

usell.com, Inc.  
Form 10-Q  
November 09, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**<sup>x</sup> QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the quarterly period ended: September 30, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-50494

**uSell.com, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**98-0412432**  
*(I.R.S. Employer  
Identification No.)*

**171 Madison Avenue, 17<sup>th</sup> Floor**                      **10016**  
**New York, New York**  
*(Address of principal executive offices) (Zip Code)*

**(212) 213-6805**

*(Registrant's telephone number, including area code)*

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| <b>Class</b>                               | <b>Outstanding as of November 9, 2015</b> |
|--|---|
| Common Stock, \$0.0001 par value per share | 18,686,850 shares                         |



**uSell.com, Inc. and Subsidiaries**

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****uSell.com, Inc. and Subsidiaries****Consolidated Balance Sheets**

|  | September 30,<br>2015<br>(unaudited) | December 31,<br>2014 |
|--|--------------------------------------|----------------------|
| Assets   |                                      |                      |
| Current Assets:  |                                      |                      |
| Cash and cash equivalents  | \$ 591,089                           | \$ 2,414,757         |
| Accounts receivable, net   | 123,261                              | 141,327              |
| Inventory  | 288,968                              | -                    |
| Prepaid expenses and other current assets  | 41,865                               | 99,529               |
| Total Current Assets   | 1,045,183                            | 2,655,613            |
| Property and equipment, net  | 3,405                                | 6,928                |
| Intangible assets, net   | 889,844                              | 852,093              |
| Other assets   | 127,625                              | 25,875               |
| Total Assets   | \$ 2,066,057                         | \$ 3,540,509         |
| Liabilities and Stockholders' Equity   |                                      |                      |
| Current Liabilities:   |                                      |                      |
| Accounts payable and accrued expenses  | \$ 858,713                           | \$ 707,659           |
| Deferred revenue   | 298,429                              | 263,739              |
| Total Liabilities  | 1,157,142                            | 971,398              |
| Stockholders' Equity:  |                                      |                      |
| Convertible Series A preferred stock; \$0.0001 par value; 325,000 shares authorized; 100,000 shares issued and outstanding. Liquidation preference \$300,000         | 10                                   | 10                   |
| Convertible Series B preferred stock; \$0.0001 value per share; 4,000,000 shares authorized; 951,250 shares issued and outstanding. Liquidation preference \$951,250 | 95                                   | 95                   |
| Convertible Series C preferred stock; \$0.0001 value per share; 146,667 shares authorized; 146,667 shares issued and outstanding.                                    | 15                                   | 15                   |
| Convertible Series E preferred stock; \$0.0001 value per share; 103,232 shares authorized; 103,232 shares issued and outstanding                                     | 10                                   | 10                   |
|  | 758                                  | 753                  |

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Common stock; \$0.0001 par value; 43,333,333 shares authorized; 7,577,703 and 7,572,703 shares issued and 7,555,485 and 7,533,817 shares outstanding, respectively

|  |               |               |
|--|---------------|---------------|
| Additional paid in capital                 | 55,249,929    | 54,610,843    |
| Accumulated deficit                        | (54,341,902 ) | (52,042,615 ) |
| Total Stockholders' Equity                 | 908,915       | 2,569,111     |
| Total Liabilities and Stockholders' Equity | \$ 2,066,057  | \$ 3,540,509  |

*See accompanying notes to unaudited interim condensed consolidated financial statements.*

**uSell.com, Inc. and Subsidiaries****Consolidated Statements of Operations****(Unaudited)**

|  | Three Months Ended September<br>30, |                 | Nine Months Ended September<br>30, |                 |
|--|-------------------------------------|-----------------|------------------------------------|-----------------|
|  | 2015                                | 2014            | 2015                               | 2014            |
| Revenue  | \$ 2,699,863                        | \$ 1,432,388    | \$ 7,563,301                       | \$ 4,147,637    |
| Costs and Expenses   |                                     |                 |                                    |                 |
| Cost of revenue  | 2,165,410                           | 164,419         | 5,764,471                          | 429,058         |
| Sales and marketing expenses   | 55,436                              | 1,885,249       | 1,410,476                          | 4,610,795       |
| General and administrative expenses  | 773,439                             | 1,134,166       | 2,687,742                          | 3,448,568       |
| Total operating expenses   | 2,994,285                           | 3,183,834       | 9,862,689                          | 8,488,421       |
| Loss from Operations   | (294,422 )                          | (1,751,446 )    | (2,299,388 )                       | (4,340,784 )    |
| Other (Expense) Income:  |                                     |                 |                                    |                 |
| Interest income  | 138                                 | 815             | 923                                | 1,507           |
| Interest expense   | -                                   | (17 )           | (822 )                             | (891,312 )      |
| Gain on settlements of accounts payable  | -                                   | -               | -                                  | 9,038           |
| Change in fair value of derivative liability -<br>convertible notes payable                      | -                                   | -               | -                                  | (681,122 )      |
| Total Other (Expense) Income, Net  | 138                                 | 798             | 101                                | (1,561,889 )    |
| Net Loss   | \$ (294,284 )                       | \$ (1,750,648 ) | \$ (2,299,287 )                    | \$ (5,902,673 ) |
| Basic and Diluted Loss per Common Share:   |                                     |                 |                                    |                 |
| Net loss per common share - basic and diluted  | \$ (0.04 )                          | \$ (0.26 )      | \$ (0.30 )                         | \$ (1.00 )      |
| Weighted average number of common shares<br>outstanding during the period - basic and<br>diluted | 7,549,929                           | 6,718,248       | 7,541,850                          | 5,928,031       |

*See accompanying notes to unaudited interim condensed consolidated financial statements.*

