

usell.com, Inc.  
Form 10-Q  
August 15, 2016

**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  
X ACT OF 1934**

For the quarterly period ended: June 30, 2016

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**  
**New York, New York**                      **10016**  
*(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 August 10, 2016</b> |
|--|--|
| Common Stock, \$0.0001 par value per share | 20,120,999 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**

|   | June 30,<br>2016<br>(unaudited) | December<br>31,<br>2015 |
|---|---------------------------------|-------------------------|
| Assets                                    |                                 |                         |
| Current Assets:                           |                                 |                         |
| Cash and cash equivalents                 | \$ 1,012,868                    | \$ 1,047,786            |
| Restricted cash                           | 1,606,102                       | 801,230                 |
| Accounts receivable, net                  | 276,842                         | 463,187                 |
| Inventory                                 | 8,413,671                       | 7,099,970               |
| Prepaid expenses and other current assets | 171,583                         | 297,023                 |
| Total Current Assets                      | 11,481,066                      | 9,709,196               |
| Property and equipment, net               | 175,640                         | 193,243                 |
| Goodwill                                  | 8,448,759                       | 8,406,561               |
| Intangible assets, net                    | 4,329,888                       | 5,043,972               |
| Capitalized technology, net               | 891,135                         | 886,543                 |
| Other assets                              | 52,580                          | 79,145                  |
| Total Assets                              | \$ 25,379,068                   | \$ 24,318,660           |
| Liabilities and Stockholders' Equity      |                                 |                         |
| Current Liabilities:                      |                                 |                         |
| Accounts payable                          | \$ 3,367,258                    | \$ 2,563,598            |
| Accrued expenses                          | 694,455                         | 729,160                 |
| Deferred revenue                          | 424,822                         | 814,295                 |
| Lease termination payable                 | -                               | 5,000                   |
| Total Current Liabilities                 | 4,486,535                       | 4,112,053               |
| Promissory note payable                   | 6,851,791                       | 5,087,043               |
| Placement rights derivative liability     | 1,500,000                       | 1,130,000               |
| Total Liabilities                         | 12,838,326                      | 10,329,096              |
| Stockholders' Equity:                     |                                 |                         |

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|   |              |              |
|---|--------------|--------------|
| Convertible Series A preferred stock; \$0.0001 par value; 325,000 shares authorized; no shares issued and outstanding.                | -            | -            |
| Convertible Series B preferred stock; \$0.0001 value per share; 4,000,000 shares authorized; no shares issued and outstanding.        | -            | -            |
| Convertible Series C preferred stock; \$0.0001 value per share; 146,667 shares authorized; no shares issued and outstanding.          | -            | -            |
| Convertible Series E preferred stock; \$0.0001 value per share; 103,232 shares authorized; no shares issued and outstanding           | -            | -            |
| Common stock; \$0.0001 par value; 43,333,333 shares authorized; 20,120,999 and 19,751,999 shares issued and outstanding, respectively | 2,012        | 1,976        |
| Additional paid in capital  | 69,336,972   | 68,662,578   |
| Accumulated deficit   | (56,798,242) | (54,674,990) |
| Total Stockholders' Equity  | 12,540,742   | 13,989,564   |
| <br>  |              |              |
| Total Liabilities and Stockholders' Equity  | \$25,379,068 | \$24,318,660 |

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

## uSell.com, Inc. and Subsidiaries

**Consolidated Statements of Operations**

(Unaudited)

|  | Three Months Ended |              | Six Months Ended |                |
|--|--------------------|--------------|------------------|----------------|
|  | June 30,<br>2016   | 2015         | June 30,<br>2016 | 2015           |
| Revenue  | \$25,829,187       | \$2,720,455  | \$48,281,335     | \$4,863,438    |
| Cost of Revenue  | 24,021,565         | 2,156,542    | 45,569,316       | 3,599,061      |
| Gross Profit   | 1,807,622          | 563,913      | 2,712,019        | 1,264,377      |
| Operating Expenses:  |                    |              |                  |                |
| Sales and marketing  | 413,805            | 349,017      | 790,900          | 1,355,040      |
| General and administrative   | 1,453,403          | 750,220      | 2,989,238        | 1,914,303      |
| Total operating expenses   | 1,867,208          | 1,099,237    | 3,780,138        | 3,269,343      |
| Loss from Operations   | (59,586 )          | (535,324 )   | (1,068,119 )     | (2,004,966 )   |
| Other (Expense) Income:  |                    |              |                  |                |
| Interest income  | -                  | 253          | -                | 785            |
| Interest expense   | (328,082 )         | (5 )         | (685,133 )       | (822 )         |
| Change in fair value of placement rights derivative liability                              | 355,000            | -            | (370,000 )       | -              |
| Total Other (Expense) Income, Net  | 26,918             | 248          | (1,055,133 )     | (37 )          |
| Net Loss   | \$(32,668 )        | \$(535,076 ) | \$(2,123,252 )   | \$(2,005,003 ) |
| Basic and Diluted Loss per Common Share:   |                    |              |                  |                |
| Net loss per common share - basic and diluted  | \$(0.00 )          | \$(0.07 )    | \$(0.11 )        | \$(0.27 )      |
| Weighted average number of common shares outstanding during the period - basic and diluted | 20,110,625         | 7,541,626    | 19,931,312       | 7,537,743      |

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

## uSell.com, Inc. and Subsidiaries

Consolidated Statements of Cash Flows(Unaudited)

|  | <b>Six Months Ended</b> |               |
|--|-------------------------|---------------|
|  | <b>June 30,</b>         |               |
|  | 2016                    | 2015          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                         |               |
| Net loss   | \$(2,123,252)           | \$(2,005,003) |
| Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities: |                         |               |
| Depreciation and amortization  | 998,632                 | 302,487       |
| (Recovery of) Provision for bad debt expense   | (1,828 )                | 749           |
| Stock based compensation expense   | 271,930                 | 458,723       |
| Amortization of debt issue costs into interest expense   | 216,799                 | -             |
| Change in fair value of placement rights derivative liability                                    | 370,000                 | -             |
| Changes in operating assets and liabilities:   |                         |               |
| Accounts receivable  | 188,173                 | 966           |
| Inventory  | (1,355,899)             | (211,960 )    |
| Prepaid and other current assets   | 125,440                 | 21,687        |
| Other assets   | 690                     | -             |
| Accounts payable   | 803,660                 | 13,258        |
| Accrued expenses   | (34,704 )               | -             |
| Lease termination payable  | (5,000 )                | -             |
| Deferred revenues  | (389,473 )              | 70,843        |
| Net Cash and Cash Equivalents Used In Operating Activities                                       | (934,832 )              | (1,348,250)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                         |               |
| Website development costs  | (267,293 )              | (310,897 )    |
| Restricted cash  | (804,872 )              | -             |
| Cash paid to purchase property and equipment   | (4,245 )                | -             |
| Security deposits  | 25,875                  | -             |
| Net Cash and Cash Equivalents Used In Investing Activities                                       | (1,050,535)             | (310,897 )    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                         |               |
| Proceeds from note payable   | 2,000,000               | -             |
| Cash paid for debt issue costs   | (49,551 )               | -             |
| Net Cash and Cash Equivalents Provided By Financing Activities                                   | 1,950,449               | -             |
| Net Decrease in Cash and Cash Equivalents  | (34,918 )               | (1,659,147)   |
| Cash and Cash Equivalents - Beginning of Period  | 1,047,786               | 2,414,757     |



|   |             |           |
|---|-------------|-----------|
| Cash and Cash Equivalents - End of Period | \$1,012,868 | \$755,610 |
|---|-------------|-----------|

**SUPPLEMENTARY CASH FLOW INFORMATION:**

Cash Paid During the Period for:

|          |           |     |
|----------|-----------|-----|
| Interest | \$382,117 | \$- |
| Taxes    | \$-       | \$- |

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

|   |           |     |
|---|-----------|-----|
| Adjustment to goodwill for inventory valuation      | \$42,198  | \$- |
| Common stock issued in connection with note payable | \$402,500 | \$- |

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

**uSell.com, Inc and Subsidiaries**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**June 30, 2016**  
**(Unaudited)**

**Note 1 - Organization and Business**

uSell.com, Inc., through its wholly-owned subsidiaries (collectively, “uSell,” or the “Company”), is a technology driven company focused on extracting the maximum value from used mobile devices, at large scale. uSell acquires products from both individual consumers, on its website, uSell.com, and from major carriers, big box retailers, and manufacturers through its subsidiary, We Sell Cellular, LLC. These devices are then distributed globally, leveraging both a traditional sales force and an online marketplace where professional buyers of used smartphones compete to buy inventory in an on-demand fashion. Through participation on uSell’s marketplace platforms and through interaction with uSell’s salesforce, buyers can acquire high volumes of inventory in a cost effective manner, while minimizing risk.

