usell.com, Inc.
Form 10-K
April 05, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2017

or

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

EXCHANGE ACT OF 1934

For the transition period from: _____________ to _____________

usell.com, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**000-50494**	**98-0412432**
(State or Other Jurisdiction of Incorporation or Organization)	*(Commission File Number)*	*(I.R.S. Employer Identification No.)*

171 Madison Avenue, 17th Floor

New York, New York 10016

(Address of Principal Executive Office) (Zip Code)

(212) 213-6805

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.0001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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 Smaller reporting company
Emerging Growth Company

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $7.4 million.

The number of shares outstanding of the registrant's classes of common stock as of March 30, 2018 was 28,294,999 shares.

INDEX

PART I

Item 1. Business.

uSell.com, Inc. is a large market maker of used smartphones. 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. The Company maximizes the value of these devices by reclassifying them, adding value to them, and moving them throughout the world to those who want them most. In order to serve its global and highly diverse customer base, uSell leverages both a traditional sales force and an online marketplace where professional buyers of used smartphones can buy inventory on-demand. Through participation on uSell's online platform 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 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 our global customer base
Leveraging third party eCommerce platforms such as eBay and Amazon

While a minority of our product is sold directly to consumers via third party eCommerce platforms, the majority of our sales are to professional buyers. These buyers include brick and mortar retailers, online retailers, large and small wholesalers, small repair shops, large refurbishing providers, and insurance companies. Approximately two-thirds of our customer base is in the United States, with the balance abroad. We are able to provide all of our buyers with a low risk, cost-efficient way to acquire inventory. Through participation on uSell's online marketplace or through interaction with our salesforce, our buyers gain access to the high volume of devices that we acquire through both wholesale and retail 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 generate revenue 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"). The bulk of our revenue is from Principal Device Revenue.

Business derived from our uSell.com website utilizes an Agent Commission Revenue model, whereby we do not take possession of the devices that are sold to us by sellers, but rather facilitate transactions between these consumers and our network of professional buyers. Historically, some of the devices we acquired through our usell.com website utilized 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. Through this approach, we took possession of devices for a brief period of time before they were passed on to the ultimate buyer. However, by the end of 2016, we shut down our Managed by uSell service and shifted all of our business from uSell.com to the Agent Commission Revenue model.

Devices sourced wholesale through our subsidiary, We Sell Cellular, are all bought and sold using the Principal Device Revenue model. Given that our wholesale sourcing channel is substantially larger than our retail sourcing channel, the vast majority of our business is characterized by the Principal Device Revenue approach.

Company Evolution

Our vision to build the premier online platform to match supply and demand of used mobile devices was established in 2010, as the smartphone trade in market was just beginning to take shape. From the beginning, we recognized the value of connecting a global marketplace of smaller wholesalers, distributors, and retailers with supply that they could otherwise not access. In April, 2012, we acquired ecoSquid Inc., or Acquisition Corp, which had developed the intellectual property that we licensed in order to implement the first iteration of our online platform.

Over the next two years, uSell acquired supply by advertising the uSell.com website directly to consumers, primarily through direct response, television advertising. Over time, an analysis of consumer price elasticity indicated that price, more so than any form of paid marketing, was what drove seller behavior. It became apparent that the way to increase the price that our buyers would pay our sellers for their devices was to reduce risk and eliminate friction in the transaction. These reductions in risk and friction came in many forms: automated shipping and logistics, seamless payment processing, and finally, centralized grading of devices with the launch of our Managed by uSell offering in October, 2014.

By the end of 2014, the trade in market had gone mainstream, as the carriers realized that trade-in was their means of eliminating the costly smartphone subsidies that they had been funding. During the launch of the iPhone 6 and 6S, major carriers like AT&T and Verizon and big box retailers, like Apple and Best Buy, became very aggressive in marketing their trade in programs. While this market shift created a challenge in terms of marketing directly to consumers, it presented the much larger opportunity of leveraging our technology to connect supply from major carriers, retailers, and manufacturers with demand from our large and growing global customer base

In 2015, we began seeking partnerships with wholesalers and distributors with direct access to this supply. Our efforts culminated in the acquisition of a top tier wholesaler, We Sell Cellular, in October, 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 test and grade these devices, and then sell these devices wholesale and retail through its highly experienced sales force.

In 2016, we validated the synergy between uSell and We Sell Cellular by successfully integrating the two companies and migrating a meaningful portion of We Sell Cellular’s business online through the launch on our online auction platform. Furthermore, by empowering We Sell Cellular’s sales force with better technology and actionable data, we were able to drive meaningful improvements in efficiency.

In 2017, we continued to develop the platforms and technologies required to move the bulk of our customer interactions online. We also invested resources in optimizing the processes and technology needed to test and grade devices in our warehouse, with the aim of increasing processing efficiency while providing device level traceability to our suppliers. These improvements in our capabilities enabled us to expand relationships with both new and existing suppliers. Moving forward, the Company intends to complete the migration of its sales online and to continue to optimize its processes and technology to reduce waste throughout the entire transaction lifecycle.

Market Opportunity

Seven years ago, trade-in was merely an idea. Less than 10% of consumers at the time reported selling their used mobile devices. The vast majority of these valuable devices wasted away in potential sellers' drawers. Numerous concepts arose to capture this untapped value, from websites that offered to purchase devices directly, to marketplaces that enabled consumers to sell devices peer to peer, to ATM machines that offered cash for smartphones on the spot, and finally to point of sale trade-in systems marketed through carriers and retailers.

At first it was unclear which of these concepts was going to win, but these doubts have been erased over the last four years, as the wireless carriers realized that trade-in was their means of eliminating the costly smartphone subsidies that they had been funding. The dominant model that has evolved has two components: a leasing or financing component where the consumer is able to defer the cost of a device, and a trade-in component at the end of the term whereby the carrier can capture the residual value of the device. This model has achieved such rapid adoption that Apple offered its own solution in early September, 2015, with the launch of its iPhone Upgrade Program. For retailers like Apple, this model offers a different opportunity: the chance to control the relationship with the consumer.

As programs like these continue to proliferate throughout the world, the used smartphone market will expand dramatically. Deloitte Global estimates that the global used smartphone market was worth $17 billion in 2016, representing 50% growth over 2015. Furthermore, it forecasts that the growth rate of the used smartphone market is 4-5 times higher than the overall smartphone market and that it will likely accelerate through 2020 as both consumers and suppliers increasingly embrace the practice of selling or acquiring second-hand smartphones.

Despite this massive opportunity, there is no dominant online platform for smartphones geared towards professional merchants looking to acquire inventory.

Competition

The trade-in market for used mobile devices has gained significant momentum. Competitors include:

- Wireless carriers offering trade-in as a way for consumers to self-subsidize smartphones, either through a direct trade-in program, an Equipment Installment Plan (EIP), or a handset lease. While these carriers compete directly with our uSell.com trade-in platform, we also view them as an important channel to source wholesale inventory

- Retailers and big box stores such as Best Buy and Walmart that have implemented buyback programs. These retailers offer trade-in programs that issue gift cards or store credit. As in the case of the wireless carriers, these retailers compete directly with our uSell.com trade in platform, but they are also a channel to source wholesale inventory

- Large handset distributors and handset insurance providers that process and resell traded in devices for the carriers. As in the above cases, these companies also act as a channel to source wholesale inventory

- Large wholesalers and distributors, similar to We Sell Cellular, that purchase traded in devices from major carriers, big box retailers, manufacturers, and logistics providers. We estimate that, in the United States, there are fewer than five wholesalers of similar size to We Sell Cellular with the required certifications and financial resources to service the major carriers and retailers. We believe that, among these wholesalers, there is little to no technology enablement and a general lack of professional management

- Direct-to-consumer buyers such as Gazelle.com and ecoATM (both owned by Outerwall, Inc.)

- Traditional online marketplaces such as eBay and online classified sites such as Craigslist. These sites continue to offer an alternative to sellers but require a time intensive review of all available offers and less streamlined logistics. While we compete with these platforms to source devices, we also utilize them to sell devices

Government Regulation

Advertising and promotional information presented to visitors on our websites and other marketing activities that we have undertaken are subject to federal and state consumer protection laws that regulate unfair and deceptive practices. In the United States, Congress has begun to adopt legislation that regulates certain aspects of the Internet, including online content, user privacy, taxation, liability for third-party activities and jurisdiction. Such legislation includes the Communications Decency Act of 1996, which regulates content of material on the Internet and the Digital Millennium Copyright Act of 1998, which provides recourse for owners of copyrighted material who believe that their rights under U.S. copyright law have been infringed on the Internet. In the area of data protection, the U.S. Federal Trade Commission and certain state agencies have investigated various Internet companies' use of their customers' personal information, and certain federal and state statutes regulate specific aspects of privacy and data collection practices. We are also subject to a variety of state and federal regulations and laws including state telemarketing laws, federal and state privacy laws, the CAN-SPAM Act, and the Federal Trade Commission Act and its accompanying regulations and guidelines, including "little" unfair trade practice laws. Because we have in the past and may in the future engage in marketing activities over the Internet and email, we may be subject to some of these laws and regulations.

Federal, state, local and foreign governments are also considering other legislative and regulatory proposals that would regulate the Internet in more and different ways than exist today. It is impossible to predict whether new restrictions, fees, or taxes will be imposed on our services, and whether and how we would be affected. Increased regulation of the Internet both in the United States and abroad may decrease its growth and hinder technological development, which may negatively impact the cost of doing business via the Internet or otherwise materially adversely affect our business, financial condition or operational results.

Employees

As of March 23, 2018, we had 88 full-time employees and no part-time employees. None of our employees are subject to a collective bargaining agreement.

Intellectual Property

Our proprietary intellectual property consists of trade secrets. We rely primarily on a combination of copyrights, trademarks, trade secret laws, and restrictions on disclosure to protect our intellectual property rights. We enter into proprietary information and confidentiality agreements with our employees, consultants and commercial buyers and control access to, and distribution of our software documentation and other proprietary information. Our copyrights, trademarks and licenses expire at various dates, and we believe that none is individually significant.

Item 1A. Risk Factors.

Not applicable to smaller reporting companies. However, our principal risk factors are described under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We lease approximately 2,100 square feet for our corporate headquarters, sales, marketing, development and customer support divisions located in New York, New York under a lease expiring in August 2018. The Company is not expecting to renew this lease.

We lease approximately 21,000 square feet for our warehouse and office located in Edgewood, New York under a lease expiring in September 2021.

We believe that our existing facilities are suitable and adequate and that we have sufficient capacity to meet our current anticipated needs. None of these facilities are critical to our operations because suitable alternatives are available in substantially all of the locations where we conduct business. We continuously review our anticipated requirements for facilities and, on the basis of that review, may from time to time acquire or lease additional facilities and/or dispose of existing facilities.

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is quoted on the OTCQB Markets, Inc. under the symbol "USEL." As of March 27, 2018, the last reported sale price of our common stock as reported by the OTCQB Markets was $0.24 per share. As of that date, there were approximately 135 shareholders of record. This number does not include beneficial owners whose shares are held in the names of various securities brokers, dealers and registered clearing agencies.

The following table provides the high and low bid price information for our common stock for the periods indicated which reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Year	Quarter Ended	Stock Price	
		High ($)	Low ($)
2017	December 31	0.60	0.27
	September 30	0.80	0.26
	June 30	0.85	0.60
	March 31	0.88	0.44
2016	December 31	0.98	0.43
	September 30	1.20	0.60
	June 30	1.15	0.62
	March 31	1.25	0.80

Dividend Policy

We have not paid any cash dividends on our common stock and do not plan to pay any such dividends in the foreseeable future. We currently intend to use all available funds to develop our business. We can give no assurances that we will ever have excess funds available to pay dividends.

The Company is unable to declare or pay any dividends, without the prior consent of the purchaser's agent under the 2017 NPA.

Recent Sales of Unregistered Securities

None

Item 6. Selected Financial Data.

Not required for smaller reporting companies.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report on Form 10-K. 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."