## uSell.com, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows****(Unaudited)**

|  | Nine Months Ended September 30, |                 |
|--|---------------------------------|-----------------|
|  | 2015                            | 2014            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                 |                 |
| Net loss   | \$ (2,299,287 )                 | \$ (5,902,673 ) |
| Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities: |                                 |                 |
| Depreciation and amortization  | 433,427                         | 403,105         |
| Provision for bad debt   | 749                             | 8,835           |
| Stock based compensation expense   | 654,341                         | 1,098,856       |
| Amortization of debt issue costs into interest expense   | -                               | 8,645           |
| Amortization of debt discount into interest expense  | -                               | 873,872         |
| Gain on settlement of accounts payable   | -                               | (9,038 )        |
| Change in fair value of derivative liability - convertible notes payable                         | -                               | 681,122         |
| Changes in operating assets and liabilities:   |                                 |                 |
| Accounts receivable  | 17,317                          | 55,158          |
| Other receivables  | -                               | 20,422          |
| Inventory  | (288,968 )                      | -               |
| Prepaid and other current assets   | 42,414                          | 1,765           |
| Other assets   | (26,750 )                       | -               |
| Accounts payable and accrued expenses  | 151,054                         | 288,989         |
| Deferred revenues  | 34,690                          | 85,689          |
| Net Cash and Cash Equivalents Used In Operating Activities                                       | (1,281,013 )                    | (2,385,253 )    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                 |                 |
| Website development costs  | (467,655 )                      | (498,068 )      |
| Cash paid to purchase property and equipment   | -                               | (2,101 )        |
| Net Cash and Cash Equivalents Used In Investing Activities                                       | (467,655 )                      | (500,169 )      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                 |                 |
| Proceeds from sale of common stock   | -                               | 6,424,999       |
| Proceeds from sale of convertible Series A preferred stock                                       | -                               | 300,000         |
| Proceeds from exercise of warrants   | -                               | 387,500         |
| Cash paid for debt issue costs   | (75,000 )                       | -               |
| Cash paid for direct offering costs  | -                               | (970,597 )      |
| Net Cash and Cash Equivalents Provided By Financing Activities                                   | (75,000 )                       | 6,141,902       |
| Net (Decrease) Increase in Cash and Cash Equivalents   | (1,823,668 )                    | 3,256,480       |
| Cash and Cash Equivalents - Beginning of Period  | 2,414,757                       | 489,166         |



|   |            |              |
|---|------------|--------------|
| Cash and Cash Equivalents - End of Period | \$ 591,089 | \$ 3,745,646 |
|---|------------|--------------|

## SUPPLEMENTARY CASH FLOW INFORMATION:

## Cash Paid During the Period for:

|          |      |      |
|----------|------|------|
| Interest | \$ - | \$ - |
| Taxes    | \$ - | \$ - |

## SUPPLEMENTARY DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

|  |          |              |
|--|----------|--------------|
| Derivative liability reclassified to Additional Paid in Capital upon conversion of Convertible Notes Payable | \$ -     | \$ 1,682,507 |
| Conversion of Convertible Notes Payable and accrued interest to common stock                                 | \$ -     | \$ 841,294   |
| Conversion of Convertible Notes Payable and accrued interest to Series E preferred stock                     | \$ -     | \$ 309,698   |
| Common stock issued for services   | \$ 4,450 | \$ 51,695    |
| Issuance of Series C preferred stock in exchange for warrants  | \$ -     | \$ 15        |
| Conversion of Series B preferred stock into common stock   | \$ -     | \$ 3         |

*See accompanying notes to unaudited interim condensed consolidated financial statements.*

**uSell.com, Inc and Subsidiaries**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**September 30, 2015**  
**(Unaudited)**

**Note 1 - Organization and Business**

uSell.com, Inc., through our wholly-owned subsidiaries (collectively, “uSell,” or the “Company”), is a technology based company focused on creating an online marketplace where both individual and wholesale sellers can sell small consumer electronics to professional buyers using an ecommerce website-based platform. Through participation in the uSell marketplace, buyers can acquire high volumes of inventory in a cost effective manner, while minimizing risk. The Company facilitates transactions by developing technology and logistics systems that seamlessly connect buyers and sellers. The Company also provides its buyers with value added services, such as shipping kit fulfillment, check processing and analytics.

**Note 2 - Going Concern**

As reflected in the accompanying condensed consolidated financial statements, the Company had a net loss of approximately \$2,299,000 and net cash and cash equivalents used in operations of approximately \$1,306,000 for the nine months ended September 30, 2015. The Company has an accumulated deficit of approximately \$54,342,000 at September 30, 2015. The Company does not yet have a history of financial stability. Historically, the principal source of liquidity has been the issuance of debt and equity securities. These factors raise substantial doubt about the Company’s ability to continue as a going concern.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These condensed consolidated financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

On October 26, 2015, uSell closed on its acquisition of a smartphone wholesaler, We Sell Cellular LLC (“We Sell Cellular”) (see Note 8). With the acquisition of We Sell Cellular, management expects that the going concern qualification will be eliminated. We Sell Cellular has been profitable and with the additional capital provided by the Company’s new loan facility, management believes We Sell Cellular can expand its revenues and profitability. This, in addition to the Company’s improved cash flow, leads management to believe that the combined entity will be

profitable in future quarters.

### **Note 3 - Significant Accounting Policies**

#### **Reclassification**

Certain reclassifications have been made to the prior period condensed consolidated financial statements to conform to the current period presentation. These reclassifications had no effect on the consolidated financial position or on the results of operations or cash flows for the periods presented.

#### **Basis of Presentation**

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X of the United States Securities and Exchange Commission (“SEC”). Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, pursuant to the rules and regulations of the SEC for interim financial reporting. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows. It is management’s opinion, however, that the accompanying unaudited interim condensed consolidated financial statements include all adjustments, consisting of a normal recurring nature, which are necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented.

The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the SEC, which contains the audited financial statements and notes thereto, together with Management’s Discussion and Analysis, for the years ended December 31, 2014 and 2013. The financial information as of December 31, 2014 is derived from the audited financial statements presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The interim results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015 or for any future interim periods.

#### **Principles of Consolidation**

The accompanying unaudited interim condensed consolidated financial statements include the accounts of uSell and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in

consolidation.

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**uSell.com, Inc and Subsidiaries**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**September 30, 2015**  
**(Unaudited)**

**Use of Estimates**

The preparation of unaudited interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

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

**Cash and Cash Equivalents**

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

The Company minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. At times, the Company's cash may be uninsured or exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit.

**Accounts Receivable**

Accounts receivable represent obligations from the Company's customers. The Company periodically evaluates the collectability of its accounts receivable and considers the need to record an allowance for doubtful accounts based upon historical collection experience and specific information. Actual amounts could vary from the recorded estimates. The allowance for doubtful accounts was \$9,642 at September 30, 2015 and December 31, 2014.