**Note 2 - Significant Accounting Policies**

**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, 2015 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, 2015 and 2014. The financial information as of December 31, 2015 is derived from the

audited financial statements presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The interim results for the six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016 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.

### **Segment Information**

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision maker is its Chief Executive Officer. The Company and its Chief Executive Officer view the Company's operations and manage its business as one operating segment.

### **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.

**uSell.com, Inc and Subsidiaries**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**June 30, 2016**  
**(Unaudited)**

**Accounts Receivable**

Accounts receivable represent obligations from the Company's customers and are recorded net of allowances for cash discounts, doubtful accounts, and sales returns. The Company's policy is to reserve for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts was \$0 and \$14,300 at June 30, 2016 and December 31, 2015, respectively.

**Inventory**

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

Allowances for slow-moving or obsolete inventory are provided based on historical experience of a variety of factors, including sales volume, product life and levels of inventory at the end of the period. The allowance for slow-moving or obsolete inventory amounted to \$178,000 and \$0 at June 30, 2016 and December 31, 2015, respectively.

Substantially all of the Company's inventory purchases are paid for before inventory is received in the Company's warehouse. Prepaid inventory amounted to approximately \$1,192,000 and \$133,000 at June 30, 2016 and December 31, 2015, respectively, and is included in inventory, net in the accompanying consolidated balance sheets.

**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.

#### *Principal Device Revenue*

The Company, through We Sell Cellular, LLC (“We Sell Cellular”), generates revenue from the sales of its cellular telephones and related equipment. The Company recognizes revenue “FOB shipping point” on such sales. Delivery to the customer is deemed to have occurred when the customer takes title to the product. Generally, title passes to the customer when the products leave the Company’s warehouse. Payment terms generally require payment once an order is placed. The Company allows customers to return product within 30 days of shipment if the product is defective. Allowances for product returns are recorded as a reduction of sales at the time revenue is recognized based on historical data. The allowance for product returns amounted to approximately \$232,000 and \$197,000 at June 30, 2016 and December 31, 2015, respectively, and is recorded in accrued expenses in the accompanying consolidated balance sheets.

Under the Company’s “Managed by uSell” service on uSell.com, the Company partnered with a third party logistics company to inspect, wipe and process devices before passing them along to buyers. Under this 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.

#### *Agent Commission Revenue*

In certain cases, sellers on the Company’s uSell.com website are shown a larger list of offers directly from third party buyers interested in purchasing their devices. These offers are shown instead of or in addition to the “Managed by uSell” offer. If a seller chooses one of these offers, s/he ships his/her device directly to the buyer, rather than to the Company’s third party warehouse. The buyer is then responsible for testing the device, servicing the customer, and ultimately paying the seller for the device or returning it. The Company charges a commission to the buyers only when the seller sends in a device and is successfully paid for it. As such, the Company recognizes Agent Commission Revenue upon payment to the seller.

#### *Fulfillment Revenue*

The Company offers fulfillment services on behalf of its buyers for the items sold using the Agent Commission Revenue approach outlined above. The Company acts as the agent in these fulfillment services transactions, passing orders booked by its buyers to its third party fulfillment vendor, who then assembles the kits and mails 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.

**uSell.com, Inc and Subsidiaries**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**June 30, 2016**  
**(Unaudited)**

*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.

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

**Shipping and Handling Costs**

The Company follows the provisions of ASC Topic 605-45 (formerly known as Emerging Issues Task Force Issue 00-10, "Accounting for Shipping and Handling Fees and Costs") regarding shipping and handling costs. Shipping and handling costs included in cost of revenue were approximately \$124,000, and \$0 for the three months ended June 30, 2016 and 2015, respectively, and \$228,000 and \$0 for the six months ended June 30, 2016 and 2015, respectively.

**Advertising**

Advertising costs are expensed as they are incurred and are included in sales and marketing expenses. Advertising expense amounted to approximately \$12,000 and \$316,000 for the three months ended June 30, 2016 and 2015, respectively, and \$ 30,000 and \$1,271,000 for the six months ended June 30, 2016 and 2015, respectively.

**Concentration of Credit Risk**



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

The Company minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institutions. At times, the Company's cash may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit. At June 30, 2016 and December 31, 2015, the Company had not experienced losses on these accounts and management believes the Company is not exposed to significant risks on such accounts.

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

### **Fair Value of Financial Instruments**

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

### **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.

**uSell.com, Inc and Subsidiaries**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**June 30, 2016**  
**(Unaudited)**

The computation of basic and diluted loss per share at June 30, 2016 and 2015 excludes the common stock equivalents of the following potentially dilutive securities because their inclusion would be anti-dilutive:

|                                      | Three and Six Months<br>Ended<br>June 30, |           |
|--------------------------------------|---|-----------|
|                                      | 2016                                      | 2015      |
| Convertible Series A Preferred Stock | -   | 100,000   |
| Convertible Series B Preferred Stock | -   | 60,415    |
| Convertible Series C Preferred Stock | -   | 146,667   |
| Convertible Series E Preferred Stock | -   | 103,232   |
| Unvested Restricted Stock            | 288,884                                   | 27,774    |
| Unvested Restricted Stock Units      | 704,166                                   | 407,833   |
| Stock Options                        | 468,959                                   | 576,344   |
| Stock Warrants                       | 802,520                                   | 802,520   |
|                                      | 2,264,529                                 | 2,224,785 |

**Recent Accounting Pronouncements**

In May 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-12, “Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”), which further amended ASU 2016-09 by providing additional clarity in recognizing revenue from contracts that have been modified prior to the transition period to the new standard, as well as providing additional disclosure requirements for businesses and other organizations that make the transition to the new standard by adjusting amounts from prior reporting periods via retrospective application. The Company is continuing to evaluate the expected impact of this standard on its consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” (“ASU 2016-10”). ASU 2016-10 clarifies two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The update is effective for annual periods beginning after December 15, 2017 including interim reporting periods therein. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). ASU 2016-09 was issued as part of the FASB’s simplification initiative and affects all entities that issue share-based payment awards to their employees. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. ASU 2016-09 is effective for annual and interim periods beginning after December 15, 2016. This guidance can be applied either prospectively, retrospectively or using a modified retrospective transition method, depending on the area covered in this update. Early adoption is permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, “Revenue from contracts with customers (Topic 606): Principal versus Agent Considerations Reporting Revenue Gross versus Net” (“ASU 2014-09”). The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations by amending certain existing illustrative examples and adding additional illustrative examples to assist in the application of the guidance. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09. Public entities should apply the amendments in ASU 2014-09 for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. Private entities must apply the amendments one year later. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (“ASU 2016-02”). Under the new guidance, at the commencement date, lessees will be required to recognize a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. The new guidance is not applicable for leases with a term of 12 months or less. Lessor accounting is largely unchanged. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

**uSell.com, Inc and Subsidiaries**  
**Notes to Interim Condensed Consolidated Financial Statements**  
**June 30, 2016**  
**(Unaudited)**

In September 2015, the FASB issued ASU 2015-16, “Business Combinations – Simplifying the Accounting for Measurement-Period Adjustments” (“ASU 2015-16”), which eliminates the current guidance that requires an acquirer in a business combination to account for measurement-period adjustments retrospectively as if the accounting for the business combination had been completed at the acquisition date. Instead, under the new guidance, an acquirer recognizes measurement-period adjustments in the period in which it determines the amount of the adjustment, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. ASU 2015-16 does not change the criteria for determining whether an adjustment qualifies as a measurement-period adjustment or change the length of the measurement period, which cannot exceed one year from the date of the acquisition. The guidance is effective for annual and interim periods beginning after December 15, 2015, and the guidance is applied prospectively to adjustments to provisional amounts that occur after the adoption date. The Company adopted ASU 2015-16 as of January 1, 2016. The adoption of this guidance impacted the Company’s accounting for its measurement-period adjustment in connection with the Well Sell Cellular acquisition during the six months ended June 30, 2016, as described in Note 3.

