditures for maintenance and repairs are charged against income as incurred; betterments that increase the value or materially extend the life of the related assets are capitalized.

See Note 6 – Property and equipment, net for further detail.

Intangible Assets, Net

Finite-lived intangible assets are carried at cost less accumulated amortization and are amortized on a straight-line basis over the estimated useful lives of the assets; except for assets under development which have not yet been placed into service. Finite-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

See Note 7 – Intangibles, net for further detail.

Correction of Immaterial Error

The Company's consumer segment previously reported revenue from freight arrangement services as a component of cost of goods sold. The Company has further evaluated the nature and scope of its service offering and has determined that it meets the definition of a principal in accordance with ASC 606 and as such be reported within revenue. As a result of the correction, for the three months ended March 31, 2023 revenue and cost of goods sold increased by \$1,420,492. The error had no impact on operating income, net income, and net income per share nor any other financial statement amount. Further these errors had no impact on the consolidated balance sheets, statements of stockholders' equity, and statement of cash flows. These corrections do not affect any of the metrics used to calculate and evaluate management's compensation and had no impact on bonuses, commissions, stock-based compensation, or any other employee renumeration. Historical amounts have been corrected and are presented on a comparable basis.

See Note 10 – Revenue for further detail.

Changes in Disclosure

The Company has elected to discontinue reporting the disaggregation of inventory and revenue by resale and recycle. The Company's business operations continue to evolve and includes fee for service revenue that does not always correlate to these categories and underlying inventory positions; further our inventory positions within these disaggregated presentations can vary at any point in time as they are a diverse mix of technology assets, precious and base metals and luxury hard assets. The Company believes that its disclosure of the nature of its operations, the inventory held at each segment and associated risk factors provides a sufficient understanding of its impact on our business.

See Note 4 – Inventories and Note 10 – Revenue, for further detail.

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Reclassifications

For the Company's 2023 Annual Report, the presentation of the operations section within its Consolidated Cash Flow Statements was updated to present "non-cash lease expense" as a separate line item, previously included within "changes in operating assets and liabilities – operating leases." The Company has elected to reclassify \$473,881 from operating leases to non-cash lease expenses in the Consolidated Cash Flow Statement for the period ending March 31, 2023.

See the Condensed Consolidated Statements of Cash Flows for further detail.

For the Company's 2023 Annual Report, the amount reported for other current assets within the Consolidated Balance Sheets related entirely to notes receivables. The Company has elected to present notes receivable as its own line item and has reclassified the historical presentation of the aforementioned for the period ended December 31, 2023.

See the Condensed Consolidated Balance Sheets for further detail.

The Company previously did not disclose construction in progress and intangible assets under development. The Company has determined that providing this information further enhances the understanding of the nature of our capital expenditures. The Company has elected to reclassify the historical presentation of the aforementioned for the period ended December 31, 2023.

See Note 6 – Property and equipment, net for further detail.

The Company previously reported the development of its enterprise resource planning system within property and equipment, net. The Company has further evaluated the nature of this asset under ASC 350, Intangibles – Goodwill and Other and has determined that it is a nonmonetary asset without physical substance and was acquired separately from hardware and as such be reported within intangibles, net. The Company has elected to reclassify the historical presentation of the aforementioned for the period ended December 31, 2023.

See Note 7 – Intangibles, net for further detail.

Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"), which will require the Company to disclose segment expenses that are significant and regularly provided to the CODM. In addition, ASU 2023-07 will require the Company to disclose the title and position of its CODM and how the CODM uses segment profit or loss information in assessing segment performance and deciding how to allocate resources. ASU 2023-07 will be effective for fiscal years beginning January 1, 2024, Form 10-K, and interim periods within fiscal years beginning on January 1, 2025. The standard will be adopted beginning January 1, 2024, for the fiscal year and adopted for the interim periods beginning January 1, 2025, by using a modified retrospective transition approach. The Company does not expect adoption to have a material impact on its consolidated financial statements.

In December 2023, the FASB issued Accounting Standards Update 2023-09 ("ASU 2023-09"), Income Taxes (Topic 740): Improvement to Income Tax Disclosures, amending income tax disclosure requirements for the effective tax rate reconciliation and income taxes paid. The amendments in ASU 2023-09 are effective beginning in the Company's fiscal 2025 and are applied prospectively. Early adoption and retrospective application of the amendments are permitted. The Company does not expect adoption to have a material impact on its consolidated financial statements.

No other recently issued or effective ASU's had, or are expected to have, a material impact on the Company's results of operations, financial condition or liquidity.

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NOTE 4 — INVENTORIES

The following table summarizes the details of the Company's inventories:

	March 31, 2024	December 31, 2023
Consumer		
Trade inventories	\$ 24,128,255	\$ 21,905,055
Sub-total	<u>24,128,255</u>	<u>21,905,055</u>
Commercial		
Trade inventories	1,494,181	1,241,122
Sub-total	<u>1,494,181</u>	<u>1,241,122</u>
	<u>\$ 25,622,436</u>	<u>\$ 23,146,177</u>

NOTE 5 — GOODWILL

The following table summarizes the details of the Company's changes in goodwill:

	March 31, 2024	December 31, 2023
Consumer		
Opening balance	\$ 300,000	\$ -
Additions/(reductions) ⁽¹⁾	<u>-</u>	<u>300,000</u>
Sub-total	<u>300,000</u>	<u>300,000</u>
Commercial		
Opening balance	3,621,453	3,621,453
Additions/(reductions)	<u>-</u>	<u>-</u>
Sub-total	<u>3,621,453</u>	<u>3,621,453</u>
	<u>\$ 3,921,453</u>	<u>\$ 3,921,453</u>

(1) The increase in goodwill of \$300 thousand for the year ended December 31, 2023 relates to the Company's acquisition of Steven Kretchmer, Inc. on September 12, 2023 ("Kretchmer Transaction"). The Kretchmer Transaction remains within the measurement period of ASC 805, Business Combinations. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination.

NOTE 6 — PROPERTY AND EQUIPMENT, NET

The following table summarizes the details of the Company's property and equipment, net:

	March 31, 2024	December 31, 2023	Reclassification	December 31, 2023	Adjusted
Consumer					
Land	\$ 1,824,892	\$ 1,824,892	\$ -	\$ 1,824,892	\$ 1,824,892
Building and improvements	3,039,823	4,126,507	(1,443,207)	2,683,300	2,683,300
Leasehold improvements	1,444,814	1,450,695	-	1,450,695	1,450,695
Furniture and fixtures	793,646	802,058	(101,226)	700,832	700,832
Machinery and equipment	1,150,137	1,224,783	(3,215)	1,221,568	1,221,568
Vehicles	22,859	22,859	-	22,859	22,859
Construction in progress ⁽¹⁾	<u>1,392,786</u>	<u>-</u>	<u>1,547,648</u>	<u>1,547,648</u>	<u>1,547,648</u>

	9,668,957	9,451,794	-	9,451,794
Less: accumulated depreciation	(3,019,183)	(2,946,727)	-	(2,946,727)
Sub-total	6,649,774	6,505,067	-	6,505,067
<u>Commercial</u>				
Leasehold improvements	151,647	151,647	-	151,647
Furniture and fixtures	145,950	145,950	-	145,950
Machinery and equipment	1,095,917	1,142,731	(48,979)	1,093,752
Vehicles	222,232	222,232	-	222,232
Construction in progress ⁽²⁾	96,257	-	48,979	48,979
	1,712,003	1,662,560	-	1,662,560
Less: accumulated depreciation	(893,459)	(819,389)	-	(819,389)
Sub-total	818,544	843,171	-	843,171
<u>Corporate</u>				
Land	1,106,664	1,106,664	-	1,106,664
Building and improvements	2,490,879	2,505,716	(3,500)	2,502,216
Machinery and equipment	45,234	28,627	-	28,627
Enterprise resource planning system ⁽³⁾	-	191,075	(191,075)	-
Construction in progress ⁽⁴⁾	179,849	-	3,500	3,500
	3,822,626	3,832,082	(191,075)	3,641,007
Less: accumulated depreciation	(242,723)	(225,021)	-	(225,021)
Sub-total	3,579,903	3,607,061	(191,075)	3,415,986
	\$ 11,048,221	\$ 10,955,299	\$ (191,075)	\$ 10,764,224

(1) Construction in progress relates to the build-out of production equipment.

(2) Construction in progress relates to the build-out of our Arizona retail stores.

(3) Reclassified amount to intangibles, net. See Note 7 – Intangible, Net for further details.

(4) Construction in progress pertains to improvements to our corporate headquarters.

NOTE 7 — INTANGIBLES, NET

The following table summarizes the details of the Company's intangible assets, net:

	Adjusted			
	March 31, 2024	December 31, 2023	Reclassification	December 31, 2023
<u>Consumer</u>				
Domain names	\$ 41,352	\$ 41,352	\$ -	\$ 41,352
Point of sale system	330,000	330,000	-	330,000
	371,352	371,352	-	371,352
Less: accumulated amortization	(368,598)	(365,852)	-	(365,852)
Sub-total	2,754	5,500	-	5,500

Commercial				
Trademarks/tradenames	2,869,000	2,869,000	-	2,869,000
Customer contracts	1,873,000	1,873,000	-	1,873,000
Customer relationships	1,809,000	1,809,000	-	1,809,000
	6,551,000	6,551,000	-	6,551,000
Less: accumulated amortization	(2,405,767)	(2,248,405)	-	(2,248,405)
Sub-total	4,145,233	4,302,595	-	4,302,595
Corporate				
Enterprise resource planning system	384,242	-	-	-
Assets under development ⁽¹⁾	-	-	191,075	191,075
	384,242	-	191,075	191,075
Less: accumulated amortization	(19,212)	-	-	-
Sub-total	365,030	-	191,075	191,075
	\$ 4,513,017	\$ 4,308,095	\$ -	\$ 4,499,170

(1) Assets under development relate to the development of our enterprise resource planning system.

The following table depicts the Company's estimated future amortization expense related to intangible assets as of March 31, 2024:

	Consumer	Commercial	Corporate	Total
2024	2,754	491,325	57,638	551,717
2025	-	655,100	76,848	731,948
2026	-	655,100	76,848	731,948
2027	-	655,100	76,848	731,948
2028	-	655,100	76,848	731,948
Thereafter	-	1,033,508	-	1,033,508
	\$ 2,754	\$ 4,145,233	\$ 365,030	\$ 4,513,017

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NOTE 8 — ACCRUED EXPENSES

The following table summarizes the details of the Company's accrued expenses:

	March 31, 2024	December 31, 2023
Consumer		
Accrued interest	\$ 14,970	\$ 11,904
Payroll	637	226,435
Taxes	122,186	125,130
Other	2	-
Sub-total	137,795	363,469
Commercial		
Accrued interest	8,308	7,903
Payroll	-	375,663
Taxes	8,367	-
Unvouchered inventory payments	1,137,801	1,041,188

Other	<u>45,111</u>	<u>96,422</u>
Sub-total	<u>1,199,587</u>	<u>1,521,176</u>
Corporate		
Accrued interest	<u>7,148</u>	<u>7,227</u>
Payroll	<u>-</u>	<u>24,543</u>
Taxes	<u>908,219</u>	<u>404,357</u>
Professional fees	<u>122,821</u>	<u>165,651</u>
Other	<u>91</u>	<u>-</u>
Sub-total	<u>1,038,279</u>	<u>601,778</u>
	<u>\$ 2,375,661</u>	<u>\$ 2,486,423</u>

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NOTE 9 — SEGMENT INFORMATION

The following table depicts the Company's disaggregated statements of income:

	Three Months Ended March 31,			
	2024	% of Sales ⁽¹⁾	2023	% of Sales ⁽¹⁾
Consumer	\$ 28,226,017	70.8 %	\$ 36,704,397	73.7%
Commercial	<u>11,631,763</u>	<u>29.2 %</u>	<u>13,105,135</u>	<u>26.3%</u>
Sales	39,857,780	100.0 %	49,809,532	100.0%
Consumer	24,676,828	61.9 %	32,719,429	65.7%
Commercial	4,860,268	12.2 %	5,680,201	11.4%
Cost of goods sold	29,537,096	74.1 %	38,399,630	77.1%
Gross margin	10,320,684	25.9 %	11,409,902	22.9%
Consumer	3,251,490	8.2 %	2,396,025	4.8%
Commercial	4,385,486	11.0 %	5,509,278	11.1%
Selling, general and administrative	7,636,976	19.2 %	7,905,303	15.9%
Consumer	93,676	0.2 %	98,134	0.2%
Commercial	249,889	0.6 %	256,217	0.5%
Depreciation and amortization	343,565	0.8 %	354,351	0.7%
Total operating expenses	7,980,541	20.0 %	8,259,654	16.6%
Operating income	2,340,143	5.9 %	3,150,248	6.3%
Other income/(expense):				
Consumer	8,005	0.0 %	23,534	0.0%
Commercial	230,523	0.6 %	187,245	0.4%

Other income	238,528	0.6 %	210,779	0.4%
Consumer	(64,401)	(0.2)%	(59,618)	(0.1)%
Commercial	(56,453)	(0.1)%	(57,446)	(0.1)%
Interest expense	(120,854)	(0.3)%	(117,064)	(0.2)%
Income before income taxes	2,457,817	6.2 %	3,243,963	6.5%
Consumer	(59,151)	(0.1)%	(317,841)	(0.6)%
Commercial	(491,127)	(1.3)%	(399,805)	(0.9)%
Income tax expense	(550,278)	(1.4)%	(717,646)	(1.5)%
Net income	\$ 1,907,539	4.8 %	\$ 2,526,317	5.1%

(1) The "% of Sales" figures present the proportion of each line item to the total consolidated sales for the respective period, which management believes is relevant to an assessment and understanding of our financial condition and results of operations.