### **Inventory**

Inventory, consisting of products available for sale, is valued at the lower of cost (first in, first-out method) or market.

### **Intangible Assets**

The Company's intangible assets pertain to capitalized software costs and its website domain address. The Company capitalizes costs related to software developed or obtained for internal use when management commits to funding the project, the project completes the preliminary project stage and the software will be used to perform the function intended. Capitalization of such costs ceases when the project is substantially complete and ready for its intended use.

The Company periodically reviews the carrying values of its long-lived assets when events or changes in circumstances indicate that it is more likely than not that their carrying values may exceed their fair values, and records an impairment charge when considered necessary. When circumstances indicate that an impairment of value may have occurred, the Company tests such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying amount of the asset over its estimated fair value, is recognized. Fair value, for purposes of calculating impairment, is measured based on estimated future cash flows, discounted at a market rate of interest.

### **Revenue Recognition**

Revenue is recognized when all of the following conditions exist: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured.

**uSell.com, Inc and Subsidiaries**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**September 30, 2015**  
**(Unaudited)**

*Seller Electronics Referrals*

Sellers go to the Company's website where they can search for the items they wish to sell using a streamlined point and click interface. Once they have identified their device, they are asked a single question to describe the condition of the device. At this point, they are presented with the "best match," or uSell's recommended offer from one of its buyers. The Company offers this recommendation based on both the price offered by the buyer relative to other buyers and the quality of ratings of the buyer relative to other buyers. The seller may choose to view a larger list of offers from all buyers interested in purchasing their device. Prior to February 2014, the Company earned up front "lead fees" from buyers when sellers accepted offers on its website and filled out a form to request a free shipping kit. This fee was received regardless of whether the sellers ultimately sent in their devices to the buyers. The Company recognized revenue upon online acceptance of the buyer's offer by the seller. The Company records payments received from buyers in advance of offer acceptance as deferred revenue at the time payment is received.

Beginning in February 2014, the Company transitioned its business model, which was phased in over the subsequent six weeks. Under the new model, buyers pay the Company a commission only when they pay the seller for a received device and the Company recognizes revenue upon payment to the seller.

As a further development to the Company's business model, in October 2014, the Company launched its "Managed by uSell" service, whereby the Company partnered with a third party logistics company to inspect, wipe and process devices before passing them along to buyers. Under this new model, title to a device passes to uSell upon issuance of payment to the seller, which is generally within one to two days from the receipt of the device at the third party warehouse. Title to a device is then transferred to the buyer upon shipment to the buyer. As a result, starting in October 2014, the Company began recognizing the full value of the processed devices in both revenues and cost of revenues.

*Fulfillment Revenue*

The Company offers fulfillment services on behalf of its buyers for the items sold by sellers. The Company acts as the agent in these transactions, passing orders booked by its buyers to its vendors, who then assemble the kits and mail them directly to the sellers. The Company earns a standard fee from its buyers and recognizes revenue upon shipment

of the kits to the sellers. The Company evaluated the presentation of revenue on a gross versus net basis and determined that since the Company performs as an agent without assuming the risks and rewards of ownership of the goods, revenue should be reported on a net basis.

### *Advertising Revenue*

Advertising revenues primarily come from payments for text-based sponsored links and display advertisements. Generally, the Company's advertisers pay the Company on a cost per click, or CPC basis, which means advertisers pay only when someone clicks on one of their advertisements, or on a cost per thousand impression basis, or CPM. Paying on a CPM basis means that advertisers pay the Company based on the number of times their advertisements appear on the Company's websites or mobile applications. Advertising revenue is recognized as income when the advertising services are rendered.

### **Cost of Revenue**

Cost of revenue consists primarily of costs to maintain its website, including amortization expense on its technology platform software. Beginning in October 2014, cost of revenue pertaining to the sale of devices to buyers includes the cost of acquiring the device, as well as any other direct costs and expenses required to inspect and process the devices internally before shipping them to the buyers.

### **Advertising**

Advertising costs are expensed as they are incurred and are included in sales and marketing expenses. Advertising expense amounted to approximately \$22,000 and \$1,835,000 for the three months ended September 30, 2015 and 2014, respectively, and approximately \$1,293,000 and \$4,500,000 for the nine months ended September 30, 2015 and 2014, respectively.

### **Net Loss per Share**

Basic loss per share ("EPS") is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to all dilutive potential of shares of common stock outstanding during the period including stock options or warrants, using the treasury stock method, and convertible debt or convertible preferred stock, using the if-converted method. Diluted EPS excludes all dilutive potential of shares of common stock if their effect is anti-dilutive.



The computation of basic and diluted loss per share at September 30, 2015 and 2014 excludes the common stock equivalents of the following potentially dilutive securities because their inclusion would be anti-dilutive:

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**uSell.com, Inc and Subsidiaries**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**September 30, 2015**  
**(Unaudited)**

|                                      | Three and Nine Months Ended |           |
|--------------------------------------|-----------------------------|-----------|
|                                      | September 30,               |           |
|                                      | 2015                        | 2014      |
| Convertible Series A Preferred Stock | 100,000                     | 100,000   |
| Convertible Series B Preferred Stock | 60,411                      | 60,411    |
| Convertible Series C Preferred Stock | 146,667                     | 146,667   |
| Convertible Series E Preferred Stock | 103,232                     | 103,232   |
| Unvested Restricted Stock            | 22,218                      | 54,442    |
| Unvested Restricted Stock Units      | 404,915                     | 629,331   |
| Stock Options                        | 530,971                     | 594,625   |
| Stock Warrants                       | 802,520                     | 802,520   |
|                                      | 2,170,934                   | 2,491,228 |

**Legal Proceedings**

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

**Customer Concentrations**

During the three months ended September 30, 2015, three customers represented at least 10% of revenues, accounting for 25%, 13%, and 12% of the Company's revenues. During the three months ended September 30, 2014, one customer represented at least 10% of the revenues, accounting for 22% of the Company's revenues.

During the nine months ended September 30, 2015, three customers represented at least 10% of revenues, accounting for 11%, 11% and 10% of the Company's revenues. During the nine months ended September 30, 2014, one customer represented at least 10% of the revenues, accounting for 14% of the Company's revenues.