Company Overview

uSell.com, Inc. is a large market maker of used smartphones. uSell acquires products from both individual sellers, on its website, uSell.com, and from major carriers, big box retailers, and manufacturers through its subsidiary, We Sell

Cellular. The Company maximizes the value of these devices by reclassifying them, adding value to them, and moving them throughout the world to those who want them most. In order to serve its global and highly diverse customer base, uSell leverages both a traditional sales force and an online marketplace where professional buyers of used smartphones can buy inventory on-demand. Through participation on uSell's online platform and through interaction with uSell's salesforce, buyers can acquire high volumes of inventory in a cost effective manner, while minimizing risk.

2017 Financial Highlights

Key financial metrics are as follows:

- Revenues increased by $10,045,000, or 11%, to $104,702,000 for the year ended December 31, 2017, from $94,657,000 for the year ended December 31, 2016
- Operating loss for the year ended December 31, 2017 was $9,954,000 (inclusive of a non-cash goodwill impairment charge of $8,449,000), compared to $1,845,000 for the year ended December 31, 2016, a change of $8,109,000
- Net loss for the year ended December 31, 2017 was $12,301,000 (inclusive of a non-cash goodwill impairment charge of $8,449,000), compared to $3,712,000 for the year ended December 31, 2016
- Adjusted EBITDA, a non-GAAP financial measure, was $435,000 for the year ended December 31, 2017, compared to $592,000 for the year ended December 31, 2016. See "Non-GAAP Financial Measure - Adjusted EBITDA" below.

This report does not contain any information relating to sales managed by uSell on behalf of the Special Purpose Entity ("SPE"). Therefore, we cannot provide a comparison of Gross Merchandise Volume (GMV), which we had defined in previous quarters as the sum of uSell revenue plus SPE revenue. However, it is important to note that the SPE funded a substantial amount of purchases in 2017 that both our suppliers and customers benefited from.

Overview of 2017 Events and Recent Trends

2017 began with a strong first quarter after the launch of the iPhone 7, but as the year progressed the Company was exposed to market challenges. In particular, several events led to a challenging fourth quarter for the industry. Beginning with Apple's announcement of a dual iPhone launch in September (the iPhone 8 and X), the market experienced an atypical pricing pattern, followed by a softening of demand caused by disruptions in key global markets.

Typically, after an iPhone launch, the industry experiences a significant decrease in pricing, after which a prolonged period of price stability is observed. During this cycle, we experienced a very different dynamic due to the fact that Apple's initial launch of the iPhone 8 did not drive the expected amount of demand or trade-ins. The industry thus experienced an inventory shortage immediately after the launch of the iPhone 8, which led to relatively inflated prices through most of the fourth quarter. The iPhone X was not released until November, resulting in substantial volume towards the end of the fourth quarter and into the first quarter. However, during this period the industry also saw disruptions in key global markets that resulted in a softening of global demand and continued price volatility. These events prompted management to take an additional inventory reserve at December 31, 2017, that negatively impacted our results of operations.

During the first three months of 2018, we have continued to face substantial challenges resulting from our inventory position and the highly unusual industry events described above. While we believe that the market environment will begin to stabilize in the second quarter, we continue to observe price volatility and weak demand. We expect to report approximately $14 million in revenues for the quarter ended March 31, 2018, as compared to $23.6 million during the quarter ended December 31, 2017 and $27.6 million during the quarter ended March 31, 2017.

Despite challenging market conditions, we made substantial progress in 2017 along two fronts: we transitioned the vast majority of our We Sell Cellular business online and we dramatically diversified our supplier base. In the beginning of the fourth quarter we began allowing a subset of our customer base to purchase directly online, eliminating the need for these customers to interact with a sales representative. We subsequently launched additional functionality whereby the platform could manage online negotiations for larger wholesalers seeking to purchase larger quantities and receive volume discounts. These enhancements, along with our previously released auction platform, have enabled us to move the vast majority of our business online. This will enable us to service a much larger customer base while minimizing the marginal cost of serving each additional customer.

On the supplier side, we continued to develop a wider net of supplier relationships while deepening our relationships with existing suppliers. We purchased from 13 suppliers in the fourth quarter of 2017, with our largest supplier’s share of purchases decreasing to 22% of our purchases, compared to 51% during the same period in 2016. We intend to continue to develop these relationships and to leverage our technology to enable our suppliers to maximize value from their inventory. The recent challenges in the industry have served to further validate the need for a high liquidity platform to enable the seamless distribution of high volumes of devices to smaller resellers that are less affected by global market fluctuations.

On the finance side of things, we were able to work with our primary lender to renegotiate our covenant structure, providing the Company with more operating flexibility. We simultaneously raised $3.94 million of equity to support our continued growth.

In summary, despite industry-wide challenges towards the end of 2017, we have made substantial progress towards our technological vision. We intend to leverage our platform to create value for both our suppliers and our customers.

New Accounting Pronouncements

See Note 2 to the accompanying Consolidated Financial Statements contained herein for a discussion of recent accounting pronouncements.

Critical Accounting Policies

In response to financial reporting release FR-60, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, from the Securities and Exchange Commission ("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 are discussed below and involve certain assumptions that if incorrect could have a material adverse impact on our results of operations and financial condition. See Note 2 to our Consolidated Financial Statements contained herein for further discussion regarding our critical accounting policies and estimates.

Capitalized Technology Costs

In accordance with Accounting Standards Codification ("ASC") 350-40, Internal-Use Software, we capitalize certain external and internal computer software costs incurred during the application development stage. The application development stage generally includes software design and configuration, coding, testing and installation activities. Training and maintenance costs are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Capitalized technology costs are amortized over the estimated useful lives of the software assets on a straight-line basis, generally not exceeding three years.

Goodwill and Intangible Assets

We account for goodwill and intangible assets in accordance with ASC 350, Intangibles – Goodwill and Other ("ASC 350"). ASC 350 requires that goodwill and other intangibles with indefinite lives should be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

We assess goodwill for impairment, as described in Note 2, "Summary of Significant Accounting Policies – Goodwill and Intangible Assets," in the Notes to Consolidated Financial Statements, on an annual basis or more often if deemed necessary. To determine whether goodwill impairment indicators exist, we are required to assess the fair value of the reporting unit and compare it to the carrying value. A reporting unit is a component of an operating segment for which discrete financial information is available and management regularly reviews its operating performance.

As a result of the recurring and projected operating losses, we undertook a review of the carrying amount of our goodwill as of December 31, 2017. We performed our review based on both qualitative and quantitative factors and determined that carrying value of our reporting unit exceeded its implied fair value. Accordingly, we recorded a goodwill impairment charge of $8,449,000 in our consolidated statement of operations for the year ended December 31, 2017.

Intangible assets represent customer relationships and trade names/trademarks related to We Sell Cellular. Finite lived assets are amortized on a straight-line basis over the estimated useful lives of the assets. Indefinite lived intangible assets are not amortized, but instead are subject to impairment evaluation.

We periodically review the carrying values of our intangible assets and other long-lived assets when events or changes in circumstances indicate that it is more likely than not that their carrying values may exceed their fair values, and record an impairment charge when considered necessary. When circumstances indicate that an impairment of value may have occurred, we test such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying amount of the asset over its estimated fair value, is recognized. The cash flow estimates used in such calculations are based on estimates and assumptions, using all available information that management believes is reasonable. Fair value, for purposes of calculating impairment, is measured based on estimated future cash flows, discounted at a market rate of interest.

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

Through our We Sell Cellular subsidiary, we generate revenue from the sales of our cellular telephones and related equipment and recognize 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 our warehouse. Payment terms generally require payment once an order is placed. We allow 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.

Agent Commission Revenue

Sellers on our uSell.com website are shown a larger list of offers directly from third party buyers interested in purchasing their devices. If a seller chooses one of these offers, the seller will ship their device directly to the buyer. The buyer is then responsible for testing the device, servicing the customer, and ultimately paying the seller for the device or returning it. We charge a commission to our buyers only when the seller sends in a device and is successfully paid for it. As such, we recognize Agent Commission Revenue upon payment to the seller.

Fulfillment Revenue

We offer fulfillment services on behalf of our buyers for the items sold using the Agent Commission Revenue approach outlined above. We act as the agent in these fulfillment services transactions, passing orders booked by our buyers to our third party fulfillment vendor, who then assembles the kits and mails them directly to the sellers. We earn a standard fee from our buyers and recognize revenue upon shipment of the kits to the sellers. We evaluated the presentation of revenue on a gross versus net basis and determined that since we perform as an agent without assuming the risks and rewards of ownership of the goods, revenue should be reported on a net basis.

Advertising Revenue

Advertising revenues primarily come from payments for text-based sponsored links and display advertisements. Generally, our advertisers pay us on a cost per click, or CPC basis, which means advertisers pay us 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 us based on the number of times their advertisements appear on our websites or mobile applications. Advertising revenue is recognized as income when the advertising services are rendered.

Share-Based Payment Arrangements

We account for stock options in accordance with Accounting Standards Codification (“ASC”) 718: Compensation - Stock Compensation. ASC 718 requires generally that all equity awards be accounted for at their “fair value.” This fair value is measured on the grant date for stock-settled awards, and at subsequent exercise or settlement for cash-settled awards. Fair value is equal to the underlying value of the stock for “full-value” awards such as restricted stock and performance shares, and estimated using an option-pricing model with traditional inputs for “appreciation” awards such as stock options and stock appreciation rights.

8

Costs equal to these fair values are recognized ratably over the requisite service period based on the number of awards that are expected to vest, or in the period of grant for awards that vest immediately and have no future service condition. For awards that vest over time, cumulative adjustments in later periods are recorded to the extent actual forfeitures differ from our initial estimates: previously recognized compensation cost is reversed if the service or performance conditions are not satisfied and the award is forfeited. The expense resulting from share-based payments is recorded in general and administrative expense.

Subsequent modifications to outstanding awards result in incremental cost if the fair value is increased as a result of the modification. Thus, a value-for-value stock option repricing or exchange of awards in conjunction with an equity restructuring does not result in additional compensation cost.

Results of Operations

Comparison of the Year Ended December 31, 2017 to the Year Ended December 31, 2016

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

	Year Ended December 31,		Change	Change
	2017	2016	(Dollars)	(Percentage)
Revenue	$104,702,000	$94,657,000	$10,045,000	11%
Cost of Revenue	98,878,000	88,835,000	10,043,000	11%
Gross Profit	5,824,000	5,822,000	2,000	0%
Operating Expenses:				
Sales and Marketing	1,925,000	1,680,000	245,000	15%
General and Administrative	5,404,000	5,987,000	(583,000)	(10)%
Goodwill impairment charge	8,449,000	—	8,449,000	100%
Total Operating Expenses	15,778,000	7,667,000	8,111,000	106%
Operating Loss	(9,954,000)	(1,845,000)	(8,109,000)	440%
Other Expense, Net	(2,347,000)	(1,867,000)	(480,000)	26%
Net Loss	$(12,301,000)	$(3,712,000)	$(8,589,000)	231%

<u>**Revenue by Type**</u>

The following table breaks down our revenue by type:

	Year Ended December 31,			
	2017		2016	
Principal Device Revenue	$104,046,000	99 %	$94,190,000	100%
Agent Commission Revenue	637,000	1 %	378,000	0 %
Other	19,000	0 %	89,000	0 %
	$104,702,000	100%	$94,657,000	100%

Principal Device Revenue increased by $9,856,000, or 10%, from $94,190,000 for the year ended December 31, 2016 to $104,046,000 for the year ended December 31, 2017. The increase in our Principal Device revenue was due to our ability to source more devices from our expanded network of suppliers.

Agent Commission Revenue increased by $259,000, or 69%, from $378,000 for the year ended December 31, 2016 to $637,000 for the year ended December 31, 2017. The increase in Agent Commission Revenue was due to our decision to shut down our Managed by uSell service at the end of 2016 and no longer take possession of devices sent in through our uSell.com website. Payments for devices sent in through uSell.com are now made directly from buyers to sellers, and we only recognize a commission on these transactions.

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 $10,043,000, or 11% from $88,835,000 for the year ended December 31, 2016 to $98,878,000 for the year ended December 31, 2017. As noted above, our revenue for this period increased by 11%, which caused a corresponding increase in our cost of revenue.

Gross profit decreased to 5.6% for the year ended December 31, 2017, compared to 6.2% for the year ended December 31, 2016. Our margins decreased as a result of industry conditions, dictated by supply and demand.