The following chart depicts the Company's total assets:

	As of	
	March 31, 2024	December 31, 2023
Consumer	\$ 34,993,787	\$ 35,839,361
Commercial	35,682,400	33,777,041
Corporate	4,069,231	3,857,827
	\$ 74,745,418	\$ 73,474,229

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NOTE 10 — REVENUE

The following table depicts the Company's disaggregation of total sales and gross margin:

	For the Three Months Ended March 31,					
	2024			2023		
	Sales	Gross Margin	Margin	Sales	Gross Margin	Margin
Consumer	\$ 28,226,017	\$ 3,549,189	12.6 %	\$ 36,704,397	\$ 3,984,968	10.9%
Commercial	11,631,763	6,771,495	58.2 %	11,684,643	7,424,934	63.5%
Correction of immaterial error ⁽¹⁾				1,420,492	-	-
Commercial adjusted				13,105,135	7,424,934	56.7%
	\$ 39,857,780	\$ 10,320,684	25.9 %	\$ 49,809,532	\$ 11,409,902	22.9%

(1) Correction of Immaterial Error relating to freight arrangement services, see Note 3 - ACCOUNTING POLICIES AND ESTIMATES for further detail.

The following table lists the opening and closing balances of our contract assets and liabilities:

	Accounts	Contract	Contract
	Receivable	Assets	Liabilities
Consumer			

Opening Balance - 1/1/2023	839,239	-	196,382
Closing Balance - 3/31/2023	443,223	-	153,379
<u>Commercial</u>			
Opening Balance - 1/1/2023	7,110,536	-	-
Closing Balance - 3/31/2023	7,848,131	-	-
	Accounts Receivable	Contract Assets	Contract Liabilities
<u>Consumer</u>			
Opening Balance - 1/1/2024	3,411,501	-	58,728
Closing Balance - 3/31/2024	244,914	-	96,485
<u>Commercial</u>			
Opening Balance - 1/1/2024	4,399,658	-	-
Closing Balance - 3/31/2024	4,352,140	-	-

The Company has no contract assets, and the only contract liability is customer deposits, which is reported within other liabilities in the Unaudited Condensed Consolidated Balance Sheets.

NOTE 11 — LEASES

The following table depicts the Company's future annual minimum leases payments as of March 31, 2024:

	Operating Leases
<u>Consumer</u>	
2024	\$ 415,526
2025	412,271
2026	354,998
2027	50,114
2028	-
Thereafter	<u>-</u>
Total minimum lease payments	1,232,909
Less imputed interest	<u>(65,819)</u>
Sub-total	<u>1,167,090</u>
<u>Commercial</u>	
2024	1,048,490
2025	1,321,298
2026	474,320
2027	33,454
2028	-
Thereafter	<u>-</u>
Total minimum lease payments	2,877,562
Less imputed interest	<u>(118,652)</u>
Sub-total	<u>2,758,910</u>
Total	<u>3,926,000</u>

Current portion	<u>1,840,082</u>
	<u>\$ 2,085,918</u>

All of the Company's facilities leases as of March 31, 2024 are non-cancellable and triple net, for which it pays its proportionate share of common area maintenance, property taxes and property insurance. Leasing costs for the three months ended March 31, 2024 and 2023 were \$784,735 and \$659,616, respectively, comprised of a combination of minimum lease payments and variable lease costs.

As of March 31, 2024, the weighted average remaining lease term and weighted average discount rate for operating leases were 2.3 years and 4.3%. As of March 31, 2023, the weighted average remaining lease term and weighted average discount rate for operating leases were 3.3 years and 4.4%.

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NOTE 12 — BASIC AND DILUTED AVERAGE SHARES

The following table is a reconciliation of the Company's basic and diluted weighted average common shares:

	For the Three Months Ended	
	March 31, 2024	2023
Basic weighted average shares	<u>26,419,039</u>	<u>26,924,631</u>
Effect of potential dilutive securities	<u>15,000</u>	<u>15,000</u>
Diluted weighted average shares	<u>26,434,039</u>	<u>26,939,631</u>

For the three months ended March 31, 2024 and 2023, there was a total of 15,000 common stock options, warrants, and Restricted Stock Units ("RSUs") unexercised. For the three months ended March 31, 2024 and 2023, there were no anti-dilutive shares.

On March 14, 2023, a stock repurchase program was unanimously approved by the Company's Board of Directors (the "Board"), that gave management authorization to purchase up to one million (1,000,000) shares of the Company's stock, at a per share price not to exceed \$9.00, on the open market. The plan expires on March 31, 2026.

The following table lists the repurchase of Company shares as of March 31, 2024:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Price Paid	Shares Available to Purchase
Balance as of January 1, 2024	415,973	\$ 5.18	\$ 2,155,049	584,027
January 1 - 31, 2024	59,417	4.52	268,569	524,610
February 1 - 29, 2024	56,343	4.53	255,195	468,267
March 1 - 31, 2024	<u>85,580</u>	<u>4.46</u>	<u>381,382</u>	<u>382,687</u>
Balance as of March 31, 2024	<u>617,313</u>	<u>\$ 4.96</u>	<u>\$ 3,060,195</u>	<u>382,687</u>

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NOTE 13 — DEBT

The following table summarizes the details of the Company's long-term debt obligations:

	Outstanding Balance	
	March 31, 2024	December 31, 2023
<u>Consumer</u>		
Note payable, FSB ⁽¹⁾	\$ 2,537,700	\$ 2,563,108
Note payable, Truist Bank ⁽³⁾	829,204	838,430
Notes payable, TBT ^(4,5)	2,043,823	2,064,928
Note payable, Kretchmer Transaction ⁽⁶⁾	200,000	200,000
Sub-total	<u>5,610,727</u>	<u>5,666,466</u>
<u>Commercial</u>		

Note payable, FSB ⁽²⁾	<u>5,754,790</u>	5,815,381
Note payable, Avail Transaction ⁽⁷⁾	<u>666,667</u>	833,333
Sub-total	<u>6,421,457</u>	6,648,714
Corporate		
Line of credit, FSB ⁽⁸⁾	-	-
Note payable, TBT ⁽⁹⁾	<u>2,589,538</u>	2,618,311
Sub-total	<u>2,589,538</u>	2,618,311
Sub-total	<u>14,621,722</u>	14,933,491
Current portion	<u>(1,475,625)</u>	(1,361,443)
	<u>\$ 13,146,097</u>	<u>\$ 13,572,048</u>

The following table depicts the Company's future principal payments on long-term debt obligations as of March 31, 2024:

	2024	2025	2026	2027	2028	Thereafter
Consumer						
Note payable, FSB ⁽¹⁾	81,564	112,106	2,344,030	-	-	-
Note payable, Truist Bank ⁽³⁾	28,029	38,745	40,203	42,077	43,639	636,511
Notes payable, TBT ^(4,5)	70,158	495,231	78,985	80,973	83,696	1,234,780
Note payable, Kretchmer Transaction ⁽⁶⁾	<u>200,000</u>	-	-	-	-	-
Sub-total	<u>379,751</u>	<u>646,082</u>	<u>2,463,218</u>	<u>123,050</u>	<u>127,335</u>	<u>1,871,291</u>
Commercial						
Note payable, FSB ⁽²⁾	186,131	254,483	5,314,176	-	-	-
Note payable, Avail Transaction ⁽⁷⁾	<u>500,000</u>	<u>166,667</u>	-	-	-	-
Sub-total	<u>686,131</u>	<u>421,150</u>	<u>5,314,176</u>	-	-	-
Corporate						
Line of Credit, FSB ⁽⁸⁾	-	-	-	-	-	-
Note payable, TBT ⁽⁹⁾	<u>87,761</u>	<u>2,501,777</u>	-	-	-	-
Sub-total	<u>87,761</u>	<u>2,501,777</u>	-	-	-	-
	<u>\$ 1,153,643</u>	<u>\$ 3,569,009</u>	<u>\$ 7,777,394</u>	<u>\$ 123,050</u>	<u>\$ 127,335</u>	<u>\$ 1,871,291</u>

(1) On November 23, 2021, the consumer segment entered into a \$2.781 million secured amortizing note payable with Farmer's State Bank of Oakley, Kansas ("FSB"). The note payable bears interest at 3.10% and matures on November 15, 2026.

(2) On November 23, 2021, the commercial segment entered into a \$6.309 million secured amortizing note payable with FSB. The note payable bears interest at 3.10% and matures on November 15, 2026.

(3) On July 9, 2020, the consumer segment entered into a \$1.195 million secured amortizing note payable with Truist Bank. The note payable bears interest at 3.65% and matures on July 9, 2030.

(4) On September 14, 2020, the consumer segment entered into a \$620 thousand secured amortizing note payable with Texas Bank & Trust ("TBT"). The note payable bears interest at 3.75% and matures on September 14, 2025.

(5) On July 30, 2021, the consumer segment entered into a \$2.215 million secured amortizing note payable with TBT. The note payable bears interest at 3.75% and matures on July 30, 2031.

(6) On September 12, 2023, the consumer segment entered into a \$300 thousand secured amortizing note payable in relation to the Kretchmer Transaction. The note payable's imputed interest is 3.10% and matures on October 1, 2025. The consumer segment is restructuring the Kretchmer Transaction and the aforementioned terms and conditions and as such is electing to record the note payable in current liabilities.

(7) On October 29, 2021, the consumer segment entered into a \$4.500 million secured amortizing note payable in relation to the acquisition of Avail Recovery Solutions, LLC on October 29, 2021 ("Avail Transaction"). The note payable's imputed interest is 3.10% and matures on April 1, 2025.

(8) On November 23, 2021, the Company entered into a \$3.500 million secured line of credit with FSB. The line of credit bears interest at 3.10% and matures on November 15, 2024. This note was previously presented within our commercial segment and is now presented within corporate as the line of credit provides borrowing capacity for all segments.

(9) On November 4, 2020, a wholly owned subsidiary of Envela entered into a \$2.960 million secured amortizing note payable with TBT. The note payable bears interest at 3.25% and matures on November 4, 2025.

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The Company was in compliance with all of its debt obligation covenants for the periods ended March 31, 2024 and March 31, 2023.

The following table depicts the Company's future scheduled aggregate principal payments and maturities as of March 31, 2024:

Scheduled Principal Payments and Maturities by Year:	Scheduled		
	Principal Payments	Loan Maturities	Total
2024	953,643	200,000	1,153,643
2025	773,845	2,795,164	3,569,009
2026	465,087	7,312,307	7,777,394
2027	123,050	-	123,050
2028	127,335	-	127,335
Thereafter	301,908	1,569,383	1,871,291
Total	\$ 2,744,868	\$ 11,876,854	\$ 14,621,722

NOTE 14 — STOCK-BASED COMPENSATION

There was no stock-based compensation expense for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, March 31, 2023.

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NOTE 15 — RELATED PARTY TRANSACTIONS

The Company has a corporate policy governing the identification, review, consideration and approval or ratification of transactions with related persons, as that term is defined in the Instructions to Item 404(a) of Regulation S-K, promulgated under the Securities Act ("Related Party") persons. Under this policy, all Related Party related party transactions are identified and approved prior to consummation of the transaction to ensure they are consistent with the Company's best interests and the best interests of its shareholders. Among other factors, the Company's Board considers the size There are no related party transactions subject to reporting as of March 31, 2024 and duration of the transaction, the nature and interest of the of the Related Party in the transaction, whether the transaction may involve a conflict of interest and if the transaction is on terms that are at least as favorable to the Company as would be available in a comparable transaction with an unaffiliated third party. Envela's Board reviews all Related Party transactions at least annually to determine if it is in the Board's best interests and the best interests of the Company's shareholders to continue, modify, or terminate any of the Related Party transactions. Envela's Related Person Transaction Policy is available for review in its entirety under the "Investors" menu of the Company's corporate relations website at www.envela.com. March 31, 2023.

NOTE 16 — CONTINGENCIES

Inflation continues We review the need to adversely affect global economic business conditions. Future sales on products like ours could decline or fluctuate due to increased or fluctuating commodities prices, particularly gold. The Federal Reserve has continued raising interest rates to combat inflation accrue for any loss contingency and restore price stability and establish a liability when, in the opinion of management, it is expected probable that rates will continue to rise at a slower and more deliberate pace through fiscal 2023. Although we are continuing to monitor and assess the economic effects of inflation, the ultimate impact is highly uncertain and subject to change. In addition, the economic effects of the foregoing are subject to, among other things, the effect of government responses on our operations.

The global tension caused by the conflicts between Russia and Ukraine and within the Middle East has upset the stability within the region of the former Soviet era block matter would result in a liability and the whole amount of loss, if any, can be reasonably estimated. We do not believe that the Middle East. This could lead to further volatility resolution of any currently pending lawsuits, claims, and proceedings, either individually or in global energy the aggregate, will have a material adverse effect on financial position, results of operations or liquidity. However, the outcomes of any currently pending lawsuits, claims and other industries proceedings cannot be predicted, and therefore, there can be no assurance that could negatively impact our operations. The U.S. government has imposed sanctions and export controls against Russia and Russian interests and threatened

additional sanctions and controls, which have impacted global supply chains. The impact of these measures, as well as other measures taken, as it concerns our operations is currently unknown. this will be the case.

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

Unless the context indicates otherwise for one of our specific operating segments, references to "we," "us," "our," "the Company" the "Company" and "Envela" refer to the consolidated business operations of Envela Corporation, and all of its direct and indirect subsidiaries.