At September 30, 2015, three customers represented at least 10% of accounts receivable, accounting for 16%, 11% and 11% of the Company's accounts receivable. At December 31, 2014, one customer represented at least 10% of accounts receivable, accounting for 24% of the Company's accounts receivable.

### **Recent Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (ASU 201-09). ASU 201-09 provides guidance for revenue recognition and affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry-specific guidance. The core principle of ASU 2014-09 is the recognition of revenue when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for fiscal years beginning after December 15, 2017 and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company's consolidated financial statements and disclosures.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation" (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period ("ASU 2014-12"). ASU 2014-12 affects entities that grant their employees share-based payments in which terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the method and impact the adoption of ASU 2014-12 will have on the Company's consolidated financial statements and disclosures.

**uSell.com, Inc and Subsidiaries**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**September 30, 2015**  
**(Unaudited)**

In August 2014, the FASB issued ASU 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”). ASU 2014-15 provides guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company’s ability to continue as a going concern within one year from the date the financial statements are issued. The amendments in ASU 2014-15 are effective for annual reporting periods ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company will adopt the methodologies prescribed by ASU 2014-15 by the date required, and does not anticipate that the adoption of ASU 2014-15 will have a material effect on its financial position or results of operations.

**Note 5 - Intangible Assets**

Intangible assets consist of the following:

|  | Capitalized<br>Software | Website<br>Domain | Total       |
|--|-------------------------|-------------------|-------------|
| Gross value at September 30, 2015              | \$2,442,137             | \$67,752          | \$2,509,889 |
| Accumulated amortization at September 30, 2015 | (1,552,293)             | (67,752)          | (1,620,045) |
| Net value at September 30, 2015                | \$889,844               | \$-               | \$889,844   |
| Gross value at December 31, 2014               | \$1,974,482             | \$67,752          | \$2,042,234 |
| Accumulated amortization at December 31, 2014  | (1,122,389)             | (67,752)          | (1,190,141) |
| Net value at December 31, 2014                 | \$852,093               | \$-               | \$852,093   |

Intangible assets are amortized on a straight-line basis over their estimated useful lives of three years. Amortization expense amounted to \$129,941 and \$146,368 for the three months ended September 30, 2015 and 2014, respectively, and \$429,904 and \$399,910 for the nine months ended September 30, 2015 and 2014, respectively.

Future annual estimated amortization expense is summarized as follows:

|                               |            |
|-------------------------------|------------|
| Years ending December 31,     |            |
| 2015 (remaining three months) | \$ 133,155 |
| 2016                          | 416,680    |
| 2017                          | 276,587    |
| 2018                          | 63,422     |
|                               | \$889,844  |

**Note 6 - Stockholders' Equity**

On March 16, 2015, the Company filed a Certificate of Correction pursuant to which the number of authorized shares of the Company's common stock was decreased from 650,000,000 shares to 43,333,333 shares to properly reflect the Company's 1-for-15 reverse stock split on January 21, 2014. The par value remained the same. All share and per share amounts have been retroactively restated to reflect the reverse stock split.

**uSell.com, Inc and Subsidiaries**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**September 30, 2015**  
**(Unaudited)**

**Note 7 - Stock-Based Compensation**

**Stock Option Grants**

During the nine months ended September 30, 2015, the Company granted 66,000 stock options to employees for future services. These options had a fair value of \$31,839, using the Black-Scholes option pricing model with the following assumptions:

|                         |       |       |
|-------------------------|-------|-------|
| Risk-free interest rate | 1.12  | %     |
| Expected dividend yield | 0     | %     |
| Expected volatility     | 61.89 | %     |
| Expected term           | 3.75  | years |

The options are exercisable over a five-year term and vest over four years. The Company recorded \$1,488 and \$4,705 during the three and nine months ended September 30, 2015 as compensation expense pertaining to these grants.

Including prior period grants and the above grants, the Company recorded non-cash compensation expense of \$56,622 and \$114,142 for the three months ended September 30, 2015 and 2014, respectively, and \$211,547 and \$445,300 for the nine months ended September 30, 2015 and 2014, respectively, pertaining to stock option grants.

Total unrecognized compensation expense related to unvested stock options at September 30, 2015 amounts to \$329,648 and is expected to be recognized over a weighted average period of 2.3 years.

The following table summarizes the Company's stock option activity for the nine months ended September 30, 2015:

| Number of<br>Options | Weighted<br>Average | Weighted<br>Average | Aggregate<br>Intrinsic Value |
|----------------------|---------------------|---------------------|------------------------------|
|----------------------|---------------------|---------------------|------------------------------|

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|                                  |            | Exercise<br>Price | Remaining<br>Contractual<br>Life<br>(in Years) |      |
|----------------------------------|------------|-------------------|--|------|
| Outstanding - December 31, 2014  | 604,625    | \$ 4.73           | 3.3  | \$ - |
| Granted                          | 66,000     | 1.21              |  |      |
| Exercised                        | -          | -                 |  |      |
| Forfeited or Canceled            | (139,654 ) | 8.48              |  |      |
| Outstanding - September 30, 2015 | 530,971    | \$ 3.26           | 3.0  | \$ - |
| Exercisable - September 30, 2015 | 359,847    | \$ 3.58           | 2.9  | \$ - |

The following table summarizes the Company's stock option activity for non-vested options for the nine months ended September 30, 2015:

|                               | Number of<br>Options | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------|----------------------|---|
| Balance at December 31, 2014  | 255,855              | \$ 2.65   |
| Granted                       | 66,000               | 0.48  |
| Vested                        | (74,504 )            | (2.85 )   |
| Forfeited or Canceled         | (76,227 )            | (1.83 )   |
| Balance at September 30, 2015 | 171,124              | \$ 2.09   |

**uSell.com, Inc and Subsidiaries**  
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**September 30, 2015**  
**(Unaudited)**

**Warrants**

The following summarizes the Company's warrant activity for the nine months ended September 30, 2015:

|                                  | Number of<br>Warrants | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual Life<br>(in Years) | Aggregate<br>Intrinsic Value |
|----------------------------------|-----------------------|--|--|------------------------------|
| Outstanding - December 31, 2014  | 802,520               | 3.21                                     | 4.6  | \$ -                         |
| Granted                          | -                     | -  |  |                              |
| Exercised                        | -                     | -  |  |                              |
| Cancelled/Forfeited              | -                     | -  |  |                              |
| Outstanding - September 30, 2015 | 802,520               | \$ 3.21                                  | 3.8  | \$ -                         |
| Exercisable - September 30, 2015 | 802,520               | \$ 3.21                                  | 3.8  | \$ -                         |

There was no expense pertaining to warrants recorded during the nine months ended September 30, 2015 and 2014.