Sales and Marketing Expenses

Sales and marketing expense increased $245,000, or 15%, from $1,680,000 during the year ended December 31, 2016 to $1,925,000 during the year ended December 31, 2017. The increase is primarily attributable to the higher fees paid as a result of the increased eBay sales during the year ended December 31, 2017, compared to the year ended December 31, 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 and selling fees. Because the vast majority of our sales and marketing expenses are now paid to third party selling platforms, such as eBay and Amazon, any increases or decreases in these expenses are directly tied to sales for the period.

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 stock grants and option grants for services. Non-cash compensation expense amounted to $504,000 and $525,000 for the year ended December 31, 2017 and 2016, respectively.

Excluding non-cash compensation expense, general and administrative expenses for the year ended December 31, 2017 decreased by $561,000, or 10%, compared to the year ended December 31, 2016. The decrease is mainly the result of the decrease in amortization expense resulting from the full amortization of certain intangible assets acquired in connection with the We Sell Cellular acquisition. In addition, general and administrative expenses for the year ended December 31, 2016 include a loss on the disposal of assets in the amount of $112,000, for which such amount is not included in the year ended December 31, 2017.

Goodwill impairment charge

As a result of the recurring and projected operating losses, we undertook a review of the carrying amount of our goodwill as of December 31, 2017. Accordingly, we recorded a non-cash goodwill impairment charge of $8,449,000 for the year ended December 31, 2017. No goodwill impairment charge was recorded during the year ended December 31, 2016.

Other Income (Expense)

Other expense during the year ended December 31, 2017 is comprised of ($2,347,000) of interest expense consisting primarily of $996,000 attributable to the amortization of the remaining debt issue costs on the terminated BAM Note Purchase Agreement entered into in October 2015 (“BAM Facility”) in connection with the We Sell Cellular acquisition, as well as the contractual interest expense and amortization of debt issue costs on the January 2017 Note Purchase Agreement (“NPA”).

Other expense during the year ended December 31, 2016 is comprised of ($1,497,000) of interest expense primarily attributable to the BAM Facility and $370,000 related to the change in the fair value of the Placement Rights derivative liability. 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 in connection with the We Sell Cellular acquisition. Accordingly, the derivative liability pertaining to the Placement Rights was eliminated with a corresponding credit to additional paid in capital.

Non-GAAP Financial Measure - Adjusted EBITDA

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

10

This non-GAAP measure is not in accordance with, or an alternative to, measures prepared in accordance with GAAP and may be different from non-GAAP measures used by other companies. In addition, this non-GAAP measure is not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP. This measure should only be used to evaluate our results of operations in conjunction with the corresponding GAAP measures.

Reconciliations of Adjusted EBITDA to the most directly comparable GAAP financial measure, net loss, to the extent available without unreasonable effort, are set forth below. The Company defines Adjusted EBITDA as loss from 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:

	Year Ended December 31,	
	2017	2016
Net loss	$(12,301,000)	$(3,712,000)
Stock-based compensation expense	504,000	525,000
Goodwill impairment charge	8,449,000	—
Depreciation and amortization	1,436,000	1,912,000
Interest expense	2,347,000	1,497,000
Change in fair value of derivative liability	—	370,000
Adjusted EBITDA	$435,000	$592,000

Liquidity and Capital Resources

We do not yet have a sustained history of financial stability and may continue to generate operating losses for the foreseeable future. Since the acquisition of We Sell Cellular, we have relied on institutional debt to provide our working capital and complete the We Sell Cellular acquisition. Prior to the acquisition, our principal source of liquidity had been the issuances of convertible debt and equity securities (including to related parties), including preferred stock, common stock and various debt financing transactions. These conditions raise substantial doubt about the Company's ability to continue as a going concern through March 2019. Management plans to address this uncertainty through further implementation of its business plan or by continuing to raise funds through debt and/or equity. There can be no assurances that the plans and actions proposed by management will be successful or that unforeseen circumstances will not require additional funding sources in the future or effectuate plans to conserve liquidity. 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. On January 13, 2017, we entered into the NPA with a lender pursuant to which we issued the lender a secured term note in the principal amount of $8,660,000 at an original issue discount of 1%, for gross proceeds of $8,572,400. We applied the proceeds received upon the issuance of the NPA to repay all amounts outstanding under the BAM Facility. The NPA requires repayment of principal in January 2020 and bears interest at an annual rate of 15.00%, which interest is due and payable monthly in arrears. In addition, the lender from whom the Company borrowed the funds under the 2017 NPA, established an SPE with the Company. Under the SPE, the lender provided $5 million of equity capital to purchase smartphones and similar inventory. The Company entered into a Services Agreement with the SPE and will provide all necessary services including inventory management. The Company will receive a percentage of the SPE's profits, if any. As of the date of this Annual Report, we have not received any distributions from the SPE.

As a result of the downturn in our business relating in part to the disruptions in key global markets, as of the filing date of this report, we believe that we may not meet one of the financial covenants under the 2017 NPA and therefore may be in default under the agreement for the quarter ended March 31, 2018. We will seek a waiver from the lender but we can provide no assurances that they will provide one. The Company believes it will be able to obtain a waiver from the Lender. However, if the lender does not waive the potential default and we are unable to obtain replacement financing, the lender will be able to foreclose on all of our assets and we will have to cease operations. Additionally, as mentioned on page 7, we expect to report $14 million in revenue for the first quarter of 2018. If our revenues do not rebound as we anticipate, our liquidity will be harmed and we may need to limit our operations.

In November 2017, the Company raised $3,940,000 from the sale of 7,880,000 shares of common stock at $0.50 per share in a private placement offering to certain accredited investors, including the Company's Chief Executive Officer and one of the Company's largest shareholders.

Cash Flows from Operating Activities

Operating activities used $4,753,000 of cash during the year ended December 31, 2017, a decrease from $409,000 of cash used in operating activities during the year ended December 31, 2016. Our net loss during the year ended December 31, 2017 of $12,301,000 was offset by a non-cash goodwill impairment charge of $8,449,000, $1,436,000 of depreciation and amortization, $504,000 of stock-based compensation, and $1,102,000 of amortization of debt issue costs related to our NPA. Changes in operating assets and liabilities used $3,942,000 of cash during the year ended December 31, 2017.

Operating activities used $409,000 of cash during the year ended December 31, 2016. Our net loss during the year ended December 31, 2016 of $3,712,000 was offset by $1,912,000 of depreciation and amortization, $370,000 due to the change in the fair value of the Placement Rights derivative liability, $525,000 of stock-based compensation, $479,000 of amortization of debt issue costs related to the terminated BAM Facility and $112,000 from the loss on the disposal of property and equipment. Changes in operating assets and liabilities used $94,000 of cash during the year ended December 30, 2016.

Cash Flows from Investing Activities

During the year ended December 31, 2017, we capitalized $536,000 of website development costs, we purchased $40,000 of property and equipment and our restricted cash account decreased by $40,000 as a result of our requirement under the NPA to maintain a dedicated bank account controlled by the agent of our lender.

During the year ended December 31, 2016, we capitalized $596,000 of website development costs, we purchased $94,000 of property and equipment in connection with our move to our new warehouse location, and our restricted cash account increased by $181,000.

Cash Flows from Financing Activities

During the year ended December 31, 2017, we received $8,572,000 in proceeds under our NPA and paid $333,000 in costs associated with the NPA. We also received $3,940,000 in proceeds from our private placement offering and paid $64,000 of associated with the offering. In addition, we repaid $8,080,000 of principal under the BAM Facility and made payments of $13,000 under our capital lease obligations.

During the year ended December 31, 2016, we received $2,000,000 in proceeds under our BAM Facility and paid $100,000 in costs associated with the BAM Facility.

Related Party Transactions

None.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Cautionary Note Regarding Forward Looking Statements

This report includes forward-looking statements including statements regarding liquidity, anticipated revenues and whether our lender will waive a covenant default and changes to the market in the second quarter.

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 are contained in the Risk Factors that follow. We undertake no obligation to publicly update or revise any forward-looking statements, whether as the result of new information, future events or otherwise. For more information regarding some of the ongoing risks and uncertainties of our business, see the Risk Factors and our other filings with the SEC.

12

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following Risk Factors before deciding whether to purchase or sell securities of uSell. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations or our financial condition. If any of the events discussed in the Risk Factors below occur, our business, consolidated financial condition, results of operations or prospects could be materially and adversely affected. In such case, the value and marketability of the common stock could decline.

Risks Relating to Our Business

Our independent registered public accounting firm's report contains an explanatory paragraph that expresses substantial doubt about our ability to continue as a "going concern."

As of December 31, 2017, we had $391,000 in cash and cash equivalents, working capital of $764,000 and an accumulated deficit of $70,688,000. In addition, we generated a net loss of $12,301,000 (inclusive of a non-cash goodwill impairment charge of $8,449,000) for the year ended December 31, 2017 and 3,712,000 for the year ended December 31, 2016. Further, we do not yet have a history of financial stability and may continue to generate operating losses for the foreseeable future. These factors, among others, raise substantial doubt about our ability to continue as a going concern. The financial statements contained elsewhere in this report do not include any adjustments that might result from our inability to continue as a going concern.

If our working relationship with our new lender is not successful, we will lack the capital to sustain and grow our business and our future results of operations and financial condition will be adversely affected.

In January 2017, we entered into a Note Purchase Agreement (the "2017 NPA") with a new lender to whom we issued a secured term note in the principal amount of approximately $8.6 million (the "2017 Note") and who acts as the Manager of the Special Purpose Entity (the "SPE"). See page 11 for a description of this 2017 Note and the SPE. As long as our working relationship with this entity is positive, we believe that we have sufficient capital to operate our business as we did in 2017 and 2016 and grow it through the SPE. In fact, we have entered into two amendments to the 2017 NPA. However, if we encounter issues working with this lender, it could adversely affect our results of operations and future financial condition. In that event, we would have to refinance our loan and possibly issue equity and/or debt securities. If we are not successful in obtaining a refinancing on our loan or raising capital in order to repay this loan, we may have to cease operations.

If we are unable to obtain a waiver for failing to meet a financial covenant under the 2017 NPA, we may sustain material adverse consequences, including the possibility of the lender declaring a default.

As is customary with institutional loan agreements, our loan agreement requires us to meet future a number of financial covenants. As mentioned above, we may not meet a financial covenant as of the quarter ended March 31 2018, and unless our lender waives this potential default or we are unable to obtain replacement financing, the lender will have the ability to foreclose on all of our assets and we will have to cease operations. If this were to occur, your investment would be lost.

Although we are responsible for all of the costs of the SPE, we may incur material losses if it is not profitable and we do not receive material distributions.

Under the terms of the operative documents relating to the SPE, we are responsible for all costs other than acquisition of inventory and certain other expenses for which we are reimbursed. Although we have a profits interest in the SPE, we are incurring material costs and may never receive distributions of profits at all or if we do sufficient to cover our costs including personnel costs.

If we pay too much or do not offer a sufficient amount to our suppliers for phones, our revenues will be adversely affected.

We Sell Cellular primarily engages in the wholesale acquisition and resale of smartphones and related devices from carriers and big box stores. The We Sell Cellular business is reliant on its ability to purchase phones at low prices which result in profitability on liquidation. Conversely, if the prices that We Sell Cellular offers suppliers for the phones are too low, than we will be unsuccessful at obtaining the phones and our revenues will be adversely affected.

Because of disruptions in certain foreign markets, the market and prices for used smartphones has eroded over the last four months and we cannot predict when or if the market will turn.

Our business has suffered over the last four months as the result of unanticipated disruptions in key foreign markets. We cannot product when or if these markets will recover. Because a meaningful portion of the global demand comes from outside of the United States, until global markets recover, our revenue will likely be reduced and our operating loss higher.

Because we rely on a few key suppliers, if these suppliers reduce their sales to us, our results of operations may be adversely affected.