Forward-Looking Statements

This Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 (this "Form 10-Q"), including but not limited to: (i) the section of this Form 10-Q entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations;" (ii) information concerning our business prospects or future financial performance, anticipated revenues, expenses, profitability or other financial items; and (iii) our strategies, plans and objectives, together with other statements that are not historical facts, includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements generally can be identified by the use of forward-looking terminology, such as "may," "will," "would," "expect," "intend," "could," "estimate," "should," "anticipate," "potential," "continue," "deploy" or "believe." We intend that all forward-looking statements be subject to the safe harbors created by these laws. All statements other than statements of historical information provided herein are forward-looking based on current expectations regarding important risk factors. Many of these risks and uncertainties are beyond our ability to control, and, in many cases, we cannot predict all of the risks and uncertainties that could cause our actual results to differ materially from those expressed in the forward-looking statements. Actual results could differ materially from those expressed in the forward-looking statements, and readers should not regard those statements as a representation by us or any other person that the results expressed in the statements will be achieved. Important risk factors that could cause results or events to differ from current expectations are described under the section entitled "Risk Factors" in the Company's 2022 2023 Annual Report and any material updates are described under the section of this Form 10-Q entitled "Risk Factors" and elsewhere in this Form 10-Q. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of our business. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date thereon, including without limitation, changes in our business strategy or planned capital expenditures, or store growth plans, or to reflect the occurrence of unanticipated events.

[Envela Overview](#) [Introduction](#)

This section includes a discussion of our operations for the three months ended March 31, 2024 and March 31, 2023. The Company operates through two recommerce business segments represented by customer designations, following discussion and analysis provides information for which management believes is relevant to an assessment and understanding of our financial condition and results of operations. The consumer segment, formerly known as discussion should be read in conjunction with the DGSE segment, focuses on the recommercialization of luxury hard assets, Company's 2023 Annual Report, and the commercial segment formerly known as Unaudited Condensed Consolidated Financial Statements and the ECHG segment, focuses on the recommercialization related Notes thereto included in Part I, Item 1 of business IT equipment and electronic devices. Through the consumer segment, the Company recommercializes luxury hard assets and operates the Dallas Gold and Silver Exchange, Charleston Gold & Diamond Exchange, Kretchmer and Bullion Express brands. Through the commercial segment, the Company recommercializes business IT equipment and electronic devices and operates Echo, ITAD USA, Teladvance, CEX and Avail. Echo focuses on end-of-life electronics recycling and sustainability, ITAD USA provides IT equipment disposition, including compliance and data sanitization services, and Teladvance, CEX and Avail operate as value-added resellers by providing offerings and services to companies looking either to upgrade capabilities or dispose of equipment. In addition to its operations through the consumer and commercial segments, Envela also leases unused space at its Company headquarters in Irving, Texas to third-party tenants. this report.

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Consumer Segment Business Overview

The consumer segment is headquartered in Dallas, Texas and focuses on sustainable, authenticated recommerce of luxury hard assets, including diamonds. Its retail strategy is anchored in being an information resource for clients, bringing transparency to purchase and sale transactions, and offering value and liquidity to those seeking to buy, sell or trade jewelry, fine watches, diamonds, rare coins and currency as well as other valuables. The Company wholesales and retails these items through its Charleston Gold & Diamond Exchange and Dallas Gold & Silver Exchange operations. Dallas Gold & Silver Exchange and Charleston Gold & Diamond Exchange have specialized in buying and selling jewelry for almost 50 years, making our expert staff among the best in the business.

Dallas Gold & Silver Exchange also maintains a number of related operations, on-site jewelry and watch repair and restoration at its Dallas flagship location, and design of custom bridal and fashion jewelry. In addition, it also has a precious-metal bullion-trading operation that buys and sells all forms of gold, silver, platinum and palladium products, including United States and other government-issue coins, private-mint medallions, art bars and trade unit bars.

For additional information regarding the consumer segment, see "Item 1. Business – How We Organize Our Business – Direct-To-Consumer." in the Company's 2022 Annual Report.

Consumer Segment Recommerce Activities

The Company operates a sustainable marketplace for preowned luxury goods. We buy and sell coins, diamonds, jewelry, and related accessories and other merchandise. Our ability to offer quality pre-owned goods at prices significantly lower than original retail prices attracts value-conscious customers. The consumer segment depends on purchasing products and materials from secondary markets. We are reliant on our ability to obtain an adequate supply of products and material at prices or other terms acceptable to us. The gross profit on sales of inventory depends primarily on our assessment of the purchase value at the time the property is purchased and our ability to sell that merchandise in a timely manner.

Consumer Segment Precious Metals Pricing and Business Impact

We are exposed to various market risks. Market risk is the potential loss arising from the adverse changes in market prices and rates. The nature of the consumer operations results in exposure to fluctuations in commodity prices, specifically diamonds, platinum, gold and silver. We do not currently use derivatives to hedge these risks.

As a significant portion of our inventory and sales involve gold and jewelry, our results can be influenced by the market price of gold and diamonds. Our retail sales and gross margin could be materially impacted if prices of diamonds, platinum, gold, or silver rise so significantly that our consumers' behavior changes or if price increases cannot be passed onto our customers.

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Because the consumer segment buys and resells precious metals, it is impacted by fluctuations and changes in precious-metal pricing which rises and falls based upon global supply and demand dynamics, with the greatest impact on us relating to gold as it represents a significant portion of the precious-metal in which we trade. Such fluctuations, particularly with respect to gold, which accounts for a majority of our merchandise costs, can have a significant impact on its earnings and cash availability.

We continue to monitor the economic impact on our operations from surging inflation and the conflicts in Ukraine and the Middle East. Uncertainties exist that could affect our operations or cash flows in the future, such as continued inflationary environmental changes (including, but not limited to, labor, materials, and advertising costs). The Company's ability to recruit and retain qualified team members, organized retail crime, or the consumers' ability to spend on discretionary categories.

Consumer Segment Growth and Expansion

Our continued strategy will be to expand the number of locations we operate through opening new ("de novo") locations in both current markets within DFW and South Carolina. On May 4, 2023, the Company closed on a building, in Phoenix, Arizona, for \$1,231,150 and continues to prepare the building to house our next retail location. We continue to search for other locations to expand. Our ability to add new stores is dependent on several variables, such as projected achievement of internal investment hurdles, the availability of acceptable sites, the regulatory environment, local zoning ordinances, access to capital and the availability of qualified personnel. We see opportunity for further expansion through de novo openings in the United States. The Company expects capital expenditures over the next twelve months including the potential purchase of additional properties.

On September 12, 2023, the Company purchased all of the issued and outstanding stock of Kretchmer. Based on the terms of the purchase, the Company has concluded the Kretchmer Transaction represents a business combination pursuant to Financial Accounting Standards Board Accounting Standards Codification Topic 805, Business Combinations, or ASC 805. The Kretchmer Transaction will be incorporated into the consumer segment.

Commercial Segment Business Overview

The commercial segment operates Echo, ITAD USA, Teladvice, CEX and Avail, through which it primarily buys and resells or recycles electronic components and IT equipment. Echo focuses on end-of-life electronics recycling and also offers disposal transportation and product tracking, ITAD USA provides IT equipment disposition including compliance and data sanitization services and Teladvice, CEX and Avail operates as value-added resellers by providing offerings and services to companies looking to either upgrade capabilities or dispose of equipment. In addition, as a result of the CExchange Transaction, Teladvice offers its customers the ability to further offer their customers the ability to upgrade their old phones through a trade-in program supported by Teladvice. Like the consumer segment, the commercial segment also maintains relationships with refiners for which it sells extracted valuable materials from electronics and IT equipment deemed unsuitable for retail or wholesale customers.

Commercial Segment Recommerce Activities

A portion of the commercial business depends on obtaining products and material from secondary markets and is reliant on its ability to obtain an adequate supply of products and material at prices and other items acceptable to it. Although we believe that the long-term prospects for the industry remain bright, but because we do not have unlimited backlog, our business can be promptly affected by short-term market fluctuations and supply limitations.

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Commercial Segment Metals Pricing and Business Impact

The commercial recycling business is affected by precious and other non-ferrous metal prices, which fluctuate based upon global supply-and-demand dynamics, among other things, with the greatest impact relating to gold. As discussed below, we have seen a recent decrease of recycled items, which we believe is primarily due to the supply chain problems downstream with our customers.

Commercial Segment Growth and Expansion

The commercial strategy is to expand both organically and through acquisitions. As an organization, we strive to deliver value through organic growth, high customer loyalty and retention as well as strategic acquisitions. We are committed to continuous innovation. Many of our clients have made commitments to going carbon neutral over the next few years

and we see the potential to further expand key relationships as we partner with them in more ways to help them achieve their goal. With an emphasis on increasing recurring revenues and expanding our margins, commercially we believe our organic strategy will ultimately drive strong financial performance, including cash flow to support our acquisition strategy. Commercial's business strategy has always included pursuing synergistic acquisitions, and we plan to continue to expand the business by making strategic acquisitions and regularly seeking suitable acquisition targets to enhance its growth.

For additional information regarding the commercial segment, see "Item 1. Business—How We Organize Our Business—Commercial Services." in the Company's 2022 Annual Report.

Economic Conditions

Surging inflation, supply chain disruptions and the wars in Ukraine and the Middle East have affected the recommerce business in unpredictable ways. There have been fewer customers raising money by selling items. For more information, see Note 16 to these interim condensed consolidated financial statements.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. GAAP principles. The preparation of these financial statements requires our management to make judgments and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated, and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these judgments and estimates under different assumptions or conditions and any such differences may be material.

While our significant accounting policies are more fully described in "Note 1 — Accounting Policies and Nature of Operations" in the Company's 2022 Annual Report, we believe that the accounting estimates discussed below relate to the more significant areas involving management's judgments and estimates.

Inventories

The consumer segment inventory is valued at the lower of cost or net realizable value ("NRV"). We acquire a majority of our inventory from individual customers, including pre-owned jewelry, watches, bullion, rare coins and monetary collectibles. We acquire these items based on our own internal estimate of the fair value of the items at the time of purchase. We consider factors such as the current spot market price of precious metals and current market demand for the items being purchased. The consumer segment supplements these purchases from individual customers with inventory purchased from wholesale vendors. These wholesale purchases can take the form of full asset purchases, or consigned inventory. Consigned inventory is accounted for on our balance sheet with a fully offsetting contra account so that consigned inventory has a net zero balance. The majority of our inventory has some component of its value that is based on the spot market price of precious metals. Because the overall market value for precious metals regularly fluctuates, these fluctuations could have either a positive or negative impact on the value of our inventory and could positively or negatively impact our profitability. We monitor these fluctuations to evaluate any necessary impairment to inventory.

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The Echo inventory principally includes processed and unprocessed electronic scrap materials. The value of the material is derived from recycling the precious and other scrap metals included in the scrap. The processed and unprocessed materials are carried at the lower of the average cost of the material during the month of purchase or NRV. The in-transit material is carried at lower of cost or NRV using the retail method. Under the retail method the valuation of the inventory at cost and the resulting gross margins are calculated by applying a cost to retail ratio to the retail value of the inventory.

For the three and nine months ended September 30, 2023, we have not identified critical accounting estimates that involve a significant level of estimation uncertainty and would have a material impact on our results. For additional information, refer to Note 3 to these interim condensed consolidated financial statements, where our significant accounting policies are more fully described.

Recent Accounting Pronouncements

See Note 3- Accounting Policies and Estimates, to these interim condensed consolidated financial statements for recently adopted accounting pronouncements.

Use of Non-U.S. GAAP Financial Measures

In this management's discussion and analysis, we use supplemental measures of our performance, which are derived from our interim consolidated financial information, but which are not presented in our interim consolidated financial statements prepared in accordance with U.S. GAAP. We believe that providing these non-U.S. GAAP financial measures adds a meaningful presentation of our operating and financial performance. See the reconciliation of net income to Adjusted EBITDA (defined below), and Net Cash, in Non-U.S. GAAP Financial Measures below.

Critical Accounting Policies and Estimates

There were no material changes to our critical accounting policies and estimates as described in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the Company's 2023 Annual Report.

We believe that the accounting estimates discussed below relate to the more significant areas involving management's judgments and estimates.

Economic Conditions

The U.S. and other world economies are currently experiencing high interest rates and high levels of inflation, coupled with commodity price risk, mainly associated with variations in the market price of precious metals and diamonds which have the potential to impact consumer discretionary spending behavior. Furthermore, adverse macroeconomic conditions can also impact demand for resale technology assets.

As to counterbalance economic cycles that impact market selling prices and/or underlying operating costs we adjust the inbound purchase price of commodity-based products, luxury hard assets and resale technology.

We continuously monitor our inventory positions and associated working capital to respond to market conditions and to meet seasonal business cycles and expansionary plans. These economic cycles may from time to time require the business to utilize its line of credit or seek additional capital. There can be no assurance that the measures we have adopted will be successful in mitigating the aforementioned risks.

General

Envela serves as a holding company, conducting its operations via subsidiaries engaged in various businesses and activities within the re-commerce and recycling sectors. The products and services we offer are delivered by these subsidiaries under their distinct brands, rather than directly by Envela Corporation itself. Our operations are organized into two operating and reportable segments: commercial and consumer.

Consumer Segment

Our consumer segment operates in the jewelry industry, specializing in the online and brick-and-mortar sale of authenticated high-end luxury goods, fine jewelry, watches, and bullion. Our diamonds and gemstones are recycled, meaning they were previously set and then unset to become a new design – allowing for a truly low-carbon, ethical origin. The company focuses on buying and selling pre-owned luxury items, ethically sourced diamonds, gemstones, and precious metals, catering to consumers seeking environmentally responsible options for engagement rings, wedding bands, and other fine jewelry. Our profound commitment to extending the lifespan of luxury goods stems from our understanding that well-crafted items have an enduring quality, enabling them to maintain their beauty and value as they are passed from one owner to another.