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory” simplifying the measurement of inventory. The guidance requires an entity to measure inventory at the lower of cost or net realizable value, which consists of estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. The new guidance eliminates unnecessary complexity that exists under current “lower of cost or market” guidance. For public entities, ASU No. 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The guidance is to be applied prospectively as of the beginning of an interim or annual reporting period, with early adoption permitted. The Company does not believe the implementation of this standard will have a material impact on its consolidated financial statements and disclosures.

In May 2014, the Financial Accounting Standard Board (the “FASB”) issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 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 to 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 was initially effective for fiscal years beginning after December 15, 2016 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). Early adoption is not permitted. 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 July 2015, the FASB deferred the effective date of ASU 2014-09 for one year, and proposed some modifications to the original provisions.

### **Note 3 - Acquisition**

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 We Sell Cellular 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.

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, 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 (the "Placement Rights"). 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. The Tepfers did not elect to sell shares of common stock during the quarters ending December 31, 2015 and June 30, 2016.

The fair value of the Placement Rights was determined assuming the Tepfers sell their shares of common stock evenly over the next four quarters, as permitted under the SPA. Accordingly, the Placement Rights were valued as if they expire on the dates the shares of common stock are sold (see Note 10). In accordance with ASC 480-10, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," the Placement Rights are treated as a derivative liability in the accompanying condensed consolidated balance sheet because the Company is unable to determine if it will have sufficient authorized and unissued shares to deliver to the Tepfers.



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On July 27, 2016, the Company entered into an agreement with the Tepfers pursuant to which, effective July 1, 2016, the Tepfers agreed to waive the Placement Rights granted to them under the SPA (see Note 11). Accordingly, the derivative liability pertaining to the Placement Rights will be eliminated with a corresponding credit to additional paid in capital.

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 We Sell Cellular acquisition was accounted for under the acquisition method of accounting. Accordingly, the acquired assets and assumed liabilities were recorded at their estimated fair values, and operating results for We Sell Cellular are included in the consolidated financial statements from the effective date of acquisition of October 26, 2015.

During the six months ended June 30, 2016, the Company recorded an adjustment to the value of the inventory acquired that existed prior to the acquisition. As a result of the adjustment, the Company recorded an increase in goodwill of \$42,198 during the six months ended June 30, 2016.

**Note 4 - Intangible Assets**

Intangible assets, net is as follows:

| June 30, 2016                | Useful Lives<br>(Years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
|------------------------------|-------------------------|-----------------------------|-----------------------------|---------------------------|
| Trade Name                   | 5                       | \$2,622,000                 | \$ (249,712 )               | \$2,372,288               |
| Customer Relationships       | 5                       | 2,008,000                   | (267,736 )                  | 1,740,264                 |
| eBay Reputation Relationship | 1                       | 369,000                     | (246,000 )                  | 123,000                   |

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|                        |   |             |             |   |             |
|------------------------|---|-------------|-------------|---|-------------|
| Non-Compete Agreement  | 1 | 283,000     | (188,664    | ) | 94,336      |
| Intangible assets, net |   | \$5,282,000 | \$ (952,112 | ) | \$4,329,888 |

| December 31, 2015            | Useful Lives<br>(Years) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
|------------------------------|-------------------------|-----------------------------|-----------------------------|---------------------------|
| Trade Name                   | 5                       | \$2,622,000                 | \$ (62,428                  | ) \$2,559,572             |
| Customer Relationships       | 5                       | 2,008,000                   | (66,934                     | ) 1,941,066               |
| eBay Reputation Relationship | 1                       | 369,000                     | (61,500                     | ) 307,500                 |
| Non-Compete Agreement        | 1                       | 283,000                     | (47,166                     | ) 235,834                 |
| Intangible assets, net       |                         | \$5,282,000                 | \$ (238,028                 | ) \$5,043,972             |

Intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense amounted to \$357,000 and \$138,000 for the three months ended June 30, 2016 and 2015, respectively, and \$714,000 and \$300,000 for the six months ended June 30, 2016 and 2015, respectively.

Future annual estimated amortization expense is summarized as follows:

| Years ending December 31,   |             |
|-----------------------------|-------------|
| 2016 (remaining six months) | \$605,422   |
| 2017                        | 776,171     |
| 2018                        | 776,171     |
| 2019                        | 776,171     |
| 2020                        | 709,235     |
| 2021                        | 374,571     |
| Thereafter                  | 312,147     |
|                             | \$4,329,888 |



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**Note 5 – Capitalized Technology, Net**

Capitalized technology consists of the following:

|                          | June 30,<br>2016 | December<br>31,<br>2015 |
|--------------------------|------------------|-------------------------|
| Gross value              | \$2,843,179      | \$2,575,886             |
| Accumulated amortization | (1,952,044)      | (1,689,343)             |
| Net value                | \$891,135        | \$886,543               |

Capitalized technology is amortized on a straight-line basis over their estimated useful lives of three years. Amortization expense amounted to \$122,000 and \$138,000 for the three months ended June 30, 2016 and 2015, respectively, and \$263,000 and \$300,000 for the six months ended June 30, 2016 and 2015, respectively, and is included in cost of revenue.

Future annual estimated amortization expense is summarized as follows:

|                             |           |
|-----------------------------|-----------|
| Years ending December 31,   |           |
| 2016 (remaining six months) | \$260,554 |
| 2017                        | 410,268   |
| 2018                        | 193,206   |
| 2019                        | 27,107    |
|                             | \$891,135 |

**Note 6 - Promissory Notes**

At June 30, 2016, the Company's Notes (as defined below) is comprised of the following:

|   |             |
|---|-------------|
| Total Notes   | \$8,080,000 |
| Less: Unamortized discount and debt issue costs               | (1,228,209) |
| Total Notes, net of unamortized discount and debt issue costs | 6,851,791   |
| Less: Current portion of Notes                                | -           |
| Long-term Notes   | \$6,851,791 |

On October 23, 2015 (the “Note Closing Date”), 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.

Within six months of the Note Closing Date, the Company was permitted 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 could elect to receive a total of another \$4,000,000 under the Deferred Draw Notes in compliance with the covenants under the NPA. The proceeds of the Notes may be used for working capital and other general corporate purposes.

The Notes mature three years from the Note Closing Date and accrues interest at 13% annually, which is payable monthly in arrears, beginning November 1, 2015. Repayment of principal originally commenced seven months from the Note Closing Date in monthly installments of 1/48<sup>th</sup> of the aggregate principal amount of the Notes. The Notes are repayable at 103%, beginning one year from the Note 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. On December 1, 2015, the Company elected to borrow an additional \$2,000,000 and issued the Purchaser a Deferred Draw Note in the principal amount of \$2,020,000 and issued the Purchaser an additional 120,000 shares of common stock.

The Company maintains a dedicated bank account with a third party custodian pursuant to which all accounts receivable and Collateral proceeds (as defined in the NPA) are deposited to this account. The Company can only access funds in this account in accordance with the terms of the NPA. This account is controlled by BAM and is presented as restricted cash in the accompanying condensed consolidated balance sheet.

On March 30, 2016, the Company received \$2,000,000 in connection with the issuance of a Secured Term Note in the original principal amount of \$2,020,000 (the “Second Deferred Draw Note”) under the terms of the Company’s original NPA. In connection with the closing of the Second Deferred Draw Note, the Purchaser was issued an additional 350,000 shares of restricted common stock, consisting of the 120,000 shares required by the original NPA for the issuance of the Second Deferred Draw Note, and an additional 230,000 shares as consideration for the covenant

modifications referenced below. The Company paid an additional \$31,000 of costs in connection with the closing of the Second Deferred Draw Note.