**Restricted Stock Awards**

On April 1, 2015, the Company granted 5,200 restricted stock units ("RSUs") to its Chief Financial Officer. The RSUs vested monthly over a three-month period through June 30, 2015, subject to continued service on each applicable vesting date. The RSUs have no voting or dividend rights. The fair value of the common stock on the date of grant was \$1.03 per share, based upon the closing market price on the grant date. The aggregate grant date fair value of the award amounted to \$5,356, which was recorded as compensation expense during the nine months ended September 30, 2015.

On July 1, 2015, the Company granted 5,384 RSUs to its Chief Financial Officer. The RSUs vested monthly over a three-month period through September 30, 2015, subject to continued service on each applicable vesting date. The RSUs have no voting or dividend rights. The fair value of the common stock on the date of grant was \$1.25 per share,



based upon the closing market price on the grant date. The aggregate grant date fair value of the award amounted to \$6,730, which was recorded as compensation expense during the nine months ended September 30, 2015.

A summary of the restricted stock award activity for the nine months ended September 30, 2015 is as follows:

|  | Number of<br>Shares |
|--|---------------------|
| Unvested<br>Outstanding<br>at December<br>31, 2014     | 558,552             |
| Granted  | 10,584              |
| Forfeited  | (5,000 )            |
| Vested   | (137,003 )          |
| Unvested<br>Outstanding<br>at<br>September<br>30, 2015 | 427,133             |

The Company recorded non-cash compensation expense of \$138,996 and \$172,817 for the three months ended September 30, 2015 and 2014, respectively, and \$442,794 and \$653,556 for the nine months ended September 30, 2015 and 2014, respectively.

Total unrecognized compensation expense related to unvested stock awards and unvested restricted stock units at September 30, 2015 amounts to \$1,520,271 and is expected to be recognized over a weighted average period of 2.9 years.

#### **Note 8 – Subsequent Events**

The Company evaluates subsequent events and transactions that occur after the balance sheet date up to the date that the financial statements were issued for potential recognition or disclosure. Any material events that occur between the balance sheet date and the date that the financial statements were issued are disclosed as subsequent events, while the financial statements are adjusted to reflect any conditions that existed at the balance sheet date. Based upon this review, except as discussed below, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the financial statements.



**uSell.com, Inc and Subsidiaries**

**Notes to Interim Condensed Consolidated Financial Statements**

**September 30, 2015**

**(Unaudited)**

On October 26, 2015 (the “Closing Date”), the Company acquired BST Distribution, Inc., a New York corporation (“BST”), which owns We Sell Cellular and is engaged primarily in the wholesale acquisition and resale of smartphones and related devices from carriers and big box stores. In connection with the acquisition, the Company, BST and We Sell Cellular entered into a financing transaction on October 26, 2015 with BAM Administrative Services, LLC, a Delaware limited liability company (“BAM”), as agent, and an institutional investor (the “Purchaser”), pursuant to which the Company issued and sold the Purchaser a note in the principal amount of \$4,040,000.

Stock Purchase Agreement

The Company, BST, and Brian Tepfer and Scott Tepfer (together, the “Tepfers”) entered into a Stock Purchase Agreement (the “SPA”) as a result of which BST became a wholly-owned subsidiary of the Company. The SPA and the related transactions, other than the financing transaction, were effective as of October 1, 2015. Prior to closing of the SPA, the Tepfers owned 100% of the outstanding stock of BST, which owns 100% of the membership interests of We Sell Cellular. In exchange for acquiring 100% of the outstanding stock of BST, the Company issued the Tepfers 9,358,837 shares of the Company’s common stock (or approximately 50% of the Company on an undiluted basis), subject to adjustment as described below.

In accordance with the SPA, if the Tepfers elect to sell shares of the Company’s common stock, the Company will use its best efforts to assist the Tepfers in selling their shares of common stock acquired under the SPA for up to \$6,000,000 in gross proceeds (together and not each) through private placements or public offerings, with target sales of \$1,500,000 quarterly, commencing with the quarter ending December 31, 2015. If the price per share received by the Tepfers is less than the greater of \$1.20 or the product of an EBITDA-based formula, the Company will issue the Tepfers additional shares of common stock.

In addition, pursuant to the SPA, the Company granted the Tepfers certain piggyback registration rights and a right of first refusal to participate in future Company financings. The Company also created a pool of 300,000 restricted stock units which can be granted to employees of We Sell Cellular designated by the Tepfers.

The Company is in the process of valuing the acquisition of We Sell Cellular and the related fair values of the assets acquired and liabilities assumed.

### Shareholders Agreement

In connection with the closing of the SPA, Nikhil Raman (“Raman”), the Company’s Chief Executive Officer, Daniel Brauser (“Brauser”), the Company’s Chairman, and the Tepfers entered into a Shareholders Agreement. The Shareholders Agreement will remain in effect until the earlier of: (i) the Tepfers no longer holding at least 10% of the Company’s outstanding common stock, (ii) Raman resigns or is terminated as an employee of the Company, or (iii) Brauser resigns or is removed as a director of the Company.

Under the Shareholders Agreement, each person agreed that, in connection with any annual meeting, special meeting or written consent of the Company’s shareholders, such person would vote together with the other three parties on each matter. However, the parties further agreed that if they cannot reach an agreement, then the affirmative vote of at least 75% of the voting power of all shares of outstanding voting stock of the Company is required to take action. As a result, for so long as the Shareholders Agreement remains in effect, future action by the Company’s shareholders will effectively require either the unanimous consent of Raman, Brauser, and the Tepfers, or a 75% supermajority vote of outstanding shares. This voting restriction will not be enforceable if the Company does not comply with its obligations under the SPA related to assisting the Tepfers with the sale of their common stock.

Pursuant to the Shareholders Agreement, the Company appointed Brian Tepfer to the Company’s Board of Directors and each party agreed to take all necessary and desirable action to ensure his future re-election.