We Sell Cellular’s business has been characterized by a high degree of supplier concentration. In 2016 and 2015, We Sell Cellular purchased approximately 72% and 94%, respectively, of its inventory from one supplier. For the year ended December 31, 2017, our largest supplier’s share of our purchases decreased to 47%. This number was further reduced to 22% by the fourth quarter of 2017. Despite these reductions, our business is still characterized by a high degree of supplier concentration, as the bulk of supply in the industry is concentrated with a handful of vendors. We cannot assure you that our suppliers will continue to provide us with phones at a cost effective rate for any reason. In the event that our relationship with any of our suppliers is terminated or the number of phones supplied to We Sell Cellular from our suppliers is reduced, our revenues and profitability would be adversely affected.

If one or more of our suppliers change their credit terms, we may lack the liquidity to order smartphones even where we have favorable pricing opportunities, which could materially and adversely affect our future revenues and our financial condition.

We rely upon credit terms from our suppliers in addition to borrowing under our line of credit with our lender. Because certain suppliers ship smartphones on favorable credit terms, these terms provide an additional credit source for us to purchase smartphones. If one or more change their credit terms, it could reduce our ability buy inventory. If this were to occur, it could materially and adversely affect our future revenues and our financial condition.

If we cannot manage our growth effectively, we may not become profitable.

Businesses which grow rapidly often have difficulty managing their growth. If we continue to grow as rapidly as we anticipate, we will need to expand our management by recruiting and employing experienced executives and key employees capable of providing the necessary support. We cannot assure you that our management will be able to manage our growth effectively or successfully. Our failure to meet these challenges could cause us to lose money, and your investment could be lost.

If we fail to retain our key personnel, we may not be able to achieve our anticipated level of growth and our business could suffer.

Our future depends, in part, on our ability to attract and retain key personnel and the continued contributions of our executive officers including Nikhil Raman, uSell's Chief Executive Officer, Brian Tepfer, an Executive Vice President of uSell and We Sell Cellular's Chief Executive Officer and Scott Tepfer, an Executive Vice President of uSell and We Sell Cellular's President, each of whom may be difficult to replace. The loss of the services of any of these officers and the process to replace any key personnel would involve significant time and expense and may significantly delay or prevent the achievement of our business objectives.

Because we rely on the continuing rapid pace of technological development in the smartphone and tablet industries, if innovation in these industries were to decrease or providers were to extend the upgrade cycles on phones, our future results of operation will be adversely affected.

We believe that one of the driving factors for the potential success of our business is the continued improvements and developments in the smartphone industry as well as the continued reduction in the amount of time consumers have to wait to upgrade their phones with no penalties. Because consumers have in the past expressed a continual need to have the latest generation phones and iPads or other tablets, the opportunity for liquidating these huge quantities of depreciating assets in a profitable yet efficient manner is very promising. If innovation in smartphone or tablet device technology were to level off, the upgrade cycles were to be extended or there were fewer new phone launches, the purchase of new phones and tablets could be diminished, reducing the demand for used electronics and consequently the wholesale market for them. In such an event, our results of operations would suffer and we may not be able to continue operations.

Because we rely on information technology to operate our businesses and maintain our competitiveness, any failure to adapt to technological developments or industry trends could harm our business.

We depend upon the use of sophisticated information technology, including software. As our operations grow in both size and scope, we must continuously improve and upgrade our systems including our hardware and infrastructure to offer our enhanced products, services, features and functionality, while maintaining the reliability and integrity of our systems and infrastructure. Our future success also depends on our ability to adapt our services and infrastructure to meet rapidly evolving industry standards while continuing to improve the performance, features and reliability of our service in response to competitive service and product offerings and the changing demands of the marketplace. In particular, expanding our systems and infrastructure to meet any potential increases in business volume will require us to commit additional financial, operational and technical resources before those increases materialize, with no assurance that they actually will. Furthermore, our use of this technology could be challenged by claims that we have infringed upon the patents, copyrights or other intellectual property rights of others.

14

In addition, we may not be able to maintain our existing systems, obtain new technologies and systems, or replace or introduce new technologies and systems as quickly as our competitors or in a cost-effective manner. Also, we may fail to achieve the benefits anticipated or required from any new technology or system, or we may be unable to devote financial resources to new technologies and systems in the future.

If we experience system interruptions, it may cause us to lose customers and may harm our business.

Our inability to maintain and improve our information technology systems and infrastructure may result in system interruptions. System interruptions and slow delivery times, unreliable service levels, prolonged or frequent service outages, or insufficient capacity may prevent us from efficiently providing services to the buyers and/or customers on our website, which could result in our losing customers and revenue

We lease space for our data center and rely on a co-location partner for power, security, connectivity and other services. We also rely on third party providers for bandwidth and content delivery. We do not control these vendors and it would take significant time and effort to replace them. We have experienced, and may in the future experience, website disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors and capacity constraints. Our systems are vulnerable to damage or interruption from terrorist attacks, floods, fires, power loss, telecommunications failures, hurricanes, computer viruses, computer denial of service attacks or other attempts to harm our systems. If the site is unavailable when customers attempt to access it or access is slower than a customer expects, customers may stop visiting our site and become less likely to return, if at all. We expect to continue to make significant investments in our technology infrastructure to maintain and improve all aspects of user experience and site performance. To the extent that our disaster recovery systems are not adequate, or we do not effectively address capacity constraints, upgrade our systems, and continually develop our technology and network architecture to accommodate increasing traffic, our business and operating results may suffer.

Our software is highly technical and undetected errors, if any, could adversely affect our business.

Our service incorporates software that is highly technical and complex. Our software has contained, and may now or in the future contain, undetected errors, bugs, flaws, corrupted data or vulnerabilities. Some errors in our software code may only be discovered after the code has been released. Any errors, bugs, flaws or corrupted data could result in damage to our reputation, loss of users, or loss of revenue, any of which could adversely affect our business and financial results.

Because our networks and IT systems may be vulnerable to unauthorized persons hacking our systems, it could disrupt our operations and result in the theft of our proprietary information.

A party who is able to breach the security measures on our networks could misappropriate either our proprietary information or the personal information provided by participants on our website, or cause interruptions or malfunctions in our operations. Hacking of websites is a growing problem. If we grow and obtain more visibility, we may be more vulnerable to hacking. Although we have insurance to cover losses in the event we are hacked, our coverage may be less than our losses. We may be required to expend significant capital and other resources to protect against such threats or to alleviate problems caused by breaches in security, which could have a material adverse effect on our financial performance and operating results.

Our business is subject to a variety of U.S. and other laws, rules and regulations that could subject us to claims or otherwise harm our business.

Government regulation of the Internet and e-commerce is evolving and unfavorable changes could substantially harm our business and results of operations. We are subject to a variety of laws in the U.S. and elsewhere that affect advertising, that are costly with which to comply, can result in negative publicity and diversion of management time and effort, and can subject us to claims or other remedies. In addition, the laws relating to the liability of providers of online services are currently unsettled both within the U.S. and elsewhere. Claims can be brought under both U.S. and foreign law for defamation and other tort claims, unlawful activity, copyright, and trademark infringement.

The Digital Millennium Copyright Act has provisions that limit, but do not necessarily eliminate, our liability for listing or linking to third-party websites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. The Child Online Protection Act and the Children's Online Privacy Protection Act restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors. In the area of data protection, the European Union and many states have passed laws requiring notification to users when there is a security breach for personal data, such as California's Information Practices Act. We must comply with the Federal Trade Commission's unfair trade practices rules and state consumer protection laws including "little" unfair trade practice rules. Any failure on our part to comply with these laws, rules and regulations may subject us to additional liabilities.

As Internet commerce develops, federal, state and foreign governments may draft and propose new laws to regulate Internet commerce, which may negatively affect our business.

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign governments becomes more likely. Our business could be negatively impacted by the application of existing laws and regulations or the enactment of new laws applicable to our business. The cost to comply with such laws or regulations could be significant and would increase our operating expenses.

If there is new tax treatment of companies engaged in Internet commerce, it could adversely affect the commercial use of our services and our financial results.

Due to the global nature of the Internet, it is possible that governments might attempt to tax our activities. New or revised tax regulations may subject us to additional sales, income and other taxes. New York State, for example, taxes online sales. Recently there has been movement toward Congress permitting states and localities to impose sale taxes on online purchases. Recently, the United States Senate passed legislation to permit taxation of Internet sales but it stalled in the House of Representatives. We cannot predict the effect of current attempts to impose sales, income or other taxes on commerce over the Internet. New or revised taxes and especially sales taxes would likely increase the cost of doing business online, and increase the cost of doing business over the Internet. Any of these events will increase our costs and adversely affect our business and results of operations.

If a third party asserts that we are infringing on its intellectual property, whether successful or not, it could subject us to costly and time-consuming litigation or require us to obtain expensive licenses, and our business may be adversely affected.

The Internet industry is characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. A party may assert patent and other intellectual property infringement litigation against us claiming our platform infringes on its patents or otherwise violates its intellectual property rights. Any lawsuit, whether or not successful, could:

Divert management’s attention;
Result in prohibitive costs;
Require us to enter into royalty or licensing agreements, which may not be available on acceptable terms, or at all

As a result, any third-party intellectual property claims against us could increase our expenses and adversely affect our business. In addition, agreements with third parties require us to indemnify them for intellectual property infringement claims, which would increase the cost to us resulting from an adverse ruling on any such claim. Even if we have not infringed any intellectual property rights, we cannot be sure our legal defenses will be successful, and even if we are successful in defending against such claims, our legal defense could require significant financial resources and management time. Finally, if a claimant successfully asserts a claim that our services infringe their proprietary rights, royalty or licensing agreements might not be available on terms we find acceptable, or at all.

If we cannot protect our intellectual property rights, we may be unable to compete with competitors developing similar technologies.

We regard the protection of our trade secrets and other intellectual property rights as critical to our success. A substantial amount of our processes and technologies is protected by trade secret laws. In order to protect these technologies and processes, we rely in part on confidentiality agreements with our employees, licensees, independent contractors and other advisors. These agreements may not effectively prevent disclosure of confidential information, including trade secrets, and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. To the extent that our employees, contractors or other third parties with which we do business use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions. Laws regarding trade secret rights in certain markets in which we currently, or in the future, operate may afford little or no protection to our trade secrets. The loss of trade secret protection could make it easier for third parties to compete with our platform by copying functionality. In addition, any changes in, or unexpected interpretations of, the trade secret and other intellectual property laws may compromise our ability to enforce our trade secret and intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our business, revenue, reputation and competitive position.

Risks Related to Our Common Stock

Because the market for our common stock is limited, persons who purchase our common stock may not be able to resell their shares at or above the purchase price paid for them.

Our common stock trades on the OTCQB, which is not a liquid market. There is currently only a limited public market for our common stock. We cannot assure you that an active public market for our common stock will develop or be sustained in the future. If an active market for our common stock does not develop there may be a substantial decrease in the price of our common stock.

Due to factors beyond our control, our stock price may be volatile.

Any of the following factors could affect the market price of our common stock:

- Our failure to increase revenue in each succeeding quarter;
- Our failure to achieve and maintain profitability;
- Our failure to meet our revenue and earnings guidance or our failure to meet financial analysts' performance expectations;
- The loss of a number of suppliers (see risk factor on page 5) or our failure to attract more suppliers;
- The loss of a number of buyers or our failure to attract more buyers;
- The sale of a large amount of common stock by our shareholders;
- Our announcement of a pending or completed acquisition or our failure to complete a proposed acquisition;
- An adverse court ruling or regulatory action;
- Changes in market valuations of similar companies;
- Short selling activities;
- Our announcement of any financing which is dilutive to our shareholders;
- Our announcement of a change in the direction of our business; or
- Announcements by us, or our competitors, of significant contracts, acquisitions, commercial relationships, joint ventures or capital commitments.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs and divert our management's time and attention, which would otherwise be used to benefit our business.

Because we may not be able to attract the attention of major brokerage firms, it could have a material impact upon the price of our common stock.

It is not likely that securities analysts of major brokerage firms will provide research coverage for our common stock since there is little incentive to brokerage firms to recommend the purchase of our common stock. The absence of such coverage limits the likelihood that an active market will develop for our common stock. It may also make it more difficult for us to attract new investors at times when we acquire additional capital.

If we become subject to a regulatory investigation, it could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

From time to time, we may receive inquiries from regulators regarding our compliance with laws and other matters. Responding to or defending other such actions would cause us to incur substantial expenses and divert our management's attention. If we are unsuccessful, we may have to change our policies or practices. Any such change or defense of a regulatory investigation or action could reduce our future revenues and increase our costs and adversely affect our future operating results.