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On March 31, 2016, uSell amended the terms of its NPA with BAM, and the Lender, pursuant to which uSell received the following modifications of covenants applicable to the credit facility:

- The EBITDA covenants will not apply until September 2017;
- The amortization period of the principal will not commence until September 1, 2017;
- The interest rate was increased by one-quarter of one percent (25 basis points) from 13.0% to 13.25%;
- The Company will get 75% credit for new purchase orders towards the borrowing base of the facility instead of the previous 50%; and
- The Company will get a 90% credit for inventory in transit towards the borrowing base instead of the previous 75%.

The Company analyzed the modification in accordance with ASC 405-20 and ASC 470-50-40. As the present value of the future cash flows of the modified debt was less than 10% different than the cash flows of the original debt, it was determined that the original and new debt instruments are not substantially different. Accordingly, the Company did not treat the original NPA as having been extinguished and exchanged for a new NPA.

The Company determined the value of the 1,210,000 shares of common stock issued to the Purchaser to be \$1,128,300, based upon the quoted closing trading price of the Company's common stock on the date of grant. The issuance of the 1,210,000 shares of common stock has been treated as a debt issue cost and, accordingly, has been recorded as a direct deduction from the carrying amount of Notes and is being amortized to interest expense over the contractual term of the Notes. During the three and six months ended June 30, 2016, accretion of the costs amounted to \$100,000 and \$161,000, respectively.

The Company recorded a discount on the Notes of \$80,000 which is being accreted to non-cash interest expense over the contractual term of the Notes. During the three and six months ended June 30, 2016, accretion of the discount amounted to \$7,000 and \$12,000, respectively. Contractual interest expense on the Notes amounted to \$271,000 and \$471,000 for the three and six months ended June 30, 2016.

The Company incurred fees associated with the closing of the Notes of \$288,000. These amounts have been treated as a debt issue cost and, accordingly, have been recorded as a direct deduction from the carrying amount of Notes and are being amortized to interest expense over the contractual term of the Notes. During the three and six months ended June 30, 2016, accretion of the fees amounted to \$24,000 and \$44,000, respectively.

**Note 7 - Commitments and Contingencies**

**Legal Proceedings**

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

**Operating Leases**

The Company leases space for operations, sales, customer support and corporate purposes under a lease agreement that expires in August 2018. The Company also leases space for its warehouse and office under a lease that expires in December 2019. The leases contain provisions requiring the Company to pay maintenance, property taxes and insurance and require scheduled rent increases. Rent expense is recognized on a straight-line basis over the terms of the leases.

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Rent expense, amounting to \$43,000 and \$20,000 for the three months ended June 30, 2016 and 2015, respectively, and \$87,000 and \$40,000 for the six months ended June 30, 2016 and 2015, respectively, is included in general and administrative expense in the condensed consolidated statements of operations.

**Note 8 - Stock-Based Compensation**

**Stock Option Grants**

The following table summarizes the Company's stock option activity for the six months ended June 30, 2016:

|                                 | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(in Years) | Aggregate<br>Intrinsic<br>Value |
|---------------------------------|-------------------------|--|---|---------------------------------|
| Outstanding - December 31, 2015 | 575,685                 | \$ 2.75                                  | 3.0   | \$ 1,509                        |
| Granted                         | 10,000                  | 1.00                                     |   |                                 |
| Exercised                       | -                       | -  |   |                                 |
| Forfeited or Canceled           | (116,726)               | 3.11                                     |   |                                 |
| Outstanding – June 30, 2016     | 468,959                 | \$ 2.62                                  | 2.2   | \$ -                            |
| Exercisable – June 30, 2016     | 413,127                 | \$ 2.81                                  | 1.9   | \$ -                            |

The Company recorded non-cash compensation expense of \$4,000 and \$57,000 for the three months ended June 30, 2016 and 2015, respectively, and \$8,000 and \$155,000 for the six months ended June 30, 2016 and 2015, respectively, pertaining to stock option grants.

Total unrecognized compensation expense related to unvested stock options at June 30, 2016 amounts to \$47,000 and is expected to be recognized over a weighted average period of 2.5 years.

The following table summarizes the Company's stock option activity for non-vested options for the six months ended June 30, 2016:

|                              | Number<br>of<br>Options | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value |
|------------------------------|-------------------------|---|
| Balance at December 31, 2015 | 55,000                  | \$ 0.86   |
| Granted                      | 10,000                  | 0.88  |
| Vested                       | (9,168 )                | (0.86 )   |
| Forfeited or Canceled        | -                       | -   |
| Balance at June 30, 2016     | 55,832                  | \$ 0.86   |

## Warrants

As of June 30, 2016 and December 31, 2015, there were 802,520 warrants outstanding and exercisable, with a weighted average exercise price of \$3.21 per share. The weighted average remaining contractual life of the warrants outstanding and exercisable at June 30, 2016 and December 31, 2015 was 3.3 and 3.6 years, respectively, and the aggregate intrinsic value was \$0.

The Company did not grant any warrants to purchase shares of common stock during the six months ended June 30, 2016.

There was no expense pertaining to warrants recorded during the three and six months ended June 30, 2016 and 2015.

## Restricted Stock Awards

On January 1, 2016, the Company granted 5,208 restricted stock units ("RSUs") to its Chief Financial Officer. The RSUs vested monthly over a three-month period through March 31, 2016, 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 \$1.23 per share, based upon the closing market price on the grant date. The aggregate grant date fair

value of the award amounted to \$6,000, which was recorded as compensation expense during the six months ended June 30, 2016.

On January 6, 2016, the Company granted 250,000 RSUs to the directors of the Company's Board of Directors. The RSUs vest in two equal annual increments, subject to continued service on each vesting date, with the first vesting date being one year from the grant date, and full vesting upon a change in control. The RSUs will be delivered three years from the date of grant. The RSUs have no voting or dividend rights. The fair value of the common stock on the date of grant was \$1.23 per share, based upon the closing market price on the grant date. The aggregate grant date fair value of the awards amounted to \$308,000. The Company recorded \$38,000 and \$77,000 of compensation expense during the three and six months ended June 30, 2016 related to this award.



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On April 1, 2016, the Company granted 6,433 RSUs to its Chief Financial Officer. The RSUs vested monthly over a three-month period through June 30, 2016, 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 \$1.15 per share, based upon the closing market price on the grant date. The aggregate grant date fair value of the award amounted to \$7,000, which was recorded as compensation expense during the six months ended June 30, 2016.

On April 18, 2016, the Company granted 7,000 fully vested shares of common stock to an advisor for services provided. The fair value of the common stock on the date of grant was \$0.80 per share, based upon the quoted closing trading price of the Company's common stock on the grant date. The aggregate grant date fair value of the award amounted to \$5,600, which was recorded as compensation expense during the six months ended June 30, 2016.

In April, May and June, 2016, the Company granted an aggregate of 6,000 fully vested shares of common stock to its Chief Financial Officer. The fair value of the common stock on the date of grant ranged from \$0.90 to \$1.00 per share, based upon the closing market price on the grant date. The aggregate grant date fair value of the awards amounted to \$6,000, which was recorded as compensation expense during the six months ended June 30, 2016.

On June 30, 2016, the Company granted 6,000 fully vested shares of common stock to an advisor for services provided. The fair value of the common stock on the date of grant was \$1.00 per share, based upon the closing market price on the grant date. The aggregate grant date fair value of the award amounted to \$6,000, which was recorded as compensation expense during the six months ended June 30, 2016.

A summary of the restricted stock award activity for the six months ended June 30, 2016 is as follows:

|   | Number<br>of<br>Shares |
|---|------------------------|
| Unvested Outstanding at December 31, 2015 | 831,662                |
| Granted                                   | 280,641                |
| Forfeited                                 | -                      |

|                                       |           |
|---------------------------------------|-----------|
| Vested                                | (119,253) |
| Unvested Outstanding at June 30, 2016 | 993,050   |

The Company recorded non-cash compensation expense of \$140,000 and \$155,000 for the three months ended June 30, 2016 and 2015, respectively, and \$264,000 and \$304,000 for the six months ended June 30, 2016 and 2015, respectively.

Total unrecognized compensation expense related to unvested stock awards and unvested restricted stock units at June 30, 2016 amounts to \$920,000 and is expected to be recognized over a weighted average period of 2.3 years.