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Commercial Segment

Our commercial segment specializes in the de-manufacturing of end-of-life electronic assets to reclaim commodities and other materials, while also engaging in the IT asset disposition (ITAD) industry. The separated commodities, including metals, plastics, and glass, are sold to downstream processors where they are further processed and reintroduced into new products. ITAD services maximize the residual value of retired IT assets by adhering to a reuse-first philosophy and ensuring equipment is refurbished and re-marketed after data sanitization. The company focuses on offering services that manage the entire lifecycle of technology products to ensure data security, regulatory compliance, and environmental sustainability. We are proud of our role to support a circular economy through responsible reuse and recycling of electronic devices.

Segment Activities

The Company believes it is well positioned to take advantage of its overall capital structure.

Consumer Segment

Our strategy is to expand the number of locations we operate through opening new locations throughout the U.S. Likewise, we continue to evaluate opportunities related to complementary product and service offerings for our stores and online business.

Commercial Segment

Our strategy is to expand both organically and through acquisitions. The Company has taken considerable steps to bolster its management team and operating systems as to position itself for growth. Our production facilities are capable of managing the expansion of existing relationships and consolidation of acquisition targets within a relative proximity to our existing facilities.

Change in Disclosure of Results of Operations

The Company previously disaggregated revenue and gross margin by resale and recycle for each segment within the results of operations. The Company's revenue and gross margin is now comprised of more diverse revenue and gross margin streams associated with service offerings and as such to continue reporting under the prior disclosure methodology would be less representative of how the business operates. The Company believes that this change has no material impact on the interpretation of our results of operations.

Recent Accounting Pronouncements

See Note 3 - Accounting Policies and Estimates, to these interim condensed consolidated financial statements for recently adopted accounting pronouncements.

Non-U.S. GAAP Financial Measures

Adjusted EBITDA

Adjusted EBITDA is a key performance measure that our management uses to assess our operating performance. Because Adjusted EBITDA facilitates internal comparisons of our historical operating performance on a more consistent basis, we use this measure as an overall assessment of our performance, to evaluate the effectiveness of our business strategies and for business planning purposes. Adjusted EBITDA may not be comparable to similarly titled metrics of other companies. Adjusted EBITDA means earnings before interest expense, other (income) expense, net, income tax expense, and depreciation and amortization. Adjusted EBITDA is a non-U.S. GAAP measure and should not be considered as an alternative to the presentation of net income or any other measure of financial performance calculated and presented in accordance with U.S. GAAP.

The following table provides a reconciliation of net income to EBITDA for the three months ending September 30, 2023 and 2022:

	For the three months ended September 30,					
	2023			2022		
	Consumer	Commercial	Consolidated	Consumer	Commercial	Consolidated
EBITDA Reconciliation:						
Net Income	\$ 767,376	\$ 940,117	\$ 1,707,493	\$ 1,201,848	\$ 2,115,861	\$ 3,317,709

Add (deduct):							
Depreciation and amortization		75,842	261,871	337,713	103,022	431,942	534,964
Other income		(22,851)	(169,586)	(192,437)	(5,957)	(37,162)	(43,119)
Interest expense		59,631	57,535	117,166	60,619	59,338	119,957
Income tax expense		120,637	197,330	317,967	20,243	43,818	64,061
EBITDA		<u>\$ 1,000,635</u>	<u>\$ 1,287,267</u>	<u>\$ 2,287,902</u>	<u>\$ 1,379,775</u>	<u>\$ 2,613,797</u>	<u>\$ 3,993,572</u>

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The following table provides a reconciliation of net income to **Adjusted EBITDA** for the **nine** **three** months **ending September 30, 2023** ended March 31, 2024 and **2022**:

	For the nine months ended June 30,						For the Three Months Ended March 31,					
	2023			2022			2024			2023		
	Consumer	Commercial	Consolidated	Consumer	Commercial	Consolidated	Consumer	Commercial	Consolidated	Consumer	Commercial	Consolidated
EBITDA												
Reconciliation:												
Adjusted EBITDA												
Reconciliation:												
Net Income	<u>\$ 3,072,567</u>	<u>\$ 2,764,952</u>	<u>\$ 5,837,519</u>	<u>\$ 4,844,572</u>	<u>\$ 4,968,220</u>	<u>\$ 9,812,792</u>	<u>\$ 88,476</u>	<u>\$ 1,819,063</u>	<u>\$ 1,907,539</u>	<u>\$ 1,136,884</u>	<u>\$ 1,382,290</u>	<u>\$ 3,993,572</u>
Add (deduct):												
Depreciation and amortization	<u>253,385</u>	<u>774,853</u>	<u>1,028,238</u>	<u>311,419</u>	<u>795,008</u>	<u>1,106,427</u>	<u>93,676</u>	<u>249,889</u>	<u>343,565</u>	<u>98,134</u>	<u>297,699</u>	<u>3,993,572</u>
Other income	<u>(70,315)</u>	<u>(486,553)</u>	<u>(556,868)</u>	<u>(29,970)</u>	<u>(61,190)</u>	<u>(91,160)</u>	<u>(8,005)</u>	<u>(230,523)</u>	<u>(238,528)</u>	<u>(23,534)</u>	<u>(1,382,290)</u>	<u>\$ 2,386,009</u>
Interest expense	<u>177,458</u>	<u>171,460</u>	<u>348,918</u>	<u>183,523</u>	<u>180,715</u>	<u>364,238</u>	<u>64,401</u>	<u>56,453</u>	<u>120,854</u>	<u>59,618</u>	<u>\$ 2,683,708</u>	<u>\$ 1,588,943</u>
Income tax expense	<u>778,150</u>	<u>756,037</u>	<u>1,534,187</u>	<u>48,811</u>	<u>95,794</u>	<u>144,605</u>	<u>59,151</u>	<u>491,127</u>	<u>550,278</u>	<u>317,841</u>	<u>393,326</u>	<u>\$ 1,907,539</u>
EBITDA	<u><u>\$ 4,211,245</u></u>	<u><u>\$ 3,980,749</u></u>	<u><u>\$ 8,191,994</u></u>	<u><u>\$ 5,358,355</u></u>	<u><u>\$ 5,978,547</u></u>	<u><u>\$ 11,336,902</u></u>						
Adjusted EBITDA							<u>\$ 297,699</u>	<u>\$ 2,386,009</u>	<u>\$ 2,683,708</u>	<u>\$ 1,588,943</u>	<u>\$ 1,907,539</u>	<u>\$ 3,993,572</u>
Net Cash												

Net Cash is the difference between (i) cash and cash equivalents and (ii) the sum of debt obligations. We believe that presenting net of cash is useful to investors as a measure of our leverage, as cash and cash equivalents can be used, among other things, to repay indebtedness.

The following table depicts the Company's net cash:

	March 31,		December 31,	
	2024	2023	2024	2023
Total cash				
	<u>\$ 19,783,867</u>	<u>\$ 17,853,853</u>		
Less: debt obligations				
	<u>(14,621,722)</u>	<u>(14,933,491)</u>		
Net cash				
	<u><u>\$ 5,162,145</u></u>	<u><u>\$ 2,920,362</u></u>		

The Company had a net cash position of \$5,162,145 for the period ended March 31, 2024, as compared to a net cash position of \$2,920,362 for the period ended December 31, 2023.

Results of Operations

The following disaggregation table depicts our disaggregated statements of total revenue is listed by sales category and segment income for the three months ended **September 30, 2023** **March 31, 2024** and **2022**:**2023**:

CONSOLIDATED	Three Months Ended September 30,					
	2023			2022		
	Revenues	Gross Profit	Margin	Revenues	Gross Profit	Margin
<u>Consumer</u>						
Resale	\$ 23,807,040	\$ 2,791,390	11.7 %	\$ 28,172,732	\$ 3,251,153	11.5 %
Recycled	3,074,162	797,873	26.0 %	2,254,522	498,210	22.1 %
Subtotal	<u>26,881,202</u>	<u>3,589,263</u>	<u>13.4 %</u>	<u>30,427,254</u>	<u>3,749,363</u>	<u>12.3 %</u>
<u>Commercial</u>						
Resale	6,990,285	4,802,548	68.7 %	11,518,168	6,465,386	56.1 %
Recycled	2,394,784	1,342,471	56.1 %	3,252,264	1,640,908	50.5 %
Subtotal	<u>9,385,069</u>	<u>6,145,019</u>	<u>65.5 %</u>	<u>14,770,432</u>	<u>8,106,294</u>	<u>54.9 %</u>
	<u><u>\$ 36,266,271</u></u>	<u><u>\$ 9,734,282</u></u>	<u><u>26.8 %</u></u>	<u><u>\$ 45,197,686</u></u>	<u><u>\$ 11,855,657</u></u>	<u><u>26.2 %</u></u>

	For the Three Months Ended March 31,							
	2024				2023			
	Consumer	Commercial	Consolidated	% of Sales ⁽¹⁾	Consumer	Commercial	Consolidated	% of Sales ⁽¹⁾
Sales	\$ 28,226,017	\$ 11,631,763	\$ 39,857,780	100.0 %	\$ 36,704,397	\$ 13,105,135	\$ 49,809,532	100.0 %
Cost of goods sold	24,676,828	4,860,268	29,537,096	74.1 %	32,719,429	5,680,201	38,399,630	77.1 %
Gross margin	3,549,189	6,771,495	10,320,684	25.9 %	3,984,968	7,424,934	11,409,902	22.9 %
Expenses:								
Selling, general and administrative	3,251,490	4,385,486	7,636,976	19.2 %	2,396,025	5,509,278	7,905,303	15.9 %
Depreciation and amortization	93,676	249,889	343,565	0.8 %	98,134	256,217	354,351	0.7 %
Total operating expenses	3,345,166	4,635,375	7,980,541	20.0 %	2,494,159	5,765,495	8,259,654	16.6 %
Operating income	204,023	2,136,120	2,340,143	5.9 %	1,490,809	1,659,439	3,150,248	6.3 %
Other income/(expense):								
Other income	8,005	230,523	238,528	0.6 %	23,534	187,245	210,779	0.4 %
Interest expense	(64,401)	(56,453)	(120,854)	-0.3 %	(59,618)	(57,446)	(117,064)	-0.2 %
Income before income taxes	147,627	2,310,190	2,457,817	6.2 %	1,454,725	1,789,238	3,243,963	6.5 %
Income tax expense	(59,151)	(491,127)	(550,278)	-1.4 %	(317,841)	(399,805)	(717,646)	-1.5 %
Net income	<u>\$ 88,476</u>	<u>\$ 1,819,063</u>	<u>\$ 1,907,539</u>	<u>4.8 %</u>	<u>\$ 1,136,884</u>	<u>\$ 1,389,433</u>	<u>\$ 2,526,317</u>	<u>5.1 %</u>

(1) The "% of Sales" figures present the proportion of each line item to the total consolidated sales for the respective period, which management believes is relevant to an assessment and understanding of our financial condition and results of operations.

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The individual segments reported the following:

Sales

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
Consolidated	\$ 39,857,780	\$ 49,809,532	\$ (9,951,752)	-20.0%
% of consolidated sales	100.0%	100.0%		
Consumer	\$ 28,226,017	\$ 36,704,397	\$ (8,478,380)	-23.1%
% of consumer sales	100.0%	100.0%		
Commercial	\$ 11,631,763	\$ 13,105,135	\$ (1,473,372)	-11.2%
% of commercial sales	100.0%	100.0%		

Consolidated

Sales decreased by \$9,951,752, or 20.0%, during the three months ended **September 30, 2023** **March 31, 2024** to \$39,857,780, as compared to \$49,809,532 during the same period in 2023.

Consumer Segment

Sales in the consumer segment decreased by \$8,478,380, or 23.1%, during the three months ended March 31, 2024 to \$28,226,017, as compared to \$36,704,397 during the same period in 2023. The change was primarily attributed to building an inventory position in advance of opening our Arizona stores and **2022** as such the business had to allocate inventory to these stores that would have relieved in a normal operating cycle.

Commercial Segment

Sales in the commercial segment decreased by \$1,473,372, or 11.2%, during the three months ended March 31, 2024 to \$11,631,763, as compared to \$13,105,135 during the same period in 2023. The change was primarily attributed to lower revenue from softened demand for reuse hard drives, but was offset by stronger sales from the resale of personal technology assets. We had a strong supply of personal technology assets from our retail trade in partners who destocked in late Fiscal 2023.

Cost of Goods Sold

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
Consolidated	\$ 29,537,096	\$ 38,399,630	\$ (8,862,534)	-23.1%
% of consolidated sales	74.1%	77.1%		
Consumer	\$ 24,676,828	\$ 32,719,429	\$ (8,042,601)	-24.6%
% of consumer sales	87.4%	89.1%		
Commercial	\$ 4,860,268	\$ 5,680,201	\$ (819,933)	-14.4%
% of commercial sales	41.8%	43.3%		

Consolidated

Cost of goods sold decreased by \$8,862,534, or 23.1%, during the three months ended March 31, 2024 to \$29,537,096, as compared to \$38,399,630 during the same period in 2023.

Consumer Segment

Cost of goods sold in the consumer segment decreased by \$8,042,601, or 24.6%, during the three months ended March 31, 2024 to \$24,676,828, as compared to \$32,719,429 during the same period in 2023. The change was primarily attributed to the aforementioned inventory build and by a mix of higher margin assets relieved from inventory which correspondingly had favorable impact on cost of goods sold as a % of sales.

[Table of Contents](#)**Commercial Segment**

Cost of goods sold in the commercial segment decreased by \$819,933, or 14.4%, during the three months ended March 31, 2024 to \$4,860,268, as compared to \$5,680,201 during the same period in 2023. The change was primarily attributed overall lower volumes and by a mix of higher margin assets relieved from inventory which correspondingly had a favorable impact on cost of goods sold as a % of sales.