Violation of existing or future regulatory orders or consent decrees could subject us to substantial monetary fines and other penalties that could negatively affect our financial condition and results of operations. In addition, it is possible that future orders issued by, or enforcement actions initiated by, regulatory authorities could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

Because our executive officers and directors beneficially own a significant amount of our common stock, it is likely that they may continue to be able to exert significant control over matters which require shareholder approval including election of directors and the future sale of our business.

As of March 30, 2018, our executive officers and directors beneficially owned approximately 32% of our outstanding common stock. Therefore, these shareholders will have the ability to influence us through this ownership position. These shareholders may be able to determine all matters requiring shareholder approval and, acting together, may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock you may believe are in your best interest as one of our shareholders.

We do not expect to pay dividends in the future, which means that investors may not be able to realize the value of their shares except through a sale.

We have never, and do not anticipate that we will, declare or pay a cash dividend. Without the lenders agent's consent, we are precluded from declaring or paying out dividends under the 2017 NPA. We expect to retain future earnings, if any, for our business and do not anticipate paying dividends on common stock at any time in the foreseeable future. Because we do not anticipate paying dividends in the future, the only opportunity for our shareholders to realize the creation of value in our common stock will likely be through a sale of those shares.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data.

The requirements of this Item can be found beginning on page F-1 found elsewhere herein.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. 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 Rule 13a-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 December 31, 2017.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of the end of the period covered by this report. In making this assessment, our management used the criteria set forth by the Committee of Sponsor Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework as issued in 2013. Based on that evaluation, our management concluded that our internal control over financial reporting was effective based on that criteria.

Our internal control over financial reporting is a process designed under the supervision of our Principal Executive Officer and Principal Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The following is a list of our directors and executive officers (including executive officers of We Sell Cellular). All directors serve one-year terms or until each of their successors are duly qualified and elected. The officers are elected by the Board of Directors, which we refer to as our "Board."

Name	Age	Position
Nik Raman	34	Chief Executive Officer and Director
Daniel Brauser	37	Executive Chairman
Jennifer Calabrese	47	Executive Vice President of Finance and Chief Financial Officer
Brian Tepfer	39	Executive Vice President and Director of uSell and Chief Executive Officer of We Sell Cellular
Scott Tepfer	35	Executive Vice President of uSell and President of We Sell Cellular
Peter Benz	57	Director
Grant Fitzwilliam	50	Director
Amitabh Jhawar	36	Director

Nik Raman was appointed as the Chief Executive Officer on November 6, 2014 and as a director on April 24, 2012. From January 27, 2012 until November 6, 2014, Mr. Raman served as our Chief Operating Officer. After graduating from Harvard Business School, Mr. Raman founded and served as Manager of Ft. Knox Recycling, LLC doing business as EcoSquid. Mr. Raman also served as Chief Executive Officer of EcoSquid from its founding through its acquisition by the Company in April 2012. From 2008 until 2010, Mr. Raman attended Harvard Business School. Mr. Raman was appointed a director in connection with the acquisition of EcoSquid.

Daniel Brauser has served as a director since July 23, 2008 and as Executive Chairman since November 6, 2014. From October 16, 2013 to November 6, 2014, Mr. Brauser served as our Chief Executive Officer. Additionally, Mr. Brauser served as our Chief Executive Officer from July 10, 2012 until October 10, 2012. Prior to being appointed Chief Executive Officer, Mr. Brauser served as our Chief Financial Officer from July 23, 2008 through July 10, 2012. From July 23, 2008 through May 7, 2009, Mr. Brauser also served as our President and Chief Operating Officer. From September 2014 through October 2016, Mr. Brauser also served as Chairman of Cousins Logistics, Inc. and from October 2016 through the present he has served as its Chief Executive Officer. From March 2015 until December

2015, Mr. Brauser served as a director of Cogint, Inc. (Nasdaq: COGT), a data and analytics company. Mr. Brauser was selected as a director for his extensive experience managing the growth of young companies from start-up through to maturity. In addition, as a founder of our reverse logistics business, Mr. Brauser possesses an in-depth understanding of the challenges and risks and characteristics unique to our business model and the reverse logistics market.

Jennifer Calabrese was appointed Executive Vice President of Finance on March 28, 2013 and Chief Financial Officer on April 11, 2014 initially on an interim basis and more recently on a permanent basis. Ms. Calabrese had been acting as our principal financial and accounting officer since October 2012 when our then Chief Financial Officer began providing a high level direction on a very limited basis due to health reasons. Since August 2012, Ms. Calabrese has been the Managing Member of Calabrese Consulting, LLC, a company she founded, which provides SEC financial reporting compliance and consulting services. From March 2010 through August 2012, Ms. Calabrese served as the Director of Accounting and SEC Reporting at eLandia Group, Inc., a provider of information technology products and services to small, medium-sized and large businesses as well as government entities, primarily in Latin America. From July 2007 through March 2010, Ms. Calabrese was the Managing Director of SEC Solutions Group, LLC, a company specializing in SEC financial reporting compliance and consulting services. She is a Certified Public Accountant in New York.

Brian Tepfer was appointed a director in October 2015 in connection with the acquisition of We Sell Cellular and has served as an Executive Vice President since November 2015. Mr. Tepfer was the Chief Executive Officer of BST for over five years prior to the We Sell Cellular acquisition. Mr. Tepfer was appointed as a director in connection with the We Sell Cellular acquisition and for his expertise and extensive knowledge of the smartphone wholesale business.

Scott Tepfer was appointed as an Executive Vice President on November 2015 and is the President of We Sell Cellular and has been for over five years prior to the We Sell Cellular acquisition.

Peter Benz was appointed a director on May 15, 2014. Mr. Benz is the Chief Executive Officer of Viking Asset Management, LLC, an asset and investment management company which he founded in 2001. Since June 2016, Mr. Benz has served as a director of Lilis Energy, Inc. (Nasdaq: LLEX), an oil and gas company. Since June 2015, Mr. Benz has served as a director of Cogint, Inc. (Nasdaq: COGT), a data and analytics company. Mr. Benz was appointed a director as a result of his knowledge and experience in developing companies and capital markets that strengthen our Board’s collective qualifications, skills, and experience.

Grant Fitzwilliam has served as a director since September 30, 2009. Mr. Fitzwilliam is currently the President of 3c InSight, a software and consulting firm that he co-founded in 2008, which is focused on providing operational excellence solutions for companies throughout the United States. From August 2005 until August 2007, Mr. Fitzwilliam served as Executive Vice President of Finance and Chief Financial Officer of The Hackett Group, a leading business and technology consulting firm and also served as a Managing Director leading Hackett's national Oracle and Sarbanes-Oxley business units. Mr. Fitzwilliam was formerly an auditor with KPMG LLP and is a licensed CPA in Georgia. Mr. Fitzwilliam was selected as a director for his accounting, financial and professional management experience.

Amitabh Jhawar was appointed a director on May 15, 2014. Since January 2012, Mr. Jhawar has been Chief Operating Officer and Chief Financial Officer of Braintree, a mobile app payments company. In December 2013, PayPal, which is an eBay (NASDAQ: EBAY) company, purchased Braintree for $800 million in cash. As COO and CFO at Braintree, Mr. Jhawar is responsible for the management and direction of that company's finance and accounting functions and new business development initiatives, including expanding Braintree's partnerships and continued international growth. Prior to Braintree, Mr. Jhawar was an Associate at KKR Capstone & Co. L.P. from July 2010 to December 2011. Previous to this, Mr. Jhawar was a student at Harvard Business School where he graduated with high honors in 2010. Mr. Jhawar was appointed a director due to his expertise in online marketplaces and accounting and finance.

Family Relationships

Except for Messrs. Scott and Brian Tepfer who are brothers, there are no family relationships among our directors and executive officers.

Corporate Governance

Board Responsibilities and Structure

The Board oversees, counsels, and directs management in the long-term interest of uSell and its shareholders. The Board's responsibilities include:

Establishing broad corporate policies,
Reviewing the overall performance of uSell and

Monitoring risks.

The Board is not, however, involved in the operating details on a day-to-day basis.

Board Committees and Charters

The Board and its Committees meet and act by written consent from time to time as appropriate. The Board has formed and appointed members to its: Audit, Compensation and Nominating and Corporate Governance Committees. Committees are expected to regularly report on their activities and actions to the Board. Each of the Audit Committee and the Compensation Committee each have a written charter approved by the Board. Each of our committee charters, as well as our Code of Ethics and Insider Trading Policy are available through the "Investors" section on our website, which can be found at www.uSell.com. The information on, or that can be accessed through, our website is not incorporated herein. In addition, we will provide a copy of any of the foregoing documents, without charge, to anyone that requests one in writing to uSell.com, Inc., 171 Madison Avenue, 17th Floor, New York, New York 10016, Attention: Corporate Secretary.

The following table identifies the independent and non-independent current Board and Committee members:

Name	**Independent**	**Audit**	**Compensation**	**Nominating & Corporate Governance**
Peter Benz	√	√	√	√
Daniel Brauser				
Grant Fitzwilliam	√	Chairman		√
Amitabh Jhawar	√	√	√	
Nik Raman				
Brian Tepfer				

Independence

Our Board has determined that Messrs. Benz, Fitzwilliam and Jhawar are independent under the NASDAQ Stock Market listing rules and are independent in accordance with the NASDAQ independence standards for audit committees and compensation committees.

Audit Committee

The Audit Committee's primary role is to review our accounting policies and any issues which may arise in the course of the audit of our financial statements. The Audit Committee selects our independent registered public accounting firm, approves all audit and non-audit services, and reviews the independence of our independent registered public accounting firm. The Audit Committee also reviews the audit and non-audit fees of the auditors. Our Audit Committee is also responsible for certain corporate governance and legal compliance matters including internal and disclosure controls and compliance with the Sarbanes-Oxley Act of 2002.

Our Board has determined that Grant Fitzwilliam and Amitabh Jhawar are qualified as Audit Committee Financial Experts, as that term is defined by the rules of the SEC and in compliance with the Sarbanes-Oxley Act of 2002.

Compensation Committee

The function of the Compensation Committee is to determine the compensation of our executive officers. The Compensation Committee has the power to set performance targets for determining periodic bonuses payable to executive officers and may review and make recommendations with respect to shareholder proposals related to compensation matters. Additionally, the Compensation Committee is responsible for administering our 2008 Equity Incentive Plan (the "Plan") and the 2016 Management Incentive Compensation Plan ("Incentive Plan").

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee assists the Board with developing and maintaining the Company's corporate governance policies, determining the qualifications, qualities, skills, and other expertise required to be a director and identifying individuals meeting those criteria. In considering prospective Board nominees, the Committee will consider, among other factors, the candidate's demonstrated leadership ability, business experience, and personal and professional ethics, as well as a candidate's independence under the NASDAQ standards. The Committee may also consider whether a prospective Board member will contribute a diversity of viewpoints, background, experience and demographics as compared to the current members of the Board.

The Committee will consider any nominations of director candidates validly made by stockholders in accordance with applicable laws, rules and regulations and the provisions of the Company's charter documents. Director candidates submitted by our stockholders will be evaluated by the Nominating and Corporate Governance Committee on the same basis as any other director candidates.

Board Assessment of Risk

The Board is actively involved in the oversight of risks that could affect uSell. This oversight is conducted primarily through the Audit Committee, but the full Board has retained responsibility for general oversight of risks. The Audit Committee considers and reviews with our independent public accounting firm and management the adequacy of our internal controls, including the processes for identifying significant risks and exposures, and elicits recommendations for the improvements of such procedures where desirable. In addition to the Audit Committee's role, the full Board is involved in oversight and administration of risk and risk management practices. Members of our senior management have day-to-day responsibility for risk management and establishing risk management practices, and members of management are expected to report matters relating specifically to the Audit Committee directly thereto, and to report all other matters directly to the Board as a whole. Members of our senior management have an open line of communication to the Board and have the discretion to raise issues from time-to-time in any manner they deem appropriate, and management's reporting on issues relating to risk management typically occurs through direct communication with directors or committee members as matters requiring attention arise. Members of our senior management regularly attend portions of the Board's meetings, and often discuss the risks related to our business.