**Note 9 – Customer and Vendor Concentrations**

**Customer Concentration**

During the three months ended June 30, 2016, one customer represented at least 10% of revenues, accounting for 10% of the Company’s revenues. During the three months ended June 30, 2015, four customers represented at least 10% of revenues, accounting for 12%, 12%, 12% and 10% of the Company’s revenues. During the three months ended June 30, 2016 and 2015, 60% and 100% of the Company’s revenues, respectively, were originated in the United States, 22% and 0% of the Company’s revenues, respectively, were originated in Europe and 12% and 0% of the Company’s revenues respectively, were originated in Hong Kong.

During the six months ended June 30, 2016, there were no customers that represented at least 10% of revenues. During the six months ended June 30, 2015, two customers represented at least 10% of revenues, accounting for 14% and 10% of the Company’s revenues. During the six months ended June 30, 2016 and 2015, 58% and 100% of the Company’s revenues, respectively, were originated in the United States, 18% and 0% of the Company’s revenues, respectively, were originated in Europe and 16% and 0% of the Company’s revenues were originated in Hong Kong.

At June 30, 2016, one customer represented at least 10% of accounts receivable, accounting for 39% of the Company’s accounts receivable. At December 31, 2015, there were no customers that represented at least 10% of accounts receivable.

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**Vendor Concentration**

During the three months ended June 30, 2016, two vendors represented at least 10% of purchases, accounting for 85% and 11% of the Company's purchases. During the three months ended June 30, 2015, no vendors represented at least 10% of purchases.

During the six months ended June 30, 2016, one vendor represented at least 10% of purchases, accounting for 90% of the Company's purchases. During the six months ended June 30, 2015, no vendors represented at least 10% of purchases.

At June 30, 2016, one vendor represented at least 10% of accounts payable, accounting for 74% of accounts payable. At December 31, 2015, one vendor represented at least 10% of accounts payable, accounting for 40%, of the Company's accounts payable.

**Note 10 - Fair Value Measurements**

The fair value of the Company's financial assets and liabilities reflects management's estimate of amounts that the Company would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of the Company's assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from independent sources) and to minimize the use of unobservable inputs (internal assumptions about how market participants would price assets and liabilities). The following fair value hierarchy is used to classify assets and liabilities based on the observable inputs and unobservable inputs used in order to value the assets and liabilities:

Level 1: Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2: Observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs based on the Company's assessment of the assumptions that market participants would use in pricing the asset or liability.

The following table presents information about the Company's liabilities that are measured at fair value on a recurring basis at June 30, 2016 and December 31, 2015, and indicates the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

| Description                          | Level | June 30,<br>2016 | December<br>31,<br>2015 |
|--------------------------------------|-------|------------------|-------------------------|
| Liabilities:                         |       |                  |                         |
| Placement Right Derivative Liability | 3     | \$1,500,000      | \$1,130,000             |

Level 3 liabilities are valued using unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the derivative liabilities. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company's Chief Financial Officer, who reports to the Chief Executive Officer, determines its valuation policies and procedures. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's Chief Financial Officer and is approved by the Chief Executive Officer.

The Company has determined the estimated fair value amounts using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The Company has based these fair value estimates on pertinent information available as of the respective balance sheet dates and has determined that, as of such dates, the carrying value of all financial instruments approximates fair value.

*Level 3 Valuation Techniques:*

Level 3 financial liabilities consist of placement right liabilities for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate.

The Company uses the Black-Scholes option pricing model to value Level 3 financial liabilities at inception and on subsequent valuation dates. This model incorporates transaction details such as the Company's stock price, contractual terms, maturity, and risk free rates, as well as volatility.

A significant increase in the volatility or a significant increase in the Company's stock price, in isolation, would result in a significantly higher fair value measurement. Changes in the values of the derivative liabilities are recorded in "change in fair value of placement right derivative liability" in the Company's condensed consolidated statements of operations.

As of June 30, 2016 and December 31, 2015, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

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The placement right liability was valued using the Black-Scholes option pricing model and the following assumptions on the following dates:

|                         | June 30,<br>2016 | December 31,<br>2015 |  |  |
|-------------------------|------------------|----------------------|--|--|
| Exercise price          | \$1.20           | \$1.20               |  |  |
| Stock price             | \$0.90           | \$1.11               |  |  |
| Expected life           | 0 years          | 0.18-0.93 years      |  |  |
| Risk-free interest rate | 0.26 %           | 0.02%-0.25 %         |  |  |
| Dividend yield          | 0.00 %           | 0.00 %               |  |  |
| Volatility              | 0 %              | 59 %                 |  |  |

The following table reflects the change in fair value of the Company's derivative liability for the six months ended June 30, 2016:

|   |             |
|---|-------------|
| Balance – December 31, 2015                       | \$1,130,000 |
| Change in fair value of placement right liability | 370,000     |
| Balance – June 30, 2016                           | \$1,500,000 |

**Note 11 – 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. Other than as described below, the Company did not identify any subsequent events that would have required adjustment or disclosure in the financial statements.

On July 27, 2016, the Company entered into an agreement with the Tepfers pursuant to which, effective July 1, 2016, the Tepfers agreed to waive the Placement Rights granted to them under the SPA. Accordingly, the derivative liability

pertaining to the Placement Rights will be eliminated with a corresponding credit to additional paid in capital. The Tepfers also agreed to waive the bonus rights under their respective employment agreements with the Company dated October 23, 2015 which provided for potential annual bonuses in a combined amount exceeding \$1,000,000. In exchange for agreeing to waive the Placement Rights and bonus rights, each of Brian Tepfer and Scott Tepfer was granted the right to receive a quarterly bonus equal to 4.5% of quarterly gross EBITDA under the Company's new Management Incentive Compensation Plan, as described below.

On July 27, 2016, the Company adopted its Management Incentive Compensation Plan (the "Plan") effective July 1, 2016. The Plan provides that each quarter that the Company meets certain gross EBITDA thresholds, participants will be eligible to receive quarterly bonuses. The Plan is effective through September 2018. The Plan provides for minimum bonus eligibility thresholds set at quarterly gross EBITDA levels that ensure that the Company will remain cash-flow positive and in compliance with all debt covenants over the term after payment of bonuses. If the Company does not meet the minimum EBITDA threshold in a given quarter, no bonus is payable under the Plan for that quarter. Bonuses will be subject to adjustment in the event the Company's year-end audit results in restatement of a prior quarter's EBITDA.

Effective July 1, 2016, the Company granted its Chief Executive Officer eligibility under the Plan to receive a bonus representing 2.4% of quarterly gross EBITDA and increased his base annual salary from \$140,000 to \$175,000.

## **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 30, 2016.

The content included on uSell.com and wesellcellular.com is not incorporated in this report.

### **Overview**

uSell.com, Inc. is a technology driven company focused on extracting the maximum value from used mobile devices, at large scale. uSell acquires products from both individual consumers, on its website, uSell.com, and from major carriers, big box retailers, and manufacturers through its subsidiary, We Sell Cellular, LLC. These devices are then distributed globally, leveraging both a traditional sales force and an online marketplace where professional buyers of used smartphones compete to buy inventory in an on-demand fashion. Through participation on uSell’s marketplace platforms and through interaction with uSell’s salesforce, buyers can acquire high volumes of inventory in a cost effective manner, while minimizing risk.

### **Device Acquisition**

uSell has two primary means of sourcing devices to fuel its marketplace and satisfy demand from its global base of customers. The first source is through its wholly-owned subsidiary, We Sell Cellular, which was acquired in the fourth quarter of 2015. We Sell Cellular is among a handful of top tier wholesalers whose primary business is to buy used smartphones that have been traded in with the major carriers and the big box retailers, fully inspect and grade these devices, and then sell these devices wholesale and retail through its highly experienced sales force. We Sell Cellular is one of a few wholesalers that has qualified for R2 certification, the industry standard for both data destruction and environmental protection.



uSell's second method of sourcing devices is through its website, uSell.com, where individual consumers can find cash offers for their items based on the make, model, and condition of each item. Upon accepting an offer, consumers can ship their devices for free using either a prepaid shipping kit or shipping label, and then track the progress of their orders online from initiation to final payment of their devices. We have historically utilized consumer oriented advertising efforts, such as direct response television commercials and various forms of Internet advertising, to attract sellers to our website. However, during 2015, we decided to strategically reduce our marketing spend in favor of seeking out wholesale supply.