### Management Agreement

In connection with the closing of the SPA, the Company, the Tepfers, Raman, and Brauser also entered into a Management Agreement related to the future management of BST and We Sell Cellular. The Management Agreement will terminate at such time as the Tepfers have collectively received at least \$500,000 in gross proceeds from the sale of the Company’s common stock.

Under the Management Agreement, the BST board of directors will consist of two members appointed by the Tepfers, who are initially the Tepfers, and two members appointed by the Company, who initially are Raman and Brauser. The Tepfers may replace their designees upon obtaining the approval of the Company, which will not be unreasonably withheld, and vice-versa. The Management Agreement also provides that BST will have three officers, two of which will be appointed by the Tepfers and initially are the Tepfers, and one of which will be appointed by the Company and initially is Raman. BST’s officers may not take certain major actions without the approval of 75% of the members of the BST board of directors.

**uSell.com, Inc and Subsidiaries**

**Notes to Interim Condensed Consolidated Financial Statements**

**September 30, 2015**

**(Unaudited)**

The Management Agreement provides that the initial manager of We Sell Cellular will be Raman. The Company may appoint any replacement manager upon obtaining the approval of the Tefpers, which will not be unreasonably withheld. The manager may not take certain major actions without majority approval of the BST board of directors, which must include the approval of each of the Tefpers or their replacements. The Management Agreement also provides that We Sell Cellular will have three officers: a chairman, who will be the Manager, a chief executive officer, who will initially be Brian Tepfer, and a president, who will initially be Scott Tepfer. We Sell Cellular's officers may not be removed without their express consent, with certain exceptions including termination of their employment. We Sell Cellular's officers may not take certain major actions without the approval of the Manager.

Employment Agreements

In connection with the closing of the SPA, each of Brian Tepfer and Scott Tepfer entered into employment agreements with BST and We Sell Cellular, effective as of October 1, 2015, pursuant to which Brian Tepfer will serve as Chief Executive Officer of We Sell Cellular and Scott Tepfer will serve as President of We Sell Cellular. Each agreement has an initial term through December 31, 2018 with non-competes extending 12 months following termination of employment. Each agreement will automatically renew for subsequent one-year periods unless otherwise terminated or notice is given of non-renewal. Each of Brian and Scott Tepfer will receive a base salary of \$500,000 annually, subject to downward adjustment based on the failure to meet future EBITDA targets, provided that no adjustment may be made below \$360,000. In addition, each of the Tefpers will be eligible for a semi-annual target bonus of \$250,000, subject to upward and downward adjustment based on the attainment of EBITDA targets. In connection with their employment agreements, the Tefpers also entered into non-compete agreements with BST and We Sell Cellular. These non-compete provisions terminate if the Company fails to meet two agreed upon conditions including the Tefpers electing to sell shares and their failure to receive together at least \$6 million from the sale of their common stock by a date four months after the Company files its Form 10-K in 2017.

Note Purchase Agreement and Secured Term Note

On October 23, 2015, in connection with the closing of the SPA and related transactions, the Company, BST, We Sell Cellular, BAM, as agent, and the Purchaser, an institutional investor, entered into a Note Purchase Agreement (the "NPA") pursuant to which the Company issued and sold the Purchaser a 1% original issue discount Secured Term Note in the aggregate principal amount of \$4,040,000 (the "Initial Note") in exchange for gross proceeds of \$4,000,000. Of this sum \$1,232,618 was used to repay a lender to We Sell Cellular and \$300,000 was used to repay a loan to one of the Tefpers. Within six months of the Closing Date, the Company may, subject to certain conditions, elect to receive

up to two additional draws of funds in connection with the issuance of additional 1% original issue discount Secured Term Note (the “Deferred Draw Notes,” and with the “Initial Note,” the “Notes”). The NPA provides that the Company may elect to receive a total of another \$4,000,000 under the Deferred Draw Notes in compliance with the covenants under the NPA.

The Notes mature three years from the Closing Date and accrue interest at 13% annually, which is payable monthly in arrears, beginning November 1, 2015. Repayment of principal commences seven months from the Closing Date in monthly installments of 1/48<sup>th</sup> of the aggregate principal amount of the Notes. The Notes are prepayable at 103%, beginning one year from the Closing Date, in increments of \$500,000.

In connection with the issuance of the Initial Note, the Company issued the Purchaser 740,000 shares of its common stock. To the extent that the Deferred Draw Notes are issued, the Company will issue the Purchaser an additional 60,000 shares per \$1,000,000 of principal amount of Deferred Draw Notes issued.

The Company granted the Purchaser piggyback registration rights with respect to the shares issued in connection with the Note. The Company also granted the Purchaser a right of first refusal to participate in future financings, where the future purpose of the proceeds is to acquire additional inventory of the Company. The right of first refusal expires upon the earlier of (i) 18 months from the Closing Date or (ii) such time as the aggregate principal amount of outstanding Note is less than \$1,500,000. The right of first refusal does not cover conventional public and private securities offerings.

#### Security Agreement and Subsidiary Guaranty

In connection with the execution of the NPA and issuance of the Note, the Company, BST, We Sell Cellular and certain of their wholly-owned subsidiaries (collectively, the “Debtors”) entered into a Security Agreement for the benefit of BAM and the Purchaser as secured parties. Pursuant to the Security Agreement, the Debtors granted the secured parties a lien on all of the Debtors’ respective assets, including, but not limited to, equipment, inventory, accounts, and intellectual property. The wholly-owned subsidiaries party to the Security Agreement also jointly and severally guaranteed payment and performance of all obligations under the Notes and related transaction documents.

#### Pledge Agreement and Collateral Assignment Agreement

As additional collateral to guarantee the Notes and related obligations, the Company, BST and We Sell Cellular also entered into a Pledge Agreement for the benefit of BAM and the Purchaser pursuant to which they pledged the equity interests of certain of their wholly-owned subsidiaries, including BST and We Sell Cellular. Under a Collateral Assignment Agreement, the Company also assigned BAM, as agent for the Purchaser, all of its rights under the SPA.

#### Issuance of shares and RSUs

As a result of the We Sell Cellular acquisition, 150,000 shares of the Company's common stock underlying RSUs granted in 2014 were delivered to each of Raman and Brauser and, in addition, each received a grant of 150,000 shares of the Company's common stock. Raman also received a grant of 350,000 RSUs vesting annually over three years beginning October 2016, subject to continued employment.