Presently, the largest risk affecting uSell is having sufficient liquidity to expand the business, meeting its obligations under the 2017 NPA (or otherwise obtaining waivers if it does not), increasing its revenue, continued integration of the We Sell and uSell business, and maintaining our relationships with our largest suppliers and obtaining additional suppliers. The Board actively interfaces with management on seeking solutions.

Risk Assessment Regarding Compensation Policies and Practices

Our compensation program for employees does not create incentives for excessive risk taking by our employees or involve risks that are reasonably likely to have a material adverse effect on uSell. Our compensation has the following risk-limiting characteristics:

- A portion of executive incentive compensation opportunity is tied to long-term incentive compensation that emphasizes sustained performance over time. This reduces any incentive to take risks that might increase short-term compensation at the expense of longer-term Company results.
- Equity awards may be recovered by us should a restatement of earnings occur upon which incentive compensation awards were based, or in the event of other wrongdoing by the recipient; and

Equity awards, generally, have multi-year vesting which aligns the long-term interests of our executives with those of our shareholders and, again, discourages the taking of short-term risk at the expense of long-term performance.

Code of Ethics

Our Board has adopted a Code of Ethics that applies to all of our employees, including our Chief Executive Officer and Chief Financial Officer. Although not required, the Code of Ethics also applies to our directors. The Code of Ethics provides written standards that we believe are reasonably designed to deter wrongdoing and promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, full, fair, accurate, timely and understandable disclosure and compliance with laws, rules and regulations, including insider trading, corporate opportunities and whistle-blowing or the prompt reporting of illegal or unethical behavior. See "Board Committees and Charters," above, for information on accessing or requesting a copy, free of charge, of our Code of Ethics and other corporate governance documents.

Shareholder Communications

Although we do not have a formal policy regarding communications with our Board, shareholders may communicate with the Board by writing to us at uSell.com, Inc., 171 Madison Avenue, 17th Floor, New York, New York 10016, Attention: Corporate Secretary, or by facsimile (888) 748-1120. Shareholders who would like their submission directed to a member of the Board may so specify, and the communication will be forwarded, as appropriate.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and the other equity securities. Officers, directors and greater than ten percent shareholders are required by SEC rules to furnish us with copies of all Section 16(a) reports they file.

Based solely on a review of the reports furnished to us, or written representations from reporting persons that all reportable transactions were reported and that no Form 5s were required, we believe that during 2017 our officers, directors and greater than 10% owners timely filed all reports they were required to file under Section 16(a).

Item 11. Executive Compensation.

The following information is related to the compensation paid, distributed or accrued by us to our Chief Executive Officer (principal executive officer) and the two other most highly compensated executive officers serving at the end of the last fiscal year whose total compensation exceeded $100,000 in 2017. We refer to these persons as the "Named Executive Officers."

2017 Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary ($)(c)	**Stock Awards ($)(e)(1)**	Non-Equity Incentive Plan Compensation ($)(g)(2)	Total ($)(j)
Nik Raman	2017	175,000	—	28,732	203,732
Chief Executive Officer of uSell	2016	157,500	—	16,669	174,169
Brian Tepfer Executive Vice President of uSell and Chief Executive Officer of We Sell Cellular	2017	421,440	—	53,873	475,313
	2016	455,962	—	31,255	487,217
Scott Tepfer Executive Vice President of uSell and President of We Sell Cellular	2017	421,440	—	53,873	475,313
	2016	455,962	—	31,255	487,217

(1) The amounts in this column represent the fair value of the award as of the grant date as computed in accordance with FASB ASC Topic 718 and the SEC disclosure rules. These amounts represent equity awards and do not reflect the actual amounts that may be realized by the Named Executive Officer. Our assumptions with respect to the calculation of these values are set forth in Note 2 of our consolidated financial statements contained herein.

(2) Represents cash compensation earned under the Company's 2016 Management Incentive Compensation Plan ("Incentive Plan"). See below for a description the eligibility of quarterly bonus payments under the Incentive Plan. As of the date of this report, the Named Executive Officers have been paid 50% of the amount that they have earned under the Incentive Plan.

Named Executive Officer Employment Arrangements

Nik Raman. Prior to April 1, 2015, Nik Raman received a base salary of $175,000 per year under an oral contract. Effective April 1, 2015, Mr. Raman's base salary was reduced to $140,000 and later increased to $175,000 per year effective July 1, 2016. On November 17, 2017, the Company accelerated the delivery of the vested restricted stock units held by Mr. Raman and issued him 250,000 shares of common stock. Effective March 16, 2018, Mr. Raman's base salary was reduced to $150,000 per year and he also agreed to waive any bonuses due to him under the Incentive Plan (described below).

Brian Tepfer. Effective October 23, 2015, the Company and Brian Tepfer entered into an Employment Agreement providing for the following: (i) an initial term ending December 31, 2018 with automatic one-year renewals unless notice of termination is given, (ii) a base salary of $500,000 per year which is subject to downward adjustments based on the failure to meet future EBITDA targets, provided that no adjustment(s) may be made to cause the annual base salary below $360,000, and (iii) a semi-annual target bonus of $250,000, subject to upward and downward adjustment based on the attainment of EBITDA targets. In July 2016, Mr. Tepfer waived his right to the semi-annual target bonus in consideration, in part, for the right to receive a quarterly bonus equal to 4.5% of quarterly gross EBITDA under the Company's Incentive Plan (described below). In November 2017, Mr. Tepfer's employment agreement was amended to reduce the annual base salary to $250,000 and the provision providing for adjusted base salary was eliminated. Effective March 16, 2018, Mr. Tepfer's base salary was reduced to $150,000 per year and he also agreed to waive any bonuses due to him under the Incentive Plan (described below).

Scott Tepfer. Effective October 23, 2015, the Company and Scott Tepfer entered into an Employment Agreement providing for the following: (i) an initial term ending December 31, 2018 with automatic one-year renewals unless notice of termination is given, (ii) a base salary of $500,000 per year which is subject to downward adjustments based on the failure to meet future EBITDA targets, provided that no adjustment(s) may be made to cause the annual base salary below $360,000, and (iii) a semi-annual target bonus of $250,000, subject to upward and downward adjustment based on the attainment of EBITDA targets. In July 2016, Mr. Tepfer waived his right to the semi-annual target bonus in consideration, in part, for the right to receive a quarterly bonus equal to 4.5% of quarterly gross EBITDA under the Company's Incentive Plan (described below). In November 2017, Mr. Tepfer's employment agreement was amended to reduce the annual base salary to $250,000 and the provision providing for adjusted base salary was eliminated. Effective March 16, 2018, Mr. Tepfer's base salary was reduced to $150,000 per year and he also agreed to waive any bonuses due to him under the Incentive Plan (described below).

Termination Provisions

Scott Tepfer has a severance provision in the event his Employment Agreement is terminated for Good Reason or without Cause (both as described below). In the event Scott Tepfer terminates his Employment Agreement for Good

Reason, or the Company terminates his employment without Cause, or the Company elects not to renew the Employment Agreement upon the termination of the initial term or any extension thereof, Scott Tepfer shall be entitled to the following:

(i) any accrued but unpaid base salary through the termination date,

(ii) an amount equal to the executive's base salary for the remainder of the term, but no less than twelve months' base salary;

(iii) any earned but unpaid bonus for any six month measuring period ended prior to the date of termination; and

(iv) any earned but unpaid bonus for the six month measuring period in which termination occurs (to the extent it can be calculated).

The term "Good Reason" is generally defined as the material diminution of the executive officers' duties due to no fault of the executive or any other action or inaction that constitutes a material breach by the Company under the Employment Agreements including reduction in compensation or relocation of employment. The term "Cause" is generally defined as the executive offer committing a material breach of the Employment Agreement or being convicted of a felony or regulatory violation involving applicable securities laws.

Outstanding Equity Awards at 2017 Fiscal Year-End

Listed below is information with respect to unexercised options and shares of common stock that have not vested for each Named Executive Officer outstanding as of December 31, 2017:

Outstanding Equity Awards At Fiscal Year-End		
Name **(a)**	**Number of Shares or Units of Stock That Have Not Vested (#)** **(g)(1)**	**Market Value of Shares or Units of Stock That Have Not Vested** **($)(h)(1)**
Nik Raman	100,000	49,000

(1) Represents unvested restricted stock units. Market value is based on $0.49 closing price on December 31, 2017.

Management Incentive Compensation Plan

On July 27, 2016, the Company adopted the Incentive Plan. The Incentive Plan provides that each quarter that the Company meets certain gross EBITDA thresholds, participants will be eligible to receive quarterly bonuses. The Incentive Plan is effective through September 2018. The Incentive 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 Incentive 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.

As of the date of this report, the Company has granted Nik Raman, Brian Tepfer and Scott Tepfer eligibility under the Incentive Plan to receive a quarterly bonus representing 2.4%, 4.5% and 4.5%, respectively, of quarterly gross EBITDA. Through December 31, 2017 and the date of this report, a total of $215,657 was earned, of which total of $107,829 has been paid under the Incentive Plan. Of this amount, Mr. Raman earned $45,401 and was paid $22,701, and Brian Tepfer and Scott Tepfer each earned $85,128 and were paid $42,564.

Effective March 16, 2018, Mr. Raman, Brian Tepfer and Scott Tepfer agreed to waive any bonuses due to them under the Incentive Plan.

Director Compensation

We do not pay cash compensation to our directors for service on our Board. Directors are reimbursed for reasonable expenses incurred in attending meetings and carrying out duties as Board and committee members. Executive officers serving on the Board are not compensated for their service as directors.

Equity Compensation Plan Information

The following chart reflects the number of awards granted under equity compensation plans approved and not approved by shareholders and the weighted average exercise price for such plans as of December 31, 2017.

Name Of Plan	Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights(1) (a)	Weighted-average exercise price of outstanding options warrants and rights (b)($)	Number of shares remaining available for future issuance under equity compensation plans (excluding the shares reflected in column (a))(2) (c)
Equity compensation plans approved by security holders			
2012 Equity Incentive Plan (2)	769,333	1.01	258,855
Non-Plan Equity Compensation (3)	105,687	3.13	N/A
Equity compensation plans not approved by security holders (4)	100,000	—	—
Total	975,020	1.39	258,855

(1) Consists of stock options and restricted stock units.
(2) This represents securities issued under the Plan. As of December 31, 2017, we had 258,855 shares remaining under the Plan. Because we have issued 703,835 shares of restricted stock, the number of securities available for future issuance has been reduced.
(3) This represents securities issued outside our Plan.
(4) Represents 100,000 unvested restricted stock units granted to Mr. Nikhil Raman.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth the number of shares of our common stock beneficially owned as of March 30, 2018 by (i) those persons known by us to be owners of more than 5% of our common stock, (ii) each director, (iii) our Named Executive Officers and (iv) all of our executive officers and directors of as a group. Unless otherwise specified in the notes to this table, the address for each person is: c/o uSell.com, Inc., 171 Madison Avenue, 17th Floor, New York, New York 10016.

Title of Class	**Beneficial Owner**	**Amount and Nature of Beneficial Owner (1)**	**Percent of Class (1)**	
Directors and Executive Officers:				
Common Stock	Nik Raman (2)	8,734,900	30.9	%
Common Stock	Brian Tepfer (3)	8,734,900	30.9	%
Common Stock	Scott Tepfer (3)	8,734,900	30.9	%
Common Stock	Daniel Brauser (4)	9,209,342	32.6	%
Common Stock	Peter Benz (5)	80,500	*	
Common Stock	Grant Fitzwilliam (6)	38,369	*	
Common Stock	Amitabh Jhawar (7)	38,000	*	
Common Stock	All directors and executive officers as a group (8 persons) (8)	8,921,588	31.5	%
5% Shareholders:				
Common Stock	Todd Oretsky (9)	1,132,342	4.0	%
Common Stock	Hakan Koyuncu (10)	1,132,342	4.0	%
Common Stock	Douglas Feirstein (11)	1,132,342	4.0	%
Common Stock	Kokino LLC (12)	6,957,837	23.4	%
Common Stock	PVAM Perlus Microcap Fund, LP (13)	4,000,000	14.1	%

Common Stock	PVAM Holdings Ltd. (13)	4,000,000	14.1	%
Common Stock	Pacific View Asset Management (UK) LLP (13)	4,000,000	14.1	%

* Less than 1%.