## **Device Disposition**

We sell devices through three primary means:

- Utilizing our proprietary marketplace bidding platforms where buyers can source devices on demand
- Employing our highly experienced sales force to sell devices to its global client base
- Leveraging third party eCommerce platforms such as eBay and Amazon

We work with professional, wholesale buyers and provide them with a low risk, cost-efficient way to acquire inventory that they can then resell through various means. Through participation in the uSell marketplace or through interaction with our salesforce, our buyers gain access to the high volume of devices that we acquire through both retail and wholesale means, without taking on the risk and investment involved in marketing directly to consumers or purchasing directly from carriers, big box retailers, and manufacturers.

## **Revenue Model**

We make money by either taking possession of devices and selling these devices for a premium ("Principal Device Revenue") or by facilitating transactions between buyers and sellers and collecting a commission ("Agent Commission Revenue").

Historically a large part of our retail business utilized the Agent Commission Revenue model, whereby we did not take possession of the devices that were sold by consumers but rather facilitated transactions between these consumers and our network of professional buyers. However, 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 offering the highest prices for each device. By centralizing the inspection process, we standardized the grading procedures for devices, guaranteeing quick processing times and ensuring swift and successful payment to the sellers upon inspection. Through this approach, we take possession of devices for a brief period of time before they

are passed on to the ultimate buyer. The bulk of our volume through our retail business now uses this Principal Device Revenue approach. Devices sourced wholesale through our subsidiary, We Sell Cellular, are also bought and sold using the Principal Device Revenue model. Thus, the vast majority of our business is characterized by this approach.

## 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 2 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, 2015, 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

### 2016 Financial Highlights

As a result of the We Sell Cellular acquisition in October 2015, our business was fundamentally transformed and our financial situation substantially improved. Key financial metrics were as follows:

- Working capital increased to \$6,995,000 at June 30, 2016 from \$5,597,000 at December 31, 2015
- Revenues increased by \$23,109,000, or 849%, to \$25,829,000 for the three months ended June 30, 2016, from \$2,720,000 for the three months ended June 30, 2015
- Revenues increased by \$43,148,000, or 893%, to \$48,281,000 for the six months ended June 30, 2016, from \$4,863,000 for the six months ended June 30, 2015
- Net loss decreased \$502,000, or 94%, to \$33,000 for the three months ended June 30, 2016, from \$535,000 for the three months ended June 30, 2015
- Net loss increased \$118,000, or 6%, to \$2,123,000 for the six months ended June 30, 2016, from \$2,005,000 for the six months ended June 30, 2015
- Adjusted EBITDA, a non-GAAP financial measure, improved to \$572,000 for the three months ended June 30, 2016, from (\$184,000) for the three months ended June 30, 2015. See “Non-GAAP Financial Measure - Adjusted EBITDA” below.
- Adjusted EBITDA, a non-GAAP financial measure, improved to \$203,000 for the six months ended June 30, 2016, from (\$1,244,000) for the six months ended June 30, 2015. See “Non-GAAP Financial Measure - Adjusted EBITDA” below.

As anticipated, we saw margins bounce back substantially in the second quarter of 2016, confirming that the margin pressure that we experienced in the first quarter of 2016 was not a trend, but rather a cyclical event triggered by the unanticipated launch of the iPhone SE. We were able to liquidate most of the inventory associated with the write down that we took in the first quarter by mid-May, which enabled us to purchase new inventory at favorable prices. While we believe that margins have stabilized, we have continued to maintain a conservative philosophy and have taken steps to minimize the impact on our financial statements of any potential price fluctuations due to the anticipated iPhone 7 release in September.

From a technology perspective, we have made great strides in the second quarter of 2016. In early May, we began running auctions through the newly rebranded We Sell Cellular website. In May and June, we sold roughly \$1.7 million in value of devices through these eCommerce auctions. Through this process, we have proven that by leveraging uSell's technology, we are able to drive sales in a much more efficient and scalable manner. The auction technology that we developed was targeted at a specific subset of We Sell Cellular's customers, so we will not move 100% of We Sell Cellular's volume through this particular mechanism, but we are in the process of building additional mechanisms to move the bulk of We Sell Cellular's sales online over the next 12 months.

On the supplier side, we have also made great progress. Supplier concentration dropped from 97% in the first quarter of 2016 to 85% in the second quarter of 2016. Given the high volume of purchases, this small move in percentage is meaningful, and management continues to have confidence in our ability to diversify our supplier base over the next six to nine months.

Finally, we made substantial improvements to our balance sheet by restructuring the terms of our bank facility with our lender and by eliminating Brian and Scott Tepfers' Placement Rights. The modification of our agreement with our lender resulted in an increase in our working capital to close to \$7.0 million, while the elimination of the Tepfer's Placement Rights will add \$1.5 million of equity to our balance sheet. The Placement Rights had resulted in cumulative income statement charges of \$0.37 million for the six months ended June 30, 2016.

*Comparison of the Three and Six Months Ended June 30, 2016 to the Three and Six Months Ended June 30, 2015*

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

|                            | Three Months Ended June 30, |              | Change<br>(Dollars) | Change<br>(Percentage) |   |
|----------------------------|-----------------------------|--------------|---------------------|------------------------|---|
|                            | 2016                        | 2015         |                     |                        |   |
| Revenue                    | \$25,829,187                | \$2,720,455  | \$23,108,732        | 849                    | % |
| Cost of Revenue            | 24,021,565                  | 2,156,542    | 21,865,023          | 1,014                  | % |
| Gross Profit               | 1,807,622                   | 563,913      | 1,243,709           | 221                    | % |
| Operating Expenses:        |                             |              |                     |                        |   |
| Sales and Marketing        | 413,805                     | 349,017      | 64,788              | 19                     | % |
| General and Administrative | 1,453,403                   | 750,220      | 703,183             | 94                     | % |
| Total Operating Expenses   | 1,867,208                   | 1,099,237    | 767,971             | 70                     | % |
| Operating Loss             | (59,586 )                   | (535,324 )   | 475,738             | (89 )                  | % |
| Other Income               | 26,918                      | 248          | (26,670 )           | N/M                    |   |
| Net Loss                   | \$(32,668 )                 | \$(535,076 ) | \$(502,408 )        | (94 )                  | % |

|                            | Six Months Ended June 30, |               | Change<br>(Dollars) | Change<br>(Percentage) |   |
|----------------------------|---------------------------|---------------|---------------------|------------------------|---|
|                            | 2016                      | 2015          |                     |                        |   |
| Revenue                    | \$48,281,335              | \$4,863,438   | \$43,417,897        | 893                    | % |
| Cost of Revenue            | 45,569,316                | 3,599,061     | 41,970,255          | 1,166                  | % |
| Gross Profit               | 2,712,019                 | 1,264,377     | 1,447,642           | 114                    | % |
| Operating Expenses:        |                           |               |                     |                        |   |
| Sales and Marketing        | 790,900                   | 1,355,040     | (564,140 )          | (42 )                  | % |
| General and Administrative | 2,989,238                 | 1,914,303     | 1,074,935           | 56                     | % |
| Total Operating Expenses   | 3,780,138                 | 3,269,343     | 510,795             | 16                     | % |
| Operating Loss             | (1,068,119 )              | (2,004,966)   | 936,847             | (47 )                  | % |
| Other Expense              | (1,055,133 )              | (37 )         | (1,055,096 )        | N/M                    |   |
| Net Loss                   | \$(2,123,252 )            | \$(2,005,003) | \$(118,249 )        | 6                      | % |

N/M: Not meaningful

**Revenue by Type**

The following table breaks down our revenue by type:

|                          | Three Months Ended June 30, |      |             |      |
|--------------------------|-----------------------------|------|-------------|------|
|                          | 2016                        |      | 2015        |      |
| Principal Device Revenue | \$25,794,735                | 100% | \$2,548,390 | 94 % |
| Agent Commission Revenue | 14,036                      | 0 %  | 78,453      | 3 %  |
| Other                    | 20,416                      | 0 %  | 93,612      | 3 %  |
|                          | \$25,829,187                | 100% | \$2,720,455 | 100% |

|                          | Six Months Ended June 30, |      |             |      |
|--------------------------|---------------------------|------|-------------|------|
|                          | 2016                      |      | 2015        |      |
| Principal Device Revenue | \$48,202,401              | 100% | \$4,185,719 | 86 % |
| Agent Commission Revenue | 30,504                    | 0 %  | 452,279     | 9 %  |
| Other                    | 48,430                    | 0 %  | 225,440     | 5 %  |
|                          | \$48,281,335              | 100% | \$4,863,438 | 100% |

Principal Device Revenue increased by \$23,247,000, or 912%, from \$2,548,000 for the three months ended June 30, 2015 to \$25,795,000 for the three months ended June 30, 2016. Agent Commission Revenue decreased by \$64,000, or 82%, from \$78,000 for the three months ended June 30, 2015 to \$14,000 for the three months ended June 30, 2016. Principal Device Revenue related to We Sell Cellular amounted to \$24,529,000 for the three months ended June 30, 2016.