Gross Margin

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
Consolidated	\$ 10,320,684	\$ 11,409,902	\$ (1,089,218)	-9.5%
% of consolidated sales	25.9 %	22.9 %		
Consumer	\$ 3,549,189	\$ 3,984,968	\$ (435,779)	-10.9%
% of consumer sales	12.6 %	10.9 %		
Commercial	\$ 6,771,495	\$ 7,424,934	\$ (653,439)	-8.8%
% of commercial sales	58.2 %	56.7 %		
Consolidated				

Gross margin decreased by \$1,089,218, or 9.5%, during the three months ended March 31, 2024 to \$10,320,684, as compared to \$11,409,902 during the same period in 2023.

Consumer Segment

Gross margin in the consumer segment decreased by \$435,779, or 10.9%, during the three months ended March 31, 2024 to \$3,549,189, as compared to \$3,984,968 during the same period in 2023. The net impact of the aforementioned resulted in sales contributing \$(8,478,380) and cost of goods sold contributing \$8,042,601 to the net decrease in gross margin of \$435,779.

Commercial Segment

Gross margin in the commercial segment decreased by \$653,439, or 8.8%, during the three months ended March 31, 2024 to \$6,771,495, as compared to \$7,424,934 during the same period in 2023. The net impact of the aforementioned resulted in sales contributing \$(1,473,372) and cost of goods sold contributing \$819,933 to the net decrease in gross margin of \$653,439.

Selling, General and Administrative

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
Consolidated	\$ 7,636,976	\$ 7,905,303	\$ (268,327)	-3.4%
% of consolidated sales	19.2 %	15.9 %		
Consumer	\$ 3,251,490	\$ 2,396,025	\$ 855,465	35.7%
% of consumer sales	11.5 %	6.5 %		
Commercial	\$ 4,385,486	\$ 5,509,278	\$ (1,123,792)	-20.4%
% of commercial sales	37.7 %	42.0 %		
Consolidated				

Selling, general and administrative expense decreased by \$268,327, or 3.4%, during the three months ended March 31, 2024 to \$7,636,976, as compared to \$7,905,303 during the same period in 2023.

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Consumer Segment

Selling, general and administrative expense in the consumer segment increased by \$855,465, or 35.7%, during the three months ended March 31, 2024 to \$3,251,490, as compared to \$2,396,025 during the same period in 2023. The change was primarily attributed to the onboarding of human capital, training and travel costs associated with our Arizona stores opening. As the Arizona stores open and sales are generated, our selling, general and administrative expense is expected to realign as a % of sales.

Commercial Segment

Selling, general and administrative expense in the commercial segment decreased by \$1,123,792, or 20.4%, during the three months ended March 31, 2024 to \$4,385,486, as compared to \$5,509,278 during the same period in 2023. The change was primarily attributed to operational focus on human capital costs and processing efficiencies at our production facilities as they continue to align costs with our business model and margin achievement.

Depreciation and Amortization

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
Consolidated	\$ 343,565	\$ 354,351	\$ (10,786)	-3.0%
% of consolidated sales	0.8 %	0.7 %		

Consumer	\$ 93,676	\$ 98,134	\$ (4,458)	-4.5%
<i>% of consumer sales</i>	0.3%	0.3%		
Commercial	\$ 249,889	\$ 256,217	\$ (6,328)	-2.5%
<i>% of commercial sales</i>	2.1%	2.0%		

Consolidated

Depreciation and amortization expense decreased by \$10,786, or 3.0%, during the three months ended March 31, 2024 to \$343,565, as compared to \$354,351 during the same period in 2023.

Consumer Segment

Depreciation and amortization expense in the consumer segment decreased by \$4,458, or 4.5%, during the three months ended March 31, 2024 to \$93,676, as compared to \$98,134 during the same period in 2023. There was no material impact from assets capitalized or reaching maturity in the comparative periods and as such no discussion point.

Commercial Segment

Depreciation and amortization expense in the commercial segment decreased by \$6,328, or 2.5%, during the three months ended March 31, 2024 to \$249,889, as compared to \$256,217 during the same period in 2023. There was no material impact from assets capitalized or reaching maturity in the comparative periods and as such no discussion point.

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Other Income/(Expense)

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
Consolidated	\$ 238,528	\$ 210,779	\$ 27,749	13.2%
<i>% of consolidated sales</i>	0.6%	0.4%		
Consumer	\$ 8,005	\$ 23,534	\$ (15,529)	-66.0%
<i>% of consumer sales</i>	0.0%	0.1%		
Commercial	\$ 230,523	\$ 187,245	\$ 43,278	23.1%
<i>% of commercial sales</i>	2.0%	1.4%		

Other income increased by \$27,749, or 13.2%, during the three months ended March 31, 2024 to \$238,528, as compared to \$210,779 during the same period in 2023.

Consumer Segment

Other income in the consumer segment decreased by \$15,529, or 66.0%, during the three months ended March 31, 2024 to \$8,005, as compared to \$23,534 during the same period in 2023. The change was primarily attributed to higher working capital requirements as the Company is carrying a higher inventory position from the aforementioned costs of launching our Arizona stores and as such there was less excess cashflow available to sweep to their interest-bearing cash account.

Interest income comprised \$6 and \$21,564 of other income during the three months ended March 31, 2024 and March 31, 2023, respectively.

Commercial Segment

Other income in the commercial segment increased by \$43,278, or 23.1%, during the three months ended March 31, 2024 to \$230,523, as compared to \$187,245 during the same period in 2023. The change was primarily attributed to a reduction in accounts receivable from the completion of a large SOW with a recurring customer in which excess cashflow above working capital requirements was swept to their interest-bearing cash account.

Interest income comprised \$196,562 and \$61,378 of other income during the three months ended March 31, 2024 and March 31, 2023, respectively.

Interest Expense

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
Consolidated	\$ (120,854)	\$ (117,064)	\$ (3,790)	3.2%
<i>% of consolidated sales</i>	-0.3%	-0.2%		
Consumer	\$ (64,401)	\$ (59,618)	\$ (4,783)	8.0%
<i>% of consumer sales</i>	-0.2%	-0.2%		
Commercial	\$ (56,453)	\$ (57,446)	\$ 993	-1.7%

% of commercial sales	-0.5%	-0.4%
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Consolidated

Interest expense increased by \$3,790, or 3.2%, during the three months ended March 31, 2024 to \$120,854, as compared to \$117,064 during the same period in 2023.

Consumer Segment

Interest expense in the consumer segment increased by \$4,783, or 8.0%, during the three months ended March 31, 2024 to \$64,401, as compared to \$59,618 during the same period in 2023. There was no material impact from additions or amortization in the comparative periods and as such no discussion point.

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Commercial Segment

Interest expense in the commercial segment decreased by \$993, or 1.7%, during the three months ended March 31, 2024 to \$56,453, as compared to \$57,446 during the same period in 2023. There was no material impact from amortization in the comparative periods and as such no discussion point.

Income Tax Expense

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
Consolidated	\$ (550,278)	\$ (717,646)	\$ 167,368	-23.3%
% of consolidated sales	-1.4%	-1.5%		
Consumer	\$ (59,151)	\$ (317,841)	\$ 258,690	-81.4%
% of consumer sales	-0.2%	-0.9%		
Commercial	\$ (491,127)	\$ (399,805)	\$ (91,322)	22.8%
% of commercial sales	-4.2%	-3.1%		

Consolidated

Income tax expense, for both segments, for the three months ended March 31, 2024, was \$550,278, a decrease of \$167,368, as compared to income tax expense of \$717,646 for the three months ended March 31, 2023. Currently, the Company has a deferred tax liability reflecting a future obligation to pay taxes. The Company has a federal tax rate of approximately 21.0%, in addition to other state and local taxes, on net income. The effective income tax rate was 22.4% and 22.1% for the three months ended March 31, 2024 and 2023, respectively. Differences between our effective income tax rate and the U.S. federal statutory rate are the result of state taxes and non-deductible expenses, as was the Company's case for the increase for the three months ended March 31, 2024, compared to the three months ended March 31, 2023.

Net Income

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
Consolidated	\$ 1,907,539	\$ 2,526,317	\$ (618,778)	-24.5%
% of consolidated sales	4.8%	5.1%		
Consumer	\$ 88,476	\$ 1,136,884	\$ (1,048,408)	-92.2%
% of consumer sales	0.3%	3.1%		
Commercial	\$ 1,819,063	\$ 1,389,433	\$ 429,630	30.9%
% of commercial sales	15.6%	10.6%		

Consolidated

Net income decreased by \$618,778, or 24.5%, during the three months ended March 31, 2024 to \$1,907,539, as compared to \$2,526,317 during the same period in 2023.

Consumer Segment

Net income decreased in the consumer segment by \$1,048,408, or 92.2%, during the three months ended March 31, 2024 to \$88,476, as compared to \$1,136,884 during the same period in 2023. Refer to the aforementioned attributes discussed within the Comparison of Three Months Ended March 31, 2024 and 2023 for further details.

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Commercial Segment

Net income increased in the commercial segment by \$429,630, or 30.9%, during the three months ended March 31, 2024 to \$1,819,063, as compared to \$1,389,433 during the same period in 2023. Refer to the aforementioned attributes discussed within the Comparison of Three Months Ended March 31, 2024 and 2023 for further details.

Earnings Per Share

Resale Revenue The following table depicts the Company's earnings per share:

	Three Months Ended September 30,		Change	
	2023	2022	Amount	%
Resale Revenue				
Consolidated	\$ 30,797,325	\$ 39,690,900	\$ (8,893,575)	-22 %
Consumer	\$ 23,807,040	\$ 28,172,732	\$ (4,365,692)	-15 %
Commercial	\$ 6,990,285	11,518,168	\$ (4,527,883)	-39 %

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
Consolidated	\$ 0.07	\$ 0.09	\$ (0.02)	-22.2%

Consolidated

Earnings per share, for the three months ended March 31, 2024, for net income per basic and diluted shares attributable to holders of our Common Stock was \$0.07, compared to \$0.09 per basic and diluted shares attributable to holders of our Common Stock for the three months ended March 31, 2023.

Liquidity and Capital Resources

The following table summarizes the Company's Consolidated Statement of Cashflows:

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
Net cash provided by (used in):				
Operating activities	\$ 3,791,721	\$ 2,924,025	\$ 867,696	29.7%
Investing activities	(644,792)	569,522	\$ (1,214,314)	-213.2%
Financing activities	(1,216,915)	(310,807)	\$ (906,108)	291.5%
Net increase in cash and cash equivalents	\$ 1,930,014	\$ 3,182,740	\$ (1,252,726)	-39.4%

Operating Activities

During the three months ended March 31, 2024, cash flows provided by operations totaled \$3,791,721, and during the three months ended March 31, 2023, cash flows provided by operations totaled \$2,924,025, a change of \$867,696. The increase in cash provided by operations for the three months ended March 31, 2024 was driven primarily by an increase in cash generated from a settlement of a large SOW with a recurring customer.

Investing Activities

During the three months ended March 31, 2024 and 2023, cash flows (used in) provided by investing activities totaled \$(644,792) and \$569,522, respectively, a change of \$(1,214,314). The increase in cash used in investing activities during the three months ended March 31, 2024 was primarily attributed to an increase in capital expenditures related to our enterprise resource planning system, improvements to our corporate headquarters and leaseholds for our planned Arizona stores. The prior comparative period included a favorable \$569,522 movement, which primarily consisted of payments received from notes receivable of \$578,250, offset by the purchase of property and equipment of \$8,728, which further contributed to the variance.

Financing Activities

During the three months ended March 31, 2024 and 2023, cash flows (used in) financing activities totaled \$(1,216,915) and \$(310,807), respectively, a change of \$(906,108). The increase in cash used in financing activities during the three months ended March 31, 2024 was primarily due to our share buyback plan as principal payments on debt were in relative parity.

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Resale revenue decreased by \$8,893,575, or 22%, during the three months ended September 30, 2023 to \$30,797,325, as compared to \$39,690,900 during the same period in 2022. The individual segments reported the following: **Capital Resources**

Resale revenue related to the consumer segment decreased by \$4,365,692, or 15%, during the three months ended September 30, 2023, to \$23,807,040, as compared to \$28,172,732 during the same period in 2022. Resale revenue decreased for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, primarily due to a reduction in gold and silver bullion ounces sold, partially offset by higher average selling prices of gold and silver.

Resale revenue related to the commercial segment decreased by \$4,527,883, or 39%, during the three months ended September 30, 2023, to \$6,990,285, as compared to \$11,518,168 during the same period in 2022. Resale revenue decreased for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, primarily due to a post pandemic normalization of product from cable operator clients and a decrease in reusable photovoltaic modules.

Recycled Revenue

	Three Months Ended September 30,		Change	
	2023	2022	Amount	%
Recycled Revenue				
Consolidated	\$ 5,468,946	\$ 5,506,786	\$ (37,840)	-0.01 %
Consumer	\$ 3,074,162	2,254,522	\$ 819,640	36 %
Commercial	\$ 2,394,784	3,252,264	\$ (857,480)	-26 %

Recycled revenue decreased by \$37,840, or 0.01%, during the three months ended September 30, 2023 to \$5,468,946, as compared to \$5,506,786 during the same period in 2022.

The individual segments reported the following:

Recycled revenue related to the consumer segment increased by \$819,640, or 36%, during the three months ended September 30, 2023, to \$3,074,162, as compared to \$2,254,522 during the same period in 2022. The increase in recycled revenue for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, primarily due to an increase in over-the-counter purchases made directly from customers. The surge in transactions is believed to be largely driven by the ongoing inflationary pressures, which has led to a higher demand from individuals seeking funds for emergency situations, bills, or other financial responsibilities.