(1) Applicable percentages are based on 28,294,999 shares of common stock outstanding as of March 30, 2018. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options, warrants, convertible notes and preferred stock currently exercisable or convertible or exercisable or convertible within 60 days are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. The table includes shares of common stock, options, warrants, and preferred stock exercisable or convertible into common stock and vested or vesting within 60 days. Unless otherwise indicated in the footnotes to this table, we believe that each of the shareholders named in the table has sole voting and investment power with respect to the shares of common stock indicated as beneficially owned by them. The table does not include: (i) restricted stock units that do not have the right to vote until they vest and the shares are delivered or (ii) unvested options that do not vest within 60 days of the date listed above in this Note (1).

The shares of common stock beneficially owned by each of Messrs. Daniel Brauser, Feirstein, Koyuncu and Oretsky include all shares of common stock subject to a Shareholders Agreement, which terminates when each member of the group beneficially owns less than 127 shares. Under the Shareholders Agreement, the group agreed to vote all of their shares of common stock together on any action as determined by a majority of the members of the group still owning 25 shares. The shares of common stock individually owned by them are:

Mr. Brauser	657,900 shares
Mr. Feirstein	457,195 shares
Mr. Koyuncu	6,096 shares
Mr. Oretsky	11,151 shares

The shares of common stock beneficially owned by each of Messrs. Brauser, Raman, and Brian and Scott Tepfer include all shares of common stock subject to a Shareholders Agreement. Under the Shareholders Agreement, each person agreed that, in connection with any annual meeting, special meeting or written consent of uSell shareholders, such person would vote together with the other three parties on each matter. However, the parties further agreed that if they cannot reach an agreement, then the affirmative vote of at least 75% of the voting power of all shares of outstanding voting stock of uSell is required to take action. As a result, for so long as the Shareholders Agreement remains in effect, future action by uSell shareholders will effectively require either the unanimous consent of Raman, Brauser, and the Tepfers, or a 75% supermajority vote of outstanding shares. This voting agreement terminates if certain covenants under the Securities Purchase Agreement are not met. The shares of common stock individually owned by them are:

Mr. Brauser	657,900 shares
Mr. Raman	1,071,000 shares
Mr. Brian Tepfer	3,503,000 shares
Mr. Scott Tepfer	3,503,000 shares

(2) Mr. Raman is a director and executive officer. See Note 1 above regarding a Shareholders Agreement that Mr. Raman is subject to.

(3) Mr. Brian Tepfer is a director and both Brian and Scott Tepfer are Named Executive Officers. See Note 1 above regarding a Shareholders Agreement that both of the Tepfers are subject to.

(4) Mr. Daniel Brauser is a director and executive officer. See Note 1 above regarding two Shareholders Agreements that Mr. Brauser is

subject to.

(5) Mr. Benz is a director.

(6) Mr. Fitzwilliam is a director.

(7) Mr. Jhawar is a director.

(8) Includes executive officers of uSell and We Sell Cellular who are not Named Executive Officers. Excludes shares that are owned by non-executive officers and directors which are subject to Shareholders Agreements.

(9) Mr. Oretsky is a former executive officer and director. Mr. Oretsky's shares are held by Jack Oretsky Holdings, LLC, a limited liability company in which Mr. Oretsky, to our knowledge, is the managing member. Mr. Oretsky is a former director and executive officer. Address is 547 N.E. 59th Street, Miami, Florida 33137. See Note 1 above regarding a Shareholders Agreement that Mr. Oretsky is subject to.

(10) Mr. Koyuncu is a former executive

officer and director. Address is 750 SW 3rd Street, Boca Raton, Florida 33486. See Note 1 above regarding a Shareholders Agreement that Mr. Koyuncu is subject to.

(11) Mr. Feirstein is a former executive officer and director. Represents 393,198 shares of common stock (of which 103,176 are held by the Feirstein Family Holdings, LLLP, an entity controlled by Mr. Feirstein. See Note 1 above regarding a Shareholders Agreement that Mr. Feirstein is subject to.

(12) Includes: (i) 550,000 shares and 275,000 warrants held by Leslie J. Schreyer, as Trustee under Trust Agreement dated December 23, 1989 FBO the issue of Jonathan D. Sackler (the “Trust”), (ii) 300,000 shares and 150,000 warrants held by M3C Holdings LLC (“M3C”), and (iii) 124,000 shares held jointly by Robert Averick and his wife. Piton Capital Partners, LLC (“Piton”) is managed by Piton Capital Management LLC,

which is managed by Kokino, LLC ("Kokino"), which is a family office that provides investment management services to its family clients, including the Trust, Piton and M3C. As a Portfolio Manager at Kokino, Mr. Averick shares the power to vote and dispose (or direct the disposition of) 6,957,837 shares of common Stock, which is the sum of the common stock beneficially owned by the following reporting persons: (i) 825,000 shares of common stock beneficially owned by the Trust; (ii) 450,000 shares of common stock beneficially owned by M3C; (iii) 5,358,837 shares of common stock beneficially owned by Piton (including 1,000,000 shares underlying an option to buy stock); (iv) 124,000 shares of common stock beneficially owned by Mr. Averick and his wife; and (v) 200,000 shares of common stock beneficially owned by Mr. Averick. This information is based on the Schedule 13D/A filed on November 22, 2017. Piton's address is: 201 Tresser Boulevard, 3rd Floor Stamford, Connecticut 06901.

(13) Address is 5th Floor, 37 Esplanade, St. Helier, Jersey, Channel Islands JE1 2TR. The information is based on a Schedule 13G filed with SEC on November 28, 2017 by each of these entities. Each of PVAM Perlus Microcap Fund L.P., PVAM Holdings Ltd., and Pacific View Asset Management (UK) LLP has the power to vote or direct the sale of the shares. Steven Druskin is a director of PVAM Limited, the General Partner of PVAM Perlus Microcap Fund L.P., a director of PVAM Holdings Ltd., and the authorized signatory for Pacific View Asset Management (UK) LLP.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Jennifer Calabrese, our Executive Vice President of Finance and Chief Financial Officer, provides her services through Calabrese Consulting, LLC, a company she controls. Beginning in April 2014, we began paying this company

$50,000 per year. As of April 2015 and through September 2016, Ms. Calabrese received shares of common stock in lieu of $2,083 of monthly cash compensation. Beginning in October 2016, we began paying this company on an hourly basis. For the year ended December 31, 2017, Calabrese Consulting, LLC was paid a total of $37,804.

On April 14, 2016, the Company approved an equity arrangement to compensate Jennifer Calabrese for her expanded role within the Company related to the acquisition and management of We Sell Cellular, LLC. Under the arrangement, effective January 1, 2016 and through June 30, 2016, Ms. Calabrese was being issued 1,000 shares of the Company's common stock monthly in addition to her existing salary and equity arrangements with the Company until such time as the Company's hires a full time Chief Financial Officer.

In connection with the acquisition of We Sell Cellular, the Company issued the Brian and Scott Tepfer (collectively, the “Tepfers”) 9,358,837 shares of uSell common stock (or approximately 49% of uSell on a fully-diluted basis). In accordance with the We Sell Securities Purchase Agreement (the “SPA”), if the Tepfers elected to sell shares of common stock, uSell would use its best efforts to assist the Tepfers in selling their shares of uSell stock acquired under the SPA for up to $6,000,000 in gross proceeds (together and not each) through private placements or public offerings (the “Placement Rights”), with target sales of $1,500,000 quarterly, commencing the quarter ending December 31, 2015. If the price per share received by the Tepfers was less than the greater of $1.20 or the product of an EBITDA-based formula, uSell would issue the Tepfers additional shares of uSell stock. In addition, pursuant to the SPA, uSell granted the Tepfers certain piggyback registration rights and a right of first refusal to participate in future uSell financings. On July 27, 2016, the Company entered into an agreement with the Tepfers whereby the Tepfers agreed to waive the Placement Rights granted to them under the SPA. 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 the Tepfers was granted the right to receive a quarterly bonus equal to 4.5% of quarterly gross EBITDA under the Incentive Plan. See the Section titled “Named Executive Officer Employment Arrangements” above for disclosure regarding amendment to the Tepfers’ Employment Agreements.

On December 22, 2016, the Tepfers each sold 500,000 shares of Company’s common stock at $1.00 per share to Piton, an investment fund (the “Purchaser”) and each issued to the Purchaser a five-year option to purchase an additional 500,000 shares of common stock of the Company at $1.00 per share. The securities were sold in a private transaction which was initiated by an investment fund that has investment power on behalf of the Purchaser. As an inducement to the Purchaser, the Company granted demand and piggy back registration rights to the Purchaser and another shareholder of the Company over which the Purchaser exercises investment power. If the registration rights are exercised, the two investment funds will pay the legal and other expenses of the Company and only exercise such demand rights at a time when the Company is obligated to file its Form 10-K or a Form 10-Q. In connection with the filing of a registration statement, the Purchaser agreed to defer these registration rights for six months from the closing of the November 2017 private placement.

See page 20 for a discussion of director independence.

Item 14. Principal Accounting Fees and Services.

Our Audit Committee pre-approves audit and permissible non-audit services performed by its independent registered public accounting firm, as well as the fees charged for such services. All of the services related to audit fees and audit-related fees charged by Marcum, LLP, if any, were pre-approved by the Audit Committee. The following table shows the fees for the years ended December 31, 2017 and 2016.

	2017	2016

Audit Fees [1]	$119,990	$138,983
Audit Related Fees [2]	10,300	—
Tax Fees	—	—
All Other Fees	—	—
Total	$130,290	$138,983

(1) Audit fees relate to the audit of our annual financial statements and the review of our interim quarterly financial statements.

(2) Audit related fees consisted principally of services related to our assurance and related services by our principal accountant that are reasonably related to the performance of the audit or review of our annual and quarterly financial statements as well as the review of our registration statements.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents filed as part of the report.

(1) Financial Statements. See Index to Consolidated Financial Statements, which appears on page F-1 hereof. The financial statements listed in the accompanying Index to Consolidated Financial Statements are filed herewith in response to this Item.

(2) Financial Statements Schedules. All schedules are omitted because they are not applicable or because the required information is contained in the consolidated financial statements or notes included in this report.

(3) Exhibits. The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this report.

Item 16. Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on April 4, 2018.

uSell.com, Inc.