Principal Device Revenue increased by \$44,016,000, or 1,052%, from \$4,186,000 for the six months ended June 30, 2015 to \$48,202,000 for the six months ended June 30, 2016. Agent Commission Revenue decreased by \$421,000, or 93%, from \$452,000 for the six months ended June 30, 2015 to \$31,000 for the six months ended June 30, 2016. Principal Device Revenue related to We Sell Cellular amounted to \$45,300,000 for the six months ended June 30, 2016.

Due to the fact that devices sourced through We Sell Cellular are bought and sold using the Principal Device Revenue model, we anticipate that the percentage of the Agent Commission Revenue will remain minimal for the foreseeable future, as we continue to increase the volume that we purchase through wholesale channels.

### **Cost of Revenue**

Cost of revenue increased by \$21,865,000 or 1,014% from \$2,157,000 for the three months ended June 30, 2015 to \$24,022,000 for the three months ended June 30, 2016. Cost of revenue increased by \$41,970,000 or 1,166% from \$3,599,000 for the six months ended June 30, 2015 to \$45,569,000 for the six months ended June 30, 2016. Cost of revenue related to We Sell Cellular amounted to \$22,803,000 and \$42,881,000 for the three and six months ended June 30, 2016, respectively. Cost of revenue pertaining to the sale of devices through our Managed by uSell service 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. Furthermore, with the acquisition of We Sell Cellular we saw a substantial increase in Principal Device Revenue associated with the wholesale acquisition and sale of devices. Accordingly, our cost of revenue has increased substantially. Cost of revenues for the three and six months ended June 30, 2016 includes a \$468,000 recovery and \$12,000 provision for slow-moving and obsolete inventory, respectively.

Gross profit increased substantially to 7.0% for the three months ended June 30, 2016, compared to 4.0% for the three months ended March 31, 2016. Any comparison prior to the We Sell Cellular acquisition in October 2015 would not be meaningful. As noted above, margins improved during the second quarter of 2016, confirming that the margin pressure that we experienced in the first quarter was not a trend, but rather a cyclical event triggered by the unanticipated launch of the iPhone SE. We were able to liquidate most of the inventory associated with the write down that we took in the first quarter by mid-May, which enabled us to purchase new inventory at favorable prices. While we believe that margins have stabilized, we have continued to maintain a conservative philosophy and have added a new reserve for potential price fluctuations due to the anticipated iPhone 7 release in September.

### **Sales and Marketing Expenses**

Sales and marketing expense increased \$65,000, or 19%, from \$349,000 during the three months ended June 30, 2015 to \$414,000 during the three months ended June 30, 2016. Sales and marketing include \$378,000 of expenses related to We Sell Cellular for the three months ended June 30, 2016. With the We Sell Cellular acquisition and our newfound ability to source devices directly from the carriers, retailers, and manufacturers, our primary sales and marketing expenses have shifted from consumer marketing to paying out sales commissions. We believe this shifting profile will enable us to scale volume significantly while maintaining sales and marketing expense as a much lower percentage of sales than in prior years.

Sales and marketing expense decreased \$564,000, or 42%, from \$1,355,000 during the six months ended June 30, 2015 to \$791,000 during the six months ended June 30, 2016, mainly as a result of our decision to strategically reduce our marketing staff and marketing spend in favor of seeking out wholesale supply. Sales and marketing include \$724,000 of expenses related to We Sell Cellular for the six months ended June 30, 2016.

### **General and Administrative Expenses**

General and administrative expenses include professional fees for technology, legal and accounting services as well as consulting and internal personnel costs for our back office support functions. General and administrative expenses are impacted by non-cash compensation expense pertaining to share grants and option grants for services. Non-cash compensation expense amounted to \$145,000 and \$212,000 for the three months ended June 30, 2016 and 2015, respectively, and \$272,000 and \$459,000 for the six months ended June 30, 2016 and 2015, respectively.

Excluding non-cash compensation expense, general and administrative expenses for the three months ended June 30, 2016 increased by \$771,000, or 143%, compared to the three months ended June 30, 2015. The increase is mainly attributable to the increase in depreciation and amortization expense. Depreciation and amortization expense increased by \$365,000, from \$1,000 for the three months ended June 30, 2015 to \$366,000 for the three months ended June 30, 2016, mainly as a result of the amortization of the intangible assets acquired in connection with the We Sell Cellular acquisition. Not included in this amount is \$121,000 and \$138,000 of amortization expense for the three months ended June 30, 2016 and 2015, respectively, related to our capitalized technology, which is included in cost of revenues. Offsetting the increase in general and administrative expenses is a decrease in salary and salary-related expenses of \$73,000 resulting from the reduction in our marketing headcount during 2015. General and administrative expenses include \$845,000 of expenses (inclusive of \$366,000 of depreciation and amortization expense) related to the acquisition of We Sell Cellular during the three months ended June 30, 2016.

Excluding non-cash compensation expense, general and administrative expenses for the six months ended June 30, 2016 increased by \$1,262,000, or 87%, compared to the six months ended June 30, 2015. The increase is mainly attributable to the increase in depreciation and amortization expense. Depreciation and amortization expense increased by \$733,000, from \$3,000 for the six months ended June 30, 2015 to \$736,000 for the six months ended June 30, 2016, mainly as a result of the amortization of the intangible assets acquired in connection with the We Sell Cellular acquisition. Not included in this amount is \$263,000 and \$300,000 of amortization expense for the six months ended June 30, 2016 and 2015, respectively, related to our capitalized technology, which is included in cost of revenues. Offsetting the increase in general and administrative expenses is a decrease in salary and salary-related expenses of \$467,000 resulting from the reduction in our marketing headcount during 2015. General and administrative expenses include \$1,742,000 of expenses (inclusive of \$735,000 of depreciation and amortization expense) related to the acquisition of We Sell Cellular during the three months ended June 30, 2016.



**Other Income (Expense)**

Other expense during the three and six months ended June 30, 2016 is comprised of (\$328,000) and (\$685,000), respectively, of interest expense primarily attributable to the NPA entered into in October 2015 in connection with the We Sell Cellular acquisition and (\$355,000) and \$370,000, respectively, related to the change in the fair value of the Placement Rights derivative liability. See Note 3 to our unaudited interim condensed consolidated financial statements for a description of the rights. On July 27, 2016, we entered into an agreement with the Tepfers pursuant to which, effective July 1, 2016, the Tepfers agreed to waive the Placement Rights granted to them under the SPA. Accordingly, the derivative liability pertaining to the Placement Rights will be eliminated with a corresponding credit to additional paid in capital.

We did not have significant other income (expense) during the three and six months ended June 30, 2015.

**Non-GAAP Financial Measure - Adjusted EBITDA**

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

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

Management believes Adjusted EBITDA provides a meaningful representation of our operating performance that provides useful information to investors regarding our financial condition and results of operations. Adjusted EBITDA is commonly used by financial analysts and others to measure operating performance. Furthermore, management believes that this non-GAAP financial measure may provide investors with additional meaningful comparisons between current results and results of prior periods as they are expected to be reflective of our core ongoing business. However, while we consider Adjusted EBITDA to be an important measure of operating performance, Adjusted EBITDA and other non-GAAP financial measures have limitations, and investors should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. Further, Adjusted EBITDA, as we define it, may not be comparable to EBITDA, or similarly titled measures, as defined by other companies.