Convertible Preferred Stock Conversions

In October 2015, 100,000 shares of the Company's Convertible Series A Preferred Stock were converted into 100,000 shares of common stock. As a result, there are no shares of Convertible Series A Preferred Stock outstanding.

In October 2015, 951,250 shares of the Company's Convertible Series B Preferred Stock were converted into 60,411 shares of common stock. As a result, there are no shares of Convertible Series B Preferred Stock outstanding.

In October 2015, 146,667 shares of the Company's Convertible Series C Preferred Stock were converted into 146,667 shares of common stock. As a result, there are no shares of Convertible Series C Preferred Stock outstanding.

In October 2015, 103,232 shares of the Company's Convertible Series E Preferred Stock were converted into 103,232 shares of common stock. As a result, there are no shares of Convertible Series E Preferred Stock outstanding.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis should be read in conjunction with our unaudited interim condensed consolidated financial statements and related notes appearing elsewhere in this report on Form 10-Q. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to those set forth under "Risk Factors" in our Annual Report on Form 10-K, as filed with the United States Securities and Exchange Commission, or the SEC, on March 31, 2015.

### **Overview**

As a result of our acquisition of We Sell Cellular on October 26, 2015, our business has been fundamentally transformed. Key terms of the acquisition are contained in a Form 8-K filed with the SEC on October 27, 2015. Although We Sell Cellular has been very profitable, its financial results are not included in this report, as the acquisition occurred only a few weeks ago.

During the quarter ended September 30, 2015, our management team was substantially involved in negotiating the We Sell Cellular acquisition and arranging the necessary financing for We Sell Cellular to repay its debt and expand its working capital. Our results of operations in this report solely relate to our historical business, excluding the We Sell Cellular business.

The deal between uSell and We Sell Cellular marks the culmination of a relationship that began in the second quarter of 2015 as uSell expanded into the wholesale trade-in market with the launch of its uSell Auctions platform. We Sell Cellular was an early participant in these auctions and has made significant contributions to the development of the technology. uSell's decision to enter the wholesale trade-in market was made to take advantage of what we see as our largest opportunity: using our unique technology platform to capture a piece of the rapidly expanding carrier and retail trade-in business.

The opportunity to leverage uSell's technology within the wholesale trade-in market arose in the fourth quarter of 2014. After the launch of the iPhone 6 and iPhone 6 Plus, all of the major carriers, including AT&T and Verizon, and the big box retailers, including Apple and Best Buy, became very aggressive in marketing their trade-in programs. While this market shift created a challenge in terms of marketing directly to consumers, it opened up a much larger opportunity. We believe that trade-in programs will continue to play a strategic role in the marketing and retention strategies of the carriers and big box retailers, as the carriers fully adopt a no-subsidy model and put the financial



burden of purchasing smartphones on consumers. Verizon Wireless has confirmed our view of the future with its announcement on August 7, 2015 to discontinue phone subsidies for new customers. Apple has further ensured this future with the announcement of its iPhone Upgrade Program in early September 2015. In order to manage their trade-in programs, the retailers and carriers either use third party processors to refurbish devices before selling them to wholesalers or they sell devices directly to wholesalers that have the proper environmental and data destruction certifications.

We Sell Cellular is among a handful of top tier wholesalers whose primary business is to buy used smartphones that have been traded in with the major carriers and the big box retailers, fully inspect and refurbish these devices, and then sell these devices wholesale and retail through its highly experienced sales force. We Sell Cellular is one of a few wholesalers that is in the final stages of qualifying for R2 certification, the industry standard for both data destruction and environmental protection. We believe that the combination of We Sell Cellular's financial strength, access to supply, and expertise and uSell's technology, buyer network, and access to capital is extremely synergistic and provides the combined company with opportunities that were previously unavailable to us separately. We Sell Cellular has built a strong brand in the wholesale industry due to its highly accurate refurbishment methods and its track record of great service. uSell has built an industry-leading marketplace technology, as well as a platform, to make the refurbishment process more efficient. Together, uSell and We Sell Cellular can scale more efficiently while extracting maximum value from used devices.

### **Critical Accounting Policies**

In response to financial reporting release FR-60, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, from the SEC, we have selected our more subjective accounting estimation processes for purposes of explaining the methodology used in calculating the estimate, in addition to the inherent uncertainties pertaining to the estimate and the possible effects on the our financial condition. The accounting estimates involve certain assumptions that, if incorrect, could have a material adverse impact on our results of operations and financial condition. Our more significant accounting policies can be found in Note 3 of our unaudited interim condensed consolidated financial statements found elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC. There have been no material changes to our Critical Accounting Policies during the period covered by this report.

## Results of Operations

### Overview

During the quarter ended September 30, 2015, we continued to pursue our strategy of eliminating variable marketing spend while we focused on closing the acquisition of We Sell Cellular. This strategy resulted in continued improvement in the historical uSell business as follows:

Reduced our loss from operations from \$1,751,000 for the three months ended September 30, 2014 to \$294,000 for the three months ended September 30, 2015, and from \$4,341,000 for the nine months ended September 30, 2014 to \$2,299,000 for the nine months ended September 30, 2015.

For the three months ended September 30, 2015, operating activities generated positive cash flows of \$42,000, compared to negative cash flows of \$243,000 for the three months ended June 30, 2015. Excluding legal and accounting fees incurred in connection with the We Sell acquisition, our cash flows generated from operating activities would have been a positive \$169,000 for the three months ended September 30, 2015. Cash flows from operations was significantly better in the third quarter, as we realized a full quarter's benefit from reduced expenditures related to marketing and headcount reductions.

Despite reducing marketing spend by 97%, we processed \$2,967,000 in GMV for the quarter ended September 30, 2015, compared to \$3,170,000 for the quarter ended June 30, 2015 and \$5,041,000 for the quarter ended September 30, 2014. GMV is the total value of all closed transactions on our platform.

Volume of Orders Completed decreased from 173,200 for the nine months ended September 30, 2014 to 115,300 for the nine months ended September 30, 2015, a decrease of just 33% despite a 97% decrease in marketing spend.

Volume of Orders Placed decreased from 387,200 for the nine months ended September 30, 2014 to 209,700 for the nine months ended September 30, 2015, a decrease of just 46% despite an 97% decrease in marketing spend.