Recycled revenue related to the commercial segment decreased by \$857,480, or 26%, during the three months ended September 30, 2023, to \$2,394,784, as compared to \$3,252,264 during the same period in 2022. Recycled revenue decreased for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, primarily due to a post pandemic normalization of product from cable operator clients and a decrease in photovoltaic module recycling.

Gross Profit - Resale

	Three Months Ended September 30,		Change	
	2023	2022	Amount	%
Gross Profit - Resale				
Consolidated	\$ 7,593,938	\$ 9,716,539	\$ (2,122,601)	-22 %
Consumer	\$ 2,791,390	3,251,153	\$ (459,763)	-14 %
Commercial	\$ 4,802,548	6,465,386	\$ (1,662,838)	-26 %

Resale gross profit decreased by \$2,122,601, or 22%, during the three months ended September 30, 2023 to \$7,593,938, as compared to \$9,716,539 during the same period in 2022. The individual segments reported the following:

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Resale gross profit related to the consumer operations for the three months ended September 30, 2023, decreased by \$459,763, or 14%, to \$2,791,390, as compared to resale gross profit of \$3,251,153 during the same period in 2022. The decrease in resale gross profit was due primarily to a decrease in resale revenue.

Resale gross profit related to the commercial operations for the three months ended September 30, 2023, decreased by \$1,662,838, or 26%, to \$4,802,548, as compared to resale gross profit of \$6,465,386 during the same period in 2022. The decrease in resale gross profit was primarily due to the decrease in resale revenue during the three months ended September 30, 2023, as compared to the same period in 2022.

Gross Profit - Recycled

	Three Months Ended September 30,		Change	
	2023	2022	Amount	%
Gross Profit - Recycled				
Consolidated	\$ 2,140,344	\$ 2,139,118	\$ 1,226	0.06 %
Consumer	\$ 797,873	498,210	\$ 299,663	60 %
Commercial	\$ 1,342,471	1,640,908	\$ (298,437)	-18 %

Recycled gross profit increased by \$1,226, or 0.06%, during the three months ended September 30, 2023 to \$2,140,344, as compared to \$2,139,118 during the same period in 2022. The individual segments reported the following:

Recycled gross profit related to the consumer operations for the three months ended September 30, 2023, increased by \$299,663, or 60%, to \$797,873, as compared to gross profit of \$498,210 during the same period in 2022. The increase in recycled gross profit was primarily due to the increase in recycled revenue of 36%, and the increase of gross profit percentage to 26% during the three months ended September 30, 2023 as compared to 22.1% during the three months ended September 30, 2022.

Recycled gross profit related to the commercial operations for the three months ended September 30, 2023, decreased by \$298,437, or 18%, to \$1,342,471, as compared to gross profit of \$1,640,908 during the same period in 2022. The decrease in recycled gross profit was due primarily to a 26% decrease in recycled revenue during the three months ended September 30, 2023, as compared to the same period in 2022.

	For The Three Months Ended September 30,					
	2023			2022		
	Consumer	Commercial	Consolidated	Consumer	Commercial	Consolidated
Revenue:						
Sales	\$ 26,881,202	\$ 9,385,069	\$ 36,266,271	\$ 30,427,254	\$ 14,770,432	\$ 45,197,686
Cost of goods sold	<u>23,291,939</u>	<u>3,240,050</u>	<u>26,531,989</u>	<u>26,677,891</u>	<u>6,664,138</u>	<u>33,342,029</u>
Gross profit	3,589,263	6,145,019	9,734,282	3,749,363	8,106,294	11,855,657
Expenses:						
Selling, general and administrative expenses	2,588,628	4,857,752	7,446,380	2,369,588	5,492,497	7,862,085
Depreciation and amortization	<u>75,842</u>	<u>261,871</u>	<u>337,713</u>	<u>103,022</u>	<u>431,942</u>	<u>534,964</u>
	2,664,470	5,119,623	7,784,093	2,472,610	5,924,439	8,397,049
Operating income	<u>924,793</u>	<u>1,025,396</u>	<u>1,950,189</u>	<u>1,276,753</u>	<u>2,181,855</u>	<u>3,458,608</u>
Other income/expense:						
Other income	22,851	169,586	192,437	5,957	37,162	43,119
Interest expense	<u>59,631</u>	<u>57,535</u>	<u>117,166</u>	<u>60,619</u>	<u>59,338</u>	<u>119,957</u>
Income before income taxes	888,013	1,137,447	2,025,460	1,222,091	2,159,679	3,381,770
Income tax expense	<u>120,637</u>	<u>197,330</u>	<u>317,967</u>	<u>20,243</u>	<u>43,818</u>	<u>64,061</u>
Net income	<u>\$ 767,376</u>	<u>\$ 940,117</u>	<u>\$ 1,707,493</u>	<u>\$ 1,201,848</u>	<u>\$ 2,115,861</u>	<u>\$ 3,317,709</u>

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Selling, General and Administrative

	Three Months Ended September 30,		Change	
	2023	2022	Amount	%
Selling, General and Administrative				
Consolidated	\$ 7,446,380	\$ 7,862,085	\$ (415,705)	-5 %
Consumer	\$ 2,588,628	\$ 2,369,588	\$ 219,040	9 %
Commercial	\$ 4,857,752	\$ 5,492,497	\$ (634,745)	-12 %

Selling, General and Administrative Expenses decreased by \$415,705, or 5%, during the three months ended September 30, 2023 to \$7,446,380, as compared to \$7,862,085 during the same period in 2022. The individual segments reported the following:

Selling, General and Administrative Expenses, for the consumer segment, for the three months ended September 30, 2023, increased by \$219,040, or 9%, to \$2,588,628, as compared to \$2,369,588 during the same period in 2022. The increase was primarily due to increased expenses related to expanding our footprint into Arizona and other markets. Starting January 1, 2023, expenses previously classified as other expenses related to corporate campus overhead have been classified as operating expenses within the selling, general, and administrative expenses category. The corporate campus overhead for 2022 initially recorded as other expense has been restated here to be included in selling, general, and administrative expenses for comparison purposes.

Selling, General and Administrative Expenses, for the commercial segment for the three months ended September 30, 2023, decreased by \$634,745, or 12%, to \$4,857,752, as compared to \$5,492,497 during the same period in 2022. This decrease is primarily due to factors such as a decrease in wages and related costs, as well as the decrease in equipment supplies and rentals. Starting January 1, 2023, expenses previously classified as other expenses related to corporate campus overhead have been classified as operating expenses within the selling, general, and administrative expenses category. The corporate campus overhead for 2022 initially recorded as other expense has been restated here to be included in selling, general, and administrative expenses for comparison purposes.

Depreciation and Amortization

	Three Months Ended September 30,	Change

	2023	2022	Amount	%
Depreciation and Amortization				
Consolidated	\$ 337,715	\$ 534,964	\$ (197,249)	-37 %
Consumer	\$ 75,843	\$ 103,022	\$ (27,179)	-26 %
Commercial	\$ 261,872	\$ 431,942	\$ (170,070)	-39 %

Depreciation and amortization decreased by \$197,249, or 37%, during the three months ended September 30, 2023 to \$337,715, as compared to \$534,964 during the same period in 2022. The individual segments reported the following:

Depreciation and amortization, for the consumer segment, for the three months ended September 30, 2023, decreased by \$27,179, or 26%, to \$75,843, as compared to \$103,022 during the same period in 2022. The decrease was primarily due to some of the fixed assets and intangible assets being fully depreciated and fully amortized.

Depreciation and amortization, for the commercial segment, for the three months ended September 30, 2023, decreased by \$170,070, or 39%, to \$261,872, as compared to \$431,942 during the same period in 2022. The decrease was primarily due to the amortization of increased intangible assets identified from the Avail Transaction during the three months ended September 30, 2022, as compared to the three months ended September 30, 2023. The commercial segment needed to catch up with amortizing the intangible assets once they were identified.

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Other Income

	Three Months Ended September 30,		Change	
	2023	2022	Amount	%
Other Income				
Consolidated	\$ 192,436	\$ 43,119	\$ 149,317	346 %
Consumer	\$ 22,851	\$ 5,957	\$ 16,894	284 %
Commercial	\$ 169,585	\$ 37,162	\$ 132,423	356 %

Other income increased by \$149,317, or 346%, during the three months ended September 30, 2023 to \$192,436, as compared to \$43,119, during the same period in 2022. The individual segments reported the following:

Other income, for the consumer segment, for the three months ended September 30, 2023, increased by \$16,894, or 284%, to \$22,851, as compared to \$5,957 during the same period in 2022. The increase in other income for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022 was primarily due to an increase in interest earned from bank accounts of approximately \$21,700. During December of fiscal 2022, the Company began to move excess working capital funds to savings accounts that paid higher interest rates. Starting January 1, 2023, expenses previously classified as other expenses related to corporate campus overhead have been classified as operating expenses within the selling, general, and administrative expenses category. The corporate campus overhead for 2022 initially recorded as other expense has been restated to be included in selling, general, and administrative expenses for comparison purposes.

Other income, for the commercial segment, for the three months ended September 30, 2023, increased by \$132,423, or 356%, as compared to \$169,585, during the same period in 2022. The increase in other income for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022, was primarily due to an increase in interest earned from bank accounts of approximately \$140,274. During December of fiscal 2022, the Company began to move excess working capital funds to savings accounts that paid higher interest rates. Starting January 1, 2023, expenses previously classified as other expenses related to corporate campus overhead have been classified as operating expenses within the selling, general, and administrative expenses category. The corporate campus overhead for 2022 initially recorded as other expense has been restated to be included in selling, general, and administrative expenses for comparison purposes.

Interest Expense

	Three Months Ended September 30,		Change	
	2023	2022	Amount	%
Interest Expense				
Consolidated	\$ 117,166	\$ 119,957	\$ (2,791)	-2 %
Consumer	\$ 59,631	\$ 60,619	\$ (988)	-2 %
Commercial	\$ 57,535	\$ 59,338	\$ (1,803)	-3 %

Interest expense decreased by \$2,791, or 2%, during the three months ended September 30, 2023 to \$117,166, as compared to \$119,957, during the same period in 2022. The individual segments reported the following:

Interest expense, for the consumer segment, for the three months ended September 30, 2023, decreased by \$988, or 2%, to \$59,631, as compared to \$60,619 during the same period in 2022. The decrease was primarily due to reduced loan balances during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022.

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Interest expense, for the commercial segment, for the three months ended September 30, 2023, decreased by \$1,803, or 3%, to \$57,535, as compared to \$59,338 during the same period in 2022. The decrease was primarily due to reduced loan balances during the three months ended September 30, 2023 as compared to the three months ended September 30, 2022.

[Income Tax Expense](#)

	Three Months Ended September 30,		Change	
	2023	2022	Amount	%
Income Tax Expense				
Consolidated	\$ 317,967	\$ 64,061	\$ 253,906	396 %
Consumer	\$ 120,637	\$ 20,243	\$ 100,394	496 %
Commercial	\$ 197,330	\$ 43,818	\$ 153,512	350 %

Income tax expense, for both segments, for the three months ended September 30, 2023, was \$317,967, an increase of \$253,906, as compared to income tax expense of \$64,061 for the three months ended September 30, 2022. Currently, Although the Company has a deferred tax asset reflecting net operating losses brought over from prior years. Through fiscal 2022, there was an off-setting valuation allowance associated with the deferred tax asset. The valuation allowance was written off as of December 31, 2022. Starting January 1, 2023, the Company has a federal tax rate of approximately 21%, in addition access to other state and local taxes, on net income. The effective income tax rate was 18.6% and 1.9% for the three months ended September 30, 2023 and 2022, respectively. Differences between our effective income tax rate and the U.S. federal statutory rate are the result of state taxes, non-deductible expenses and changes in the valuation allowance in relation to the deferred tax asset for net operating loss carryforwards, as was the Company's case for the increase for the three months ended September 30, 2023, compared to the three months ended September 30, 2022.

[Net Income](#)

	Three Months Ended September 30,		Change	
	2023	2022	Amount	%
Net Income				
Consolidated	\$ 1,707,493	\$ 3,317,709	\$ (1,610,216)	-49 %
Consumer	\$ 767,376	\$ 1,201,848	\$ (434,472)	-36 %
Commercial	\$ 940,117	\$ 2,115,861	\$ (1,175,744)	-56 %

Net income decreased by \$1,610,216, or 49%, during the three months ended September 30, 2023 to \$1,707,493, as compared to \$3,317,709, during the same period in 2022. The individual segments reported the following:

Net income related to the consumer operations for the three months ended September 30, 2023, decreased by \$434,472, or 36%, to \$767,376, as compared to \$1,201,848 during the same period in 2022. The decrease in net income was due primarily to increased income tax expense of \$100,394, an increase in selling, general and administrative expenses of \$219,040, and a decrease in gross profit of approximately \$160,000, for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022.

Net income related to the commercial operations for the three months ended September 30, 2023, decreased by \$1,175,744, or 56%, to \$940,117, as compared to \$2,115,861 during the same period in 2022. The decrease in net income was due primarily to an increase in income tax expense of \$153,512 and a decrease in gross profit for the three months ended September 30, 2023, as compared to the three months ended September 30, 2022.

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[Earnings Per Share](#)

	Three Months Ended September 30,		Change	
	2023	2022	Amount	%
Earnings Per Share (Consolidated)				
	\$ 0.06	\$ 0.12	\$ (0.06)	-50 %

Earnings per share, for the three months ended September 30, 2023, for net income per basic and diluted shares attributable to holders of our Common Stock was \$0.06, compared to \$0.12 per basic and diluted shares attributable to holders of our Common Stock for the three months ended September 30, 2022.