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

|  | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |               |
|--|---------------------------|-------------|-------------------------|---------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |               |
|  | 2016                      | 2015        | 2016                    | 2015          |
| Net loss                                     | \$(33,000 )               | \$(535,000) | \$(2,123,000)           | \$(2,005,000) |
| Stock-based compensation expense             | 145,000                   | 212,000     | 272,000                 | 459,000       |
| Depreciation and amortization                | 487,000                   | 139,000     | 999,000                 | 302,000       |
| Interest expense                             | 328,000                   | -           | 685,000                 | 1,000         |
| Interest and other income                    | -                         | -           | -                       | (1,000 )      |
| Change in fair value of derivative liability | (355,000)                 | -           | 370,000                 | -             |
| Adjusted EBITDA                              | \$572,000                 | \$(184,000) | \$203,000               | \$(1,244,000) |

The above net loss and Adjusted EBITDA amounts do not give effect to the waiver of the Placement Rights in connection with the approval of the Plan, which eliminated the non-cash charge for the change in the fair value of the derivative liability.

### **Liquidity and Capital Resources**

We do not yet have a sustained history of financial stability. Historically, our principal source of liquidity has been the issuances of debt and equity securities (including to related parties), including preferred stock, common stock and various debt financing transactions. We believe that with our acquisition of We Sell Cellular and our current available cash, along with the anticipated increase in revenues, we will have sufficient funds to meet our anticipated cash needs for the next 12 months.

There can be no assurance that the plans and actions proposed by management will be successful, that we will generate profitability and positive cash flows in the future. We cannot assure you that financing will enable us to meet our working capital needs. Future efforts to raise additional funds may not be successful or they may not be available on acceptable terms, if at all.

Our cash flow has been significantly impacted by the We Sell Cellular acquisition. In connection with the acquisition, we entered into an \$8 million financing facility, of which we have borrowed the full \$8 million as of June 30, 2016. The proceeds were used, in part, to fund the acquisition of We Sell Cellular, in order for them to repay a previously existing bank loan, repay an amount due to one of the founders of We Sell Cellular and for the purchase of inventory. The remaining proceeds have been primarily used for the purchase of inventory and working capital needs. The Company is required to begin repaying the principal of this loan in 1/48<sup>th</sup> increments beginning September 1, 2017 until the maturity date of October 23, 2018.

#### *Cash Flows from Operating Activities*

We used \$935,000 of cash in operating activities during the six months ended June 30, 2016, a decrease from \$1,348,000 of cash used in operating activities during the six months ended June 30, 2015. Our net loss during the six months ended June 30, 2016 of \$2,123,000 was offset by \$370,000 due to the change in the fair value of the Placement Rights derivative liability, \$999,000 of depreciation and amortization, \$272,000 of stock-based compensation and \$216,000 of amortization of debt issue costs related to our NPA. Changes in working capital used \$667,000 of cash during the six months ended June 30, 2016. Our net loss during the six months ended June 30, 2015 of \$2,005,000 was offset by \$459,000 of stock-based compensation and \$302,000 of depreciation and amortization. Changes in working capital used \$105,000 of cash during the six months ended June 30, 2015.

#### *Cash Flows from Investing Activities*

During the six months ended June 30, 2016, we capitalized \$267,000 of website development costs, compared to approximately \$311,000 in 2015, and our restricted cash account increased by \$805,000 as a result of our requirement under the NPA to maintain a dedicated bank account controlled by BAM. During the six months ended June 30, 2016, our former landlord returned to us \$26,000 in security deposits.

#### *Cash Flows from Financing Activities*

During the six months ended June 30, 2016, we received \$2,000,000 in proceeds under our NPA and paid \$50,000 in costs associated with the NPA. We did not have any cash flows from financing activities during the six months ended June 30, 2015.

#### **Recent Accounting Pronouncements**

See Note 2 to our unaudited interim condensed consolidated financial statements regarding recent accounting pronouncements.

### **Cautionary Note Regarding Forward-Looking Statements**

This report includes forward-looking statements including statements regarding future margins, reducing dependence upon a supplier, We Sell Cellular's online effectiveness, the benefits from the Tepfer's Placement Rights waiver and liquidity.

The words "believe," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "could," "target," "potential," "is," "expect" and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

The results anticipated by any or all of these forward-looking statements might not occur. Important factors, uncertainties and risks that may cause actual results to differ materially from these forward-looking statements include our ability to integrate We Sell Cellular with uSell and enhance the We Sell Cellular business with our technology, establishing relationships with new suppliers, the impact of the iPhone 7 launch and further instability in foreign economics. Further information on our risk factors is contained in our filings with the SEC, including the Form 10-K for the year ended December 31, 2015. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update or revise any forward-looking statements, whether as the result of new information, future events or otherwise.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable to smaller reporting companies.

### **Item 4. Controls and Procedures.**

#### ***Evaluation of Disclosure Controls and Procedures***

Our management carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”).

Based on their evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*Changes in Internal Controls Over Financial Reporting*

There have not been any significant changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

From time to time, we are a party to, or otherwise involved in, legal proceedings arising in the normal and ordinary course of business. During the period covered by this report, there were no new legal proceedings nor any material developments to any legal proceedings previously disclosed in our Form 10-K.

**Item 1A. Risk Factors.**

Not applicable to smaller reporting companies.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

See the exhibits listed in the accompanying “Index to Exhibits.”

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**SIGNATURES**

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.

**uSell.com, Inc.**

August 15, 2016 /s/ Nikhil Raman  
Nikhil Raman  
Chief Executive Officer  
(Principal Executive Officer)

August 15, 2016 /s/ Jennifer Calabrese  
Jennifer Calabrese  
Chief Financial Officer and  
Executive Vice President of Finance  
(Principal Financial Officer)



## INDEX TO EXHIBITS

| Exhibit<br>No. | Exhibit Description  | Incorporated by<br>Reference |         | Filed or<br>Furnished<br>Herewith |
|----------------|--|------------------------------|---------|-----------------------------------|
|                |  | Form                         | Date    |                                   |
| 10.1           | Amendment to 2008 Equity Incentive Plan*                                   | 8-K                          | 1/12/16 | 10.1                              |
| 10.2           | Amendment to Note Purchase Agreement originally issued October 23, 2015    | 8-K                          | 4/1/16  | 10.1                              |
| 10.3           | Form of Amended and Restated Note originally issued October 23, 2015       | 8-K                          | 4/1/16  | 10.2                              |
| 10.4           | Form of Amended and Restated Note originally issued December 1, 2015       | 8-K                          | 4/1/16  | 10.3                              |
| 10.5           | Form of Secured Term Note issued March 30, 2016                            | 8-K                          | 4/1/16  | 10.4                              |
| 10.6           | Amendment to 2008 Equity Incentive Plan, effective April 14, 2016*         | 8-K                          | 4/20/16 | 10.1                              |
| 31.1           | Certification of Principal Executive Officer (302)                         |                              |         | Filed                             |
| 31.2           | Certification of Principal Financial Officer (302)                         |                              |         | Filed                             |
| 32.1           | Certification of Principal Executive and Principal Financial Officer (906) |                              |         | Furnished**                       |
| 101.INS        | XBRL Instance Document   |                              |         | Filed                             |
| 101.SCH        | XBRL Taxonomy Extension Schema Document                                    |                              |         | Filed                             |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document                      |                              |         | Filed                             |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document                       |                              |         | Filed                             |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document                            |                              |         | Filed                             |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document                     |                              |         | Filed                             |

\* Management contract or compensatory plan or arrangement.

\*\* This exhibit is being furnished rather than filed and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

Copies of this report (including the financial statements) and any of the exhibits referred to above will be furnished at no cost to our shareholders who make a written request to our Corporate Secretary at 33 East 33<sup>rd</sup> Street, Suite 1101, New York, New York 10016.