### *Comparison of the Three and Nine Months Ended September 30, 2015 to the Three and Nine Months Ended September 30, 2014*

The following tables set forth, for the periods indicated, results of operations information from our unaudited interim condensed consolidated financial statements:

|                    | Three Months Ended September 30, |              | Change       | Change       |   |
|--------------------|----------------------------------|--------------|--------------|--------------|---|
|                    | 2015                             | 2014         | (Dollars)    | (Percentage) |   |
| Revenue            | \$ 2,699,863                     | \$ 1,432,388 | \$ 1,267,475 | 88           | % |
| Costs and Expenses |                                  |              |              |              |   |
| Cost of Revenue    | 2,165,410                        | 164,419      | 1,984,309    | 1,096        | % |

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|                            |              |                |              |     |   |
|----------------------------|--------------|----------------|--------------|-----|---|
| Sales and Marketing        | 55,436       | 1,885,249      | (1,829,813)  | -97 | % |
| General and Administrative | 773,439      | 1,134,166      | (344,045)    | -31 | % |
| Operating Loss             | (294,422)    | (1,751,446)    | 1,457,024    | -83 | % |
| Other Income               | 138          | 798            | (660)        | -83 | % |
| Net Loss                   | \$ (294,284) | \$ (1,750,648) | \$ 1,456,364 | -83 | % |

|                            | Nine Months Ended September 30, |                | Change       | Change       |   |
|----------------------------|---------------------------------|----------------|--------------|--------------|---|
|                            | 2015                            | 2014           | (Dollars)    | (Percentage) |   |
| Revenue                    | \$ 7,563,301                    | \$ 4,174,637   | \$ 3,415,664 | 82           | % |
| Costs and Expenses         |                                 |                |              |              |   |
| Cost of Revenue            | 5,764,471                       | 429,058        | 5,285,466    | 1,103        | % |
| Sales and Marketing        | 1,410,476                       | 4,610,795      | (3,200,319)  | -69          | % |
| General and Administrative | 2,687,742                       | 3,448,568      | (710,879)    | -21          | % |
| Operating Loss             | (2,299,388)                     | (4,340,784)    | 2,041,396    | -47          | % |
| Other Income (Expense)     | 101                             | (1,561,889)    | 1,561,990    | -100         | % |
| Net Loss                   | \$ (2,299,287)                  | \$ (5,902,673) | \$ 3,603,386 | -61          | % |

**Revenue by Type**

The following table breaks down our revenue by type:

|                              | Three Months Ended September 30, |       |             |       |  |
|------------------------------|----------------------------------|-------|-------------|-------|--|
|                              | 2015                             | 2014  |             |       |  |
| Seller Electronics Referrals | \$2,638,047                      | 97 %  | \$1,229,523 | 86 %  |  |
| Fulfillment Revenue          | 31,939                           | 2 %   | 97,046      | 7 %   |  |
| Advertising Revenue          | 25,659                           | 1 %   | 87,236      | 6 %   |  |
| Other Revenue                | 4,218                            | 0 %   | 18,583      | 1 %   |  |
|                              | \$2,699,863                      | 100 % | \$1,432,388 | 100 % |  |

|                              | Nine Months Ended September 30, |      |             |      |
|------------------------------|---------------------------------|------|-------------|------|
|                              | 2015                            |      | 2014        |      |
| Seller Electronics Referrals | \$7,276,046                     | 95 % | \$3,590,102 | 87 % |
| Fulfillment Revenue          | 126,335                         | 2 %  | 235,876     | 6 %  |
| Advertising Revenue          | 116,280                         | 2 %  | 241,297     | 6 %  |
| Other Revenue                | 44,640                          | 1 %  | 80,362      | 1 %  |
|                              | \$7,563,301                     | 100% | \$2,715,249 | 100% |

*Seller Electronics Referrals.* Before March 2014, we earned up front “lead fees” from buyers when sellers accepted offers on our website and filled out a form to request a free shipping kit. This fee was received regardless of whether these sellers ultimately sent in their devices to the buyers. Buyers treated these lead fees as a marketing expense, and had to consider historical data on “send in rates” when setting pricing on the website. We recognized the related revenue upon the sellers’ acceptance of an offer and submission of the form on the website.

Beginning in February 2014 and for the subsequent six weeks, we phased in a major change to our business model. Under the new model, we eliminated the upfront lead fees to buyers and began charging transactional fees when buyers pay sellers for received devices. Whereas prior to the change, we recognized revenue upon acceptance of an offer and submission of the form on our website, we now recognize revenue upon payment to the seller. This aligns our incentives with sellers and reduces risk for buyers.

Additionally, our shift in model has increased the importance of seasonality and new smartphone product launches to our business. Whereas in the prior lead fee model, we charged the same lead fees regardless of the time of year, we now earn a percentage of the gross amount of the transaction between the buyer and the seller. Therefore, during times of the year where sellers are selling higher end smartphones, our revenues will generally increase. Conversely, during times of the year when sellers are selling lower end smartphones, our revenues will generally decrease.

As a further development to our business model, in October 2014, we launched our “Managed by uSell” service, whereby we partnered with a third party logistics company to inspect and process devices before passing them along to buyers. Under this new model, title to a device passes to uSell upon issuance of payment to the seller, which is generally within one to two days from the receipt of the device at the third party warehouse. Title to a device is then transferred to the buyer upon shipment to the buyer. As a result, starting in October 2014, we began recognizing the full value of the processed devices in both revenues and cost of revenues. This is reflected in our increase in revenue for the three and nine months ended September 30, 2015, as well as the resulting cost of revenue.

### **Cost of Revenue**

Our cost of revenue for generating transactions for our buyers consists primarily of costs to access and maintain our website, as well as amortization expense on our technology platform software. Beginning in October 2014, cost of revenue pertaining to the sale of devices to buyers includes the cost of acquiring the device, as well as any other direct costs and expenses required to inspect and process the devices internally before shipping them to the buyers. Accordingly, with the implementation of the Managed by uSell program, our gross profit is now impacted by the recognition of the cost of sales related to the devices under this program.

### **Sales and Marketing Expenses**

The following table compares our revenue to the amount of sales and marketing expenses for the corresponding periods.

Three Months Ended September 30, &nb