The following disaggregation of total revenue is listed by sales category and segment for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30,					
	2023			2022		
	Revenues	Gross Profit	Margin	Revenues	Gross Profit	Margin
Consumer						
Resale	\$ 94,172,640	\$ 9,450,156	10.0 %	\$ 90,014,891	\$ 10,713,959	11.9 %
Recycled	\$ 9,054,393	\$ 2,218,717	24.5 %	\$ 6,534,362	\$ 1,447,450	22.2 %

Subtotal	<u>103,227,033</u>	<u>11,668,873</u>	<u>11.3 %</u>	96,549,253	12,161,409	<u>12.6 %</u>
<u>Commercial</u>						
Resale	<u>23,114,611</u>	<u>15,653,011</u>	<u>67.7 %</u>	30,200,026	16,606,161	<u>55.0 %</u>
Recycled	<u>8,617,194</u>	<u>4,584,347</u>	<u>53.2 %</u>	8,503,223	4,277,121	<u>50.3 %</u>
Subtotal	<u>31,731,805</u>	<u>20,237,358</u>	<u>63.8 %</u>	38,703,249	20,883,282	<u>54.0 %</u>
	<u>\$ 134,958,838</u>	<u>\$ 31,906,231</u>	<u>23.6 %</u>	<u>\$ 135,252,502</u>	<u>\$ 33,044,691</u>	<u>24.4 %</u>

Comparison of nine months ended September 30, 2023 and 2022

Resale Revenue

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Resale Revenue				
Consolidated	\$ 117,287,251	\$ 120,214,917	\$ (2,927,666)	-2 %
Consumer	\$ 94,172,640	\$ 90,014,891	\$ 4,157,749	5 %
Commercial	\$ 23,114,611	\$ 30,200,026	\$ (7,085,415)	-23 %

Resale revenue decreased by \$2,927,666, or 2%, during the nine months ended September 30, 2023 to \$117,287,251, as compared to \$120,214,917 during the same period in 2022. The individual segments reported the following:

Resale revenue related to the consumer segment increased by \$4,157,749, or 5%, during the nine months ended September 30, 2023, to \$94,172,640, as compared to \$90,014,891 during the same period in 2022. Resale revenue increased for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022, primarily due to an increase in gold and silver bullion ounces sold.

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Resale revenue related to the commercial segment decreased by \$7,085,415, or 23%, during the nine months ended September 30, 2023, to \$23,114,611, as compared to \$30,200,026 during the same period in 2022. Resale revenue decreased for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022, primarily due to a post pandemic normalization of product from cable operator clients and a decrease in reusable photovoltaic modules.

Recycled Revenue

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Recycled Revenue				
Consolidated	\$ 17,671,587	\$ 15,037,585	\$ 2,634,002	18 %
Consumer	\$ 9,054,393	\$ 6,534,362	\$ 2,520,031	39 %
Commercial	\$ 8,617,194	\$ 8,503,223	\$ 113,971	1 %

Recycled revenue increased by \$2,634,002, or 18%, during the nine months ended September 30, 2023, to \$17,671,587, as compared to \$15,037,585 during the same period in 2022. The individual segments reported the following:

Recycled revenue related to the consumer segment increased by \$2,520,031, or 39%, during the nine months ended September 30, 2023, to \$9,054,393, as compared to \$6,534,362 during the same period in 2022. The increase in recycled revenue for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022, was primarily due to an increase in over-the-counter purchases made directly from customers. This surge in transactions is believed to be largely driven by the ongoing inflationary pressures, which has led to a higher demand from individuals seeking funds for emergency situations, bills, or other financial responsibilities.

Recycled revenue related to the commercial segment increased by \$113,971, or 1%, during the nine months ended September 30, 2023, to \$8,617,194, as compared to \$8,503,223 during the same period in 2022. There was minimal change in recycled revenue during the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022.

Gross Profit - Resale

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Gross Profit - Resale				
Consolidated	\$ 25,103,167	\$ 27,320,120	\$ (2,216,953)	-8 %

Consumer	\$ 9,450,156	\$ 10,713,959	\$ (1,263,803)	-12 %
Commercial	\$ 15,653,011	\$ 16,606,161	\$ (953,150)	-6 %

Resale gross profit decreased by \$2,216,953, or 8%, during the nine months ended September 30, 2023 to \$25,103,167, as compared to \$27,320,120 during the same period in 2022. The individual segments reported the following:

Resale gross profit related to the consumer operations for the nine months ended September 30, 2023, decreased by \$1,263,803, or 12%, to \$9,450,156, as compared to resale gross profit of \$10,713,959 during the same period in 2022. The reduction in gross profit can be attributed to a higher volume of gold bullion sales in comparison to silver bullion sales for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022.

Resale gross profit related to the commercial operations for the nine months ended September 30, 2023, decreased by \$953,150, or 6%, to \$15,653,011, as compared to resale gross profit of \$16,606,161 during the same period in 2022. The decrease in resale gross profit was primarily due to a decrease in resale revenue of 23% during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022.

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Gross Profit - Recycled

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Gross Profit - Recycled				
Consolidated	\$ 6,803,064	\$ 5,724,571	\$ 1,078,493	19 %
Consumer	\$ 2,218,717	\$ 1,447,450	\$ 771,267	53 %
Commercial	\$ 4,584,347	\$ 4,277,121	\$ 307,226	7 %

Recycled gross profit increased by \$1,078,493, or 19%, during the nine months ended September 30, 2023, to \$6,803,064, as compared to \$5,724,571 during the same period in 2022. The individual segments reported the following:

Recycled gross profit related to the consumer operations for the nine months ended September 30, 2023, increased by \$771,267, or 53%, to \$2,218,717, as compared to gross profit of \$1,447,450 during the same period in 2022. The increase in recycled gross profit was primarily due to the increase of recycled revenue by 39% during the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022.

Recycled gross profit related to the commercial operations for the nine months ended September 30, 2023, increased by \$307,226, or 7%, to \$4,584,347, as compared to gross profit of \$4,277,121 during the same period in 2022. The increase in recycled gross profit was due primarily to an increase in recycled revenue during the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022.

	For The Nine Months Ended September 30,					
	2023			2022		
	Consumer	Commercial	Consolidated	Consumer	Commercial	Consolidated
Revenue:						
Sales	\$ 103,227,033	\$ 31,731,805	\$ 134,958,838	\$ 96,549,253	\$ 38,703,249	\$ 135,252,502
Cost of goods sold	<u>91,558,160</u>	<u>11,494,447</u>	<u>103,052,607</u>	<u>84,387,844</u>	<u>17,819,967</u>	<u>102,207,811</u>
Gross profit	<u>11,668,873</u>	<u>20,237,358</u>	<u>31,906,231</u>	<u>12,161,409</u>	<u>20,883,282</u>	<u>33,044,691</u>
Expenses:						
Selling, general and administrative expenses	7,457,628	16,256,609	23,714,237	6,803,054	14,904,735	21,707,789
Depreciation and amortization	<u>253,385</u>	<u>774,853</u>	<u>1,028,238</u>	<u>311,419</u>	<u>795,008</u>	<u>1,106,427</u>
	<u>7,711,013</u>	<u>17,031,462</u>	<u>24,742,475</u>	<u>7,114,473</u>	<u>15,699,743</u>	<u>22,814,216</u>
Operating income	<u>3,957,860</u>	<u>3,205,896</u>	<u>7,163,756</u>	<u>5,046,936</u>	<u>5,183,539</u>	<u>10,230,475</u>
Other income/expense:						
Other income	70,315	486,553	556,868	29,970	61,190	91,160
Interest expense	<u>177,458</u>	<u>171,460</u>	<u>348,918</u>	<u>183,523</u>	<u>180,715</u>	<u>364,238</u>
Income before income taxes	<u>3,850,717</u>	<u>3,520,989</u>	<u>7,371,706</u>	<u>4,893,383</u>	<u>5,064,014</u>	<u>9,957,397</u>

Income tax expense	<u>778,150</u>	<u>756,037</u>	<u>1,534,187</u>	<u>48,811</u>	<u>95,794</u>	<u>144,605</u>
Net income	<u>\$ 3,072,567</u>	<u>\$ 2,764,952</u>	<u>\$ 5,837,519</u>	<u>\$ 4,844,572</u>	<u>\$ 4,968,220</u>	<u>\$ 9,812,792</u>

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	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Selling, General and Administrative				
Consolidated	\$ 23,714,237	\$ 21,707,789	\$ 2,006,448	9 %
Consumer	\$ 7,457,628	\$ 6,803,054	\$ 654,574	10 %
Commercial	\$ 16,256,609	\$ 14,904,735	\$ 1,351,874	9 %

Selling, General and Administrative Expenses increased by \$2,006,448, or 9%, during the nine months ended September 30, 2023 to \$23,714,237, as compared to \$21,707,789 during the same period in 2022. The individual segments reported the following:

Selling, General and Administrative Expenses, for the consumer segment, for the nine months ended September 30, 2023, increased by \$654,574, or 10%, to \$7,457,628, as compared to \$6,803,054 during the same period in 2022. The increase was primarily due to increased expenses related to expanding our footprint into Arizona and other markets. Starting January 1, 2023, expenses previously classified as other expenses related to corporate campus overhead have been classified as operating expenses within the selling, general, and administrative expenses category. The corporate campus overhead for 2022 initially recorded as other expense has been restated to be included in selling, general, and administrative expenses for comparison purposes.

Selling, General and Administrative Expenses, for the commercial segment, for the nine months ended September 30, 2023, increased by \$1,351,874, or 9%, to \$16,256,609, as compared to \$14,904,735 during the same period in 2022. The increase was primarily due to increased expenses related to expanding the commercial business by increasing the corporate infrastructure. Starting January 1, 2023, expenses previously classified as other expenses related to corporate campus overhead have been classified as operating expenses within the selling, general, and administrative expenses category. The corporate campus overhead for 2022 initially recorded as other expense has been restated to be included in selling, general, and administrative expenses for comparison purposes.

Depreciation and Amortization

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Depreciation and Amortization				
Consolidated	\$ 1,028,238	\$ 1,106,427	\$ (78,189)	-7 %
Consumer	\$ 253,385	\$ 311,419	\$ (58,034)	-19 %
Commercial	\$ 774,853	\$ 795,008	\$ (20,155)	-3 %

Depreciation and amortization decreased by \$78,189, or 7%, during the nine months ended September 30, 2023 to \$253,385, as compared to \$311,419 during the same period in 2022. The individual segments reported the following:

Depreciation and amortization, for the consumer segment, for the nine months ended September 30, 2023, decreased by \$58,034, or 19%, to \$253,385, as compared to \$311,419 during the same period in 2022. The decrease was primarily due to some of the fixed assets being fully depreciated plus some of the intangible assets being fully amortized.

Depreciation and amortization, for the commercial segment, for the nine months ended September 30, 2023, decreased by \$20,155, or 3%, to \$774,853, as compared to \$795,008 during the same period in 2022. The decrease was primarily due to some of the fixed assets being fully depreciated.

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[Table of Contents](#)**Other Income**

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Other Income				
Consolidated	\$ 556,868	\$ 91,160	\$ 465,708	511 %
Consumer	\$ 70,315	\$ 29,970	\$ 40,345	135 %
Commercial	\$ 486,553	\$ 61,190	\$ 425,363	695 %

Other income increased by \$465,708, or 511%, during the nine months ended September 30, 2023 to \$556,868, as compared to \$91,160 during the same period in 2022. The individual segments reported the following:

Other income, for the consumer segment, for the nine months ended September 30, 2023, was \$70,315, as compared to \$29,970 during the same period in 2022, an increase of \$40,345, or 135%. The increase in other income for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022 was primarily due to an increase in interest earned from bank accounts of approximately \$45,000. During December of fiscal 2022, the Company began to move excess working capital funds to savings accounts that paid higher interest rates. Starting January 1, 2023, expenses previously classified as other expenses related to corporate campus overhead have been classified as operating expenses within the selling, general, and administrative expenses category. The corporate campus overhead for 2022 initially recorded as other expense has been restated to be included in selling, general, and administrative expenses for comparison purposes.

Other income, for the commercial segment, for the nine months ended September 30, 2023, was \$486,553, as compared to \$61,190 during the same period in 2022, an increase of \$425,363, or 695%. The increase in other income for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022 was primarily due to an increase in interest earned from bank accounts of approximately \$297,000, and notes receivable interest received of \$94,115 from notes receivable formerly written off during fiscal year 2021. During December of fiscal 2022, the Company began to move excess working capital funds to savings accounts that paid higher interest rates. Starting January 1, 2023, expenses previously classified as other expenses related to corporate campus overhead have been classified as operating expenses within the selling, general, and administrative expenses category. The corporate campus overhead for 2022 initially recorded as other expense has been restated to be included in selling, general, and administrative expenses for comparison purposes.

Interest Expense

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Interest Expense				
Consolidated	\$ 348,918	\$ 364,238	\$ (15,320)	-4 %
Consumer	\$ 177,458	\$ 183,523	\$ (6,065)	-3 %
Commercial	\$ 171,460	\$ 180,715	\$ (9,255)	-5 %

Interest expense decreased by \$15,320, or 4%, during the nine months ended September 30, 2023 to \$348,918, as compared to \$364,238 during the same period in 2022. The individual segments reported the following:

Interest expense, for the consumer segment, for the nine months ended September 30, 2023, decreased by \$6,065, or 3%, to \$177,458, as compared to \$183,523 during the same period in 2022. The decrease was primarily due to reduced loan balances during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022.

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Interest expense, for the commercial segment, for the nine months ended September 30, 2023, decreased by \$9,255, or 5%, to \$171,460, as compared to \$180,715 during the same period in 2022. The decrease was primarily due to reduced loan balances during the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022.

Income Tax Expense

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Income Tax Expense				
Consolidated	\$ 1,534,187	\$ 144,605	\$ 1,389,582	961 %
Consumer	\$ 778,150	\$ 48,811	\$ 729,339	1494 %
Commercial	\$ 756,037	\$ 95,794	\$ 660,243	689 %

Income tax expense, for both segments, for the nine months ended September 30, 2023, was \$1,534,187, an increase of \$1,389,582, as compared to income tax expense of \$144,605 for the nine months ended September 30, 2022. Currently, the Company has a deferred tax asset reflecting net operating losses brought over from prior years. Through fiscal 2022, there was an off-setting valuation allowance associated with the deferred tax asset. The valuation allowance was written off as of December 31, 2022. Starting January 1, 2023, the Company has a federal tax rate of approximately 21%, in addition to other state and local taxes, on net income before taxes. The effective income tax rate was 20.8% and 1.5% for the nine months ended September 30, 2023 and 2022, respectively. Differences between our effective income tax rate and the U.S. federal statutory rate are the result of state taxes, non-deductible expenses and changes in the valuation allowance in relation to the deferred tax asset for net operating loss carryforwards, as was the Company's case for the increase for the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022.

Net Income

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Net Income				
Consolidated	\$ 5,837,519	\$ 9,812,792	\$ (3,975,273)	-41 %
Consumer	\$ 3,072,569	\$ 4,844,572	\$ (1,772,003)	-37 %

Commercial	\$ 2,764,950	\$ 4,968,220	\$ (2,203,270)	-44 %
Net income decreased by \$3,975,273, or 41%, during the nine months ended September 30, 2023 to \$5,837,519, as compared to \$9,812,792 during the same period in 2022. The individual segments reported the following:				
Net income related to the consumer operations for the nine months ended September 30, 2023, decreased by \$1,772,003, or 37%, to \$3,072,569, as compared to \$4,844,572 during the same period in 2022. The decrease in net income was due primarily to the increased tax expense of \$729,339, the decrease in gross profit of \$492,536 and the increase in selling, general and administrative expenses of \$654,574 for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022.				
Net income related to the commercial operations for the nine months ended September 30, 2023, decreased by \$2,203,270, or 44%, to \$2,764,950, as compared to \$4,968,220 during the same period in 2022. The decrease in net income for the nine months ended September 30, 2023 was due primarily to an increase in income tax expense of \$660,243, an increase in selling, general and administrative expenses of \$1,351,874, a decrease in gross profit of \$645,924 and offset by an increase in other income of \$425,373, as compared to the nine months ended September 30, 2022.				

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Earnings Per Share

	Nine Months Ended September 30,		Change	
	2023	2022	Amount	%
Earnings Per Share (consolidated)	\$ 0.22	\$ 0.36	\$ (0.14)	-39 %

Earnings per share, for the nine months ended September 30, 2023, for net income per basic and diluted shares attributable to holders of our Common Stock was \$0.22, compared to \$0.36 per basic and diluted shares attributable to holders of our Common Stock for the nine months ended September 30, 2022.

Liquidity and Capital Resources

The following table summarizes our cash flows for the periods indicated.

	Nine Months Ended September 30,	
	2023	2022
Net cash provided by (used in):		
Operating activities	\$ 3,469,991	\$ 7,725,140
Investing activities	(1,285,362)	(444,185)
Financing activities	(2,049,209)	(2,450,347)
Net increase in cash and cash equivalents	\$ 135,420	\$ 4,830,608

During the nine months ended September 30, 2023, cash flows provided by operations totaled \$3,469,991, and during the nine months ended September 30, 2022, cash flows provided by operations totaled \$7,725,140, a decrease of \$4,255,149. Cash provided by operations for the nine months ended September 30, 2023 was driven primarily by net income added to non-cash items of depreciation and amortization, bad debt and deferred taxes of \$8,651,902, a reduction of prepaid expenses of \$165,863, an increase in customer deposits and other liabilities of \$284,085 and an increase in accounts payable and accrued expenses of \$106,071, offset by an increase in inventories of \$4,295,072, an increase in other assets of \$55,601 and an increase in trade receivables of \$1,385,580. Cash provided by operations for the nine months ended September 30, 2022 was driven largely by net income added to non-cash items of depreciation, amortization and bad debt of \$10,992,637, a decrease in other assets of \$311,420 and an increase in accounts payable and accrued expenses of \$1,924,658, offset by an increase in inventories of \$4,014,627, an increase in prepaid expenses of \$1,213,187, an increase in trade receivables of \$97,994 and the decrease in customer deposits and other liabilities of \$186,590.

During the nine months ended September 30, 2023 and 2022, cash flows used in investing activities totaled \$1,285,362 and \$444,185, respectively, a period-over-period increase of \$841,177. Cash used in investing activities during the nine months ended September 30, 2023 was primarily due to the purchase of property and equipment of \$1,563,612 and from the Kretchmer Transaction of \$300,000, offset by the reduction in note receivable of \$578,250. Cash used in investing activities during the nine months ended September 30, 2022 was primarily due to the purchase of additional property and equipment of \$227,197 and the addition to the acquisition of Avail assets and liabilities of \$216,988.

During the nine months ended September 30, 2023 and 2022, cash flows used in financing totaled \$2,049,209 and \$2,450,347, respectively, a period-over-period decrease of \$401,138. Cash used in financing during the nine months ended September 30, 2023 was due from payments made against notes payable of \$930,858, repurchase of Company stock on the open market of \$1,318,351, offset by the loan proceeds from the kretchmer Transaction of \$200,000. Cash used in financing during the nine months ended September 30, 2022 was due from payments made against notes payable of \$750,347 and payments made against the line of credit of \$1,700,000.

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We expect our capital expenditures to total approximately \$4,000,000 during the next 12 months. These expenditures will be driven by the purchase of additional equipment and potential property purchases by both segments seeking to expand the Company into other markets. The Company has an outstanding capital commitment of \$100,000 to build-out the consumer building purchased in Phoenix, Arizona on May 4, 2023.

Our primary source of liquidity and capital resources currently consist of cash generated from our operating results and current borrowings, including activities. We do not anticipate the Truist Lewisville Loan, need to fund our operations via the TB&T Grapevine Loan, the TB&T Irving Loan, the TB&T Frisco Loan and two FSB loans. For more information, see Note 13 to our interim condensed financial statements, which is incorporated into this item by reference. In addition, on November 23, 2021, the Company secured a thirty-six month

line of credit from Farmers State Bank of Oakley Kansas (the "FSB Facility") for up to \$3,500,000. The FSB Facility has an annual interest rate of 3.1%. We maintain the FSB Facility to help fund cash shortfalls that and we may have from time to time. We do not currently anticipate the need of those funds for operations and do not currently have any amounts drawn against the FSB Facility as of **September 30, 2023** **March 31, 2024**.

From time to time, we have adjusted and may further adjust our inventory levels to meet seasonal demand or in order to meet working capital requirements. Management believes we have sufficient capital resources to meet working capital requirements. In the event of significant growth in retail and wholesale jewelry sales and recycling demand, whether purchases or services, our demand for additional working capital will increase due to a related need to stock additional jewelry inventory, increases in wholesale accounts receivable and the purchasing of recycled material. Historically we have funded these activities through operations. If additional working capital is required, we will seek additional loans from individuals or other commercial banks. If necessary, inventory levels may be adjusted in order to meet unforeseen working-capital requirements.

We have historically renewed, extended, or replaced short-term debt as it matures, and management believes that we will be able to continue to do so in the near future.

Capital Expenditures

In Fiscal 2024, the Company is deploying capital for additional growth, maintenance activity and enhancements to our enterprise resource planning system. The Company leases certain continuously monitors the deployment of its facilities under capital and primarily funds capital expenditures through cash flow from operating leases. The minimum rental commitments, under non-cancellable operating leases, excluding imputed interest, activities. Where appropriate the Company may use debt financing on select projects. When this occurs, the Company further evaluates future cashflows of the project as to ensure the debt tenure and pay-back period are in alignment as well as the appropriateness of September 30, 2023 are as follows: the rate of return.

Operating Leases	Total	2023	2024	2025	2026	Thereafter
Consumer (excluding the nine months ending September 30, 2023)	\$ 1,528,159	\$ 136,357	\$ 552,414	\$ 434,274	\$ 355,000	\$ 50,114
Commercial (excluding the nine months ending September 30, 2023)	3,564,973	339,766	1,396,129	1,321,297	474,326	33,455
Total	\$ 5,093,132	\$ 476,123	\$ 1,948,543	\$ 1,755,571	\$ 829,326	\$ 83,569

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our stockholders.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Because we are a "smaller reporting company," we are not required to disclose the information required by this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of **September 30, 2023** **March 31, 2024**. We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of **September 30, 2023** **March 31, 2024**, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective to provide reasonable assurance of the foregoing.

We believe, however, that a controls system, no matter how well designed and operated, cannot provide absolute assurance of achieving their objectives, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, within a company have been detected.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

[Table of Contents](#)**PART II - OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

There are various claims, lawsuits and pending actions against the Company arising in the normal course of the Company's business. It is the opinion of management that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flow. Management is also not aware of any legal proceedings contemplated by government agencies of which the outcome is reasonable likely to have a material adverse effect on the Company's financial condition, results of operations or cash flow.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed under Part I, Item 1A, "Risk Factors" in the Company's **2022** **2023** Annual Report.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF
PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Repurchases

The following lists the repurchase of Company shares for the three months ended **September 30, 2023** **March 31, 2024**:

Fiscal Period	Total number of shares purchased	Average price paid per share (\$)	Total number of shares purchased	Maximum number of shares that may yet be purchased under the plans or program
			as part of publicly announced plan or program (2)	under the plans or program
	Total number of shares purchased (1)	as part of publicly announced plan or program (2)		
Beginning balance	27,421	\$ 7.10	27,421	972,579
July 1 - 31, 2023	-	-	-	972,579
August 1 - 31, 2023	197,210	5.70	197,210	775,369
September 1 - 30, 2023	-	-	-	775,369
Total	224,631	\$ 5.87	224,631	775,369

Fiscal Period	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program (1) (2)	Average Price Paid Per Share (\$)	Total Price Paid	Maximum Number of Shares that May Yet be Purchased Under the Plans
			(\$)	Under the Plans
	or Program (1) (2)			
Balance as of January 1, 2024	415,973	\$ 5.18	\$ 2,155,049	584,027
January 1 - 31, 2024	59,417	4.52	268,569	524,610
February 1 - 29, 2024	56,343	4.53	255,195	468,267
March 1 - 31, 2024	85,580	4.46	381,382	382,687
Balance as of March 31, 2024	617,313	\$ 4.96	3,060,195	382,687

(1) All shares were purchased in open-market transactions through the stock repurchase program approved by the Board on March 14, 2023 for the repurchase of up to one million shares of the Company's common stock.

(2) The stock repurchase program was publicly announced on May 3, 2023 and expires March 31, 2026. Repurchases under the stock repurchase ~~program~~ plan began on May 10, 2023.

The timing and amount of any common stock repurchased under the program will depend on a variety of factors including price, corporate and regulatory requirements, capital availability, and other market conditions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated			Date Filed with SEC	Exhibit Number
		Filed Herein	by Reference	Form		
31.1	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by John R. Loftus	X				
31.2	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Bret A. Pedersen John G. DeLuca	X				
32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by John R. Loftus	X				
32.2	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Bret A. Pedersen John G. DeLuca	X				
101.INS	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Definition Linkbase Document	X				
101.LAB	XBRL Taxonomy Label Linkbase Document	X				
101.PRE	XBRL Taxonomy Presentation Linkbase Document	X				

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

ENVELA CORPORATION

(Registrant)

Date: **November 8, 2023** **May 8, 2024**By: /s/ JOHN R. LOFTUS

John R. Loftus
Chief Executive Officer
(Principal Executive Officer)

Date: **November 8, 2023** **May 8, 2024**By: /s/ BRET A. PEDERSEN JOHN G. DELUCA

Bret A. Pedersen John G. DeLuca
Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT 31.1**CERTIFICATION OF CHIEF EXECUTIVE OFFICER****PURSUANT TO****PURSUANT TO**

RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
IMPLEMENTING SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John R. Loftus, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Envela Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **November 8, 2023** **May 8, 2024**

By: /s/ JOHN R. LOFTUS

John R. Loftus
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
PURSUANT TO
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
IMPLEMENTING SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, **Bret A. Pedersen**, **John G. DeLuca**, certify that:

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

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2023 May 8, 2024

By: /s/ BRET A. PEDERSEN JOHN G. DELUCA

Bret A. Pedersen John G. DeLuca

Chief Financial Officer

(Principal Accounting Officer)

EXHIBIT 32.1

Certification Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1150) 1350)

The undersigned, as the Chief Executive Officer of Envela Corporation, certifies, to the best of his knowledge, that the Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024, which accompanies this certification fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of Envela Corporation at the dates and for the periods indicated. The foregoing certification is made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1150) 1350) and shall not be relied upon for any other purpose.

Date: November 8, 2023 May 8, 2024

By: /s/ JOHN R. LOFTUS

John R. Loftus

Chief Executive Officer

(Principal Executive Officer)

EXHIBIT 32.2

Certification Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1150) 1350)

The undersigned, as the Chief Financial Officer of Envela Corporation, certifies, to the best of his knowledge, that the Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024, which accompanies this certification fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of Envela Corporation at the dates and for the periods indicated. The foregoing certification is made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1150) 1350) and shall not be relied upon for any other purpose.

Date: November 8, 2023 May 8, 2024

By: /s/ BRET A. PEDERSEN JOHN G. DELUCA

Bret A. Pedersen John G. DeLuca

Chief Financial Officer

(Principal Accounting Officer)

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