By: */s/ Nikhil Raman*
Nikhil Raman
Chief Executive Officer

(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Nikhil Raman Nikhil Raman	Principal Executive Officer and Director	April 4, 2018
/s/ Jennifer Calabrese Jennifer Calabrese	Chief Financial Officer (Principal Financial Officer) and Chief Accounting Officer (Principal Accounting Officer)	April 4, 2018
/s/ Daniel Brauser Daniel Brauser	Director and Executive Chairman	April 4, 2018
/s/ Peter Benz Peter Benz	Director	April 4, 2018
/s/ Grant Fitzwilliam Grant Fitzwilliam	Director	April 4, 2018
/s/ Amitabh Jhawar Amitabh Jhawar	Director	April 4, 2018

/s/ Brian Tepfer	Director	April 4, 2018
Brian Tepfer		

28

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference Form	Date	Number	Filed or Furnished Herewith
3.1	Certificate of Incorporation, as amended	10-K	3/31/15	3.1	
3.2	Bylaws, as amended	10-K	3/30/17	3.2	Filed
10.1	Shareholders Agreement – Brauser, Feirstein, Oretsky and Koyuncu	10-Q	8/19/09	10.3	
10.2	Form of Restricted Stock Unit Agreement	10-K	3/31/15	10.5	
10.3	2008 Equity Incentive Plan, as amended*	10-K	3/20/17	3.3	Filed
10.4	Sunder Raman Consulting Agreement	10-K	3/31/15	10.12	
10.5	Stock Purchase Agreement – We Sell Cellular^^	8-K	10/27/15	10.1	
10.6	Registration Rights Agreement – Brian and Scott Tepfer	8-K	10/27/15	10.2	
10.7	Shareholders Agreement – Raman, Brauser and Tepfers	8-K	10/27/15	10.3	
10.8	Management Agreement – Raman, Brauser and Tepfers	8-K	10/27/15	10.4	
10.9	Form of Amendment to Management Agreement - Raman, Brauser and Tepfers	8-K	1/19/17	10.11	
10.10	Brian Tepfer Employment Agreement*	8-K	10/27/15	10.5	
10.11	Scott Tepfer Employment Agreement*	8-K	10/27/15	10.6	
10.12	Form of Amendment to Tepfers Employment Agreement*	8-K	11/10/16	10.1	
10.13	Form of Non-Compete and Confidentiality Agreement - Tepfers	8-K	1/19/17	10.3	
10.14	Form of Non-Compete and Confidentiality Agreement - Raman	8-K	1/19/17	10.4	
10.15	Note Purchase Agreement - BAM Administrative Services, LLC^^	8-K	10/27/15	10.7	
10.16	Form of Secured Term Note dated October 23, 2015	8-K	10/27/15	10.8	
10.17	Security Agreement - BAM Administrative Services, LLC^^	8-K	10/27/15	10.9	
10.18	Subsidiary Guaranty - BAM Administrative Services, LLC	8-K	10/27/15	10.10	
10.19	Pledge Agreement – BAM Administrative Services, LLC	8-K	10/27/15	10.11	
10.20	Collateral Assignment Agreement – BAM Administrative Services, LLC	8-K	10/27/15	10.12	
10.21	Form of Amendment No. 1 to Note Purchase Agreement - BAM Administrative Services, LLC	8-K	4/1/16	10.1	
10.22	Form of Amended and Restated Secured Term Note, originally issued October 23, 2015	8-K	4/1/16	10.2	
10.23	Form of Amended and Restated Secured Term Note, originally issued December 1, 2015	8-K	4/1/16	10.3	
10.24	Form of Secured Term Note issued March 30, 2016	8-K	4/1/16	10.4	
10.25	Form of Services Agreement dated January 13, 2017	8-K	1/19/17	10.1	
10.26	Form of Contribution Agreement dated January 13, 2017	8-K	1/19/17	10.2	
10.27	Form of Note Purchase Agreement dated January 13, 2017 ^^	8-K	1/19/17	10.5	
10.28	Form of Secured Term Note issued January 13, 2017	8-K	1/19/17	10.6	
10.29	Form of Security Agreement dated January 13, 2017 ^^	8-K	1/19/17	10.7	
10.30	Form of Subsidiary Guaranty dated January 13, 2017 ^^	8-K	1/19/17	10.8	
10.31	Form of Trademark Security Agreement dated January 13, 2017 ^^	8-K	1/19/17	10.9	

10.32	Form of Pledge Agreement dated January 13, 2017 ^^	8-K	1/19/17	10.10	
21.1	Subsidiaries				Filed
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.

^^ Certain schedules, appendices and exhibits to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished supplementally to the Securities and Exchange Commission staff upon request.

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 171 Madison Avenue, 17th Floor, New York, New York 10016.

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

uSell.com, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of uSell.com, Inc. and Subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph – Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's cash and working capital as of December 31, 2017 are not sufficient to complete its planned activities. The Company also believes that it may not meet one of the financial covenants contained in a debt agreement with the primary lender for the quarter ended March 31, 2018. These conditions raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the financial statements are issued. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Marcum llp

/s/ Marcum LLP

We have served as the Company's auditor since 2013**.**

West Palm Beach, FL

April 4, 2018

F-2

uSell.com, Inc. and Subsidiaries

<u>Consolidated Balance Sheets</u>

	December 31, 2017	2016
Assets		
Current Assets:		
Cash and cash equivalents	$390,810	$1,657,422
Restricted cash	942,274	982,064
Accounts receivable, net	236,674	430,171
Inventory	10,642,531	8,874,099
Due from related party	139,333	—
Prepaid expenses and other current assets	99,381	130,141
Total Current Assets	12,451,003	12,073,897
Property and equipment, net	188,056	191,957
Goodwill	—	8,448,759
Intangible assets, net	2,948,294	3,724,466
Capitalized technology, net	868,449	934,193
Other assets	61,750	124,358
Total Assets	$16,517,552	$25,497,630
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$1,787,571	$4,328,422
Accrued expenses	1,165,348	916,961
Deferred revenue	394,780	374,098
Promissory note payable	8,325,355	673,332
Capital lease obligation	14,400	10,664
Total Current Liabilities	11,687,454	6,303,477
Promissory note payable, net of current portion	—	6,441,000
Capital lease obligation, net of current portion	46,053	47,986
Total Liabilities	11,733,507	12,792,463
Stockholders' Equity:		
Convertible Series A preferred stock; $0.0001 par value; 325,000 shares authorized; no shares issued and outstanding	—	—
Convertible Series B preferred stock; $0.0001 value per share; 4,000,000 shares authorized; no shares issued and outstanding	—	—
Convertible Series C preferred stock; $0.0001 value per share; 146,667 shares authorized; no shares issued and outstanding	—	—

Convertible Series E preferred stock; $0.0001 value per share; 103,232 shares authorized; no shares issued and outstanding	—	—
Common stock; $0.0001 par value; 43,333,333 shares authorized; 28,290,999 shares and 20,134,999 shares issued and outstanding, respectively	2,829	2,013
Additional paid in capital	75,469,350	71,089,882
Accumulated deficit	(70,688,134)	(58,386,728)
Total Stockholders' Equity	4,784,045	12,705,167
Total Liabilities and Stockholders' Equity	$16,517,552	$25,497,630

See accompanying notes to consolidated financial statements.

uSell.com, Inc. and Subsidiaries

Consolidated Statements of Operations

	Year Ended December 31,	
	2017	2016
Revenue	$104,702,440	$94,656,735
Cost of Revenue	98,878,323	88,834,912
Gross Profit	5,824,117	5,821,823
Operating Expenses:		
Sales and marketing	1,925,105	1,680,364
General and administrative	5,404,432	5,986,273
Goodwill impairment charge	8,448,759	—
Total operating expenses	15,778,296	7,666,637
Loss from Operations	(9,954,179)	(1,844,814)
Other (Expense) Income:		
Interest income	—	429
Interest expense	(2,347,227)	(1,497,353)
Change in fair value of placement rights derivative liability	—	(370,000)
Total Other Expense, Net	(2,347,227)	(1,866,924)
Net Loss	$(12,301,406)	$(3,711,738)
Net loss per common share - basic and diluted	$(0.59)	$(0.19)
Weighted average number of common shares outstanding during the period - basic and diluted	20,846,511	20,029,701

See accompanying notes to consolidated financial statements.

uSell.com, Inc. and Subsidiaries

Consolidated Statement of Changes in Stockholders' Equity

Years Ended December 31, 2017 and 2016

	Common Stock, $0.0001 Par Value		Additional	Accumulated	Total Stockholders'
	Shares	Amount	Paid in Capital	Deficit	Equity
Balance, January 1, 2016	19,751,999	$ 1,976	$ 68,662,578	$ (54,674,990)	$ 13,989,564
Issuance of common stock in connection with Note Purchase Agreement	350,000	35	402,465	—	402,500
Reclassification of Derivative Liability upon Elimination of Placement Rights	—	—	1,500,000	—	1,500,000
Stock based compensation	33,000	2	524,839	—	524,841
Net loss	—	—	—	(3,711,738)	(3,711,738)
Balance, December 31, 2016	20,134,999	$ 2,013	$ 71,089,882	$ (58,386,728)	$ 12,705,167
Sale of common stock, net of offering costs	7,880,000	788	3,875,279	—	3,876,067
Stock based compensation	276,000	28	504,189	—	504,217
Net loss	—	—	—	(12,301,406)	(12,301,406)
Balance, December 31, 2017	28,290,999	$ 2,829	$ 75,469,350	$ (70,688,134)	$ 4,784,045

See accompanying notes to consolidated financial statements.

uSell.com, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(12,301,406)	$(3,711,738)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	1,436,464	1,912,077
Goodwill impairment charge	8,448,759	—
Recovery of bad debt expense	(755)	(1,876)
Stock based compensation expense	504,217	524,841
Deferred tax benefit	—	—
Amortization of debt issue costs into interest expense	1,101,920	479,340
Loss on disposal of property and equipment	—	112,284
Change in fair value of placement rights derivative liability	—	370,000
Changes in operating assets and liabilities:		
Accounts receivable	194,252	34,892
Inventory	(1,768,432)	(1,816,327)
Due from related party	(139,333)	—
Prepaid and other current assets	30,760	166,882
Other assets	12,608	13,222
Accounts payable	(2,540,851)	1,764,824
Accrued expenses	248,387	187,801
Lease termination payable	—	(5,000)
Deferred revenues	20,682	(440,197)
Net Cash and Cash Equivalents Used In Operating Activities	(4,752,728)	(408,975)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Website development costs	(536,274)	(595,528)
Restricted cash	39,790	(180,834)
Cash paid to purchase property and equipment	(39,687)	(93,686)
Security deposits	—	(8,435)
Net Cash and Cash Equivalents Used In Investing Activities	(536,171)	(878,483)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	8,572,400	2,000,000
Proceeds from sale of common stock	3,940,000	—
Principal repayments of note payable	(8,080,000)	—
Payment of capital lease obligations	(12,883)	(3,355)
Cash paid for offering costs	(63,933)	—
Cash paid for debt issue costs	(333,297)	(99,551)
Net Cash and Cash Equivalents Provided By Financing Activities	4,022,287	1,897,094

Net (Decrease) Increase in Cash and Cash Equivalents	(1,266,612)	609,636
Cash and Cash Equivalents - Beginning of Period	1,657,422	1,047,786
Cash and Cash Equivalents - End of Period	$390,810	$1,657,422

uSell.com, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Continued)

	Year Ended December 31,	
	2017	2016
SUPPLEMENTARY CASH FLOW INFORMATION:		
Cash Paid During the Period for:		
Interest	$1,120,830	$1,018,529
Taxes	$18,193	$—
SUPPLEMENTARY DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property and equipment through capital leases	$14,686	$62,005
Adjustment to goodwill for inventory valuation	$—	$42,198
Elimination of Placement Rights Derivative Liability	$—	$1,500,000
Common stock issued in connection with note payable	$—	$402,500

See accompanying notes to consolidated financial statements.

F-7

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 1 - Organization and Business

uSell.com, Inc., through its wholly-owned subsidiaries (collectively, "uSell," or the "Company"), is a large market maker of used smartphones. uSell acquires products from both individual sellers, on its website, uSell.com, and from major carriers, big box retailers, and manufacturers through its subsidiary, We Sell Cellular, LLC ("We Sell Cellular"). The Company maximizes the value of these devices by reclassifying them, adding value to them, and moving them throughout the world to those who want them most. In order to serve its global and highly diverse customer base, uSell leverages both a traditional sales force and an online marketplace where professional buyers of used smartphones can buy inventory on-demand. Through participation on uSell's online platform and through interaction with uSell's salesforce, buyers can acquire high volumes of inventory in a cost effective manner, while minimizing risk.

Going Concern Consideration

At December 31, 2017 the Company has cash and cash equivalents of $391,000, working capital of $764,000 and an accumulated deficit of $70,688,000. In addition, the Company generated a net loss of $12,301,000 (including a goodwill impairment charge of $8,449,000) and used cash in operating activities of $4,753,000 for the year ended December 31, 2017. As a result of the downturn in the Company's business relating in part to the disruptions in key global markets, as of the filing date of this report, the Company's believes that it may not meet one of the financial covenants under the NPA and therefore may be in default under the agreement for the quarter ended March 31, 2018 (see Note 6). The Company does not yet have a history of financial stability and may continue to generate operating losses for the foreseeable future. Historically, the principal source of liquidity has been the issuance of debt and equity securities. These conditions raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued. Management plans to address this uncertainty through further implementation of its business plan or by continuing to raise funds through debt and/or equity. There can be no assurances that the plans and actions proposed by management will be successful or that unforeseen circumstances will not require additional funding sources in the future or effectuate plans to conserve liquidity. Future efforts to raise additional funds may not be successful or they may not be available on acceptable terms, if at all. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Principals of Consolidation

The accompanying 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 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 consolidated financial statements, which management considered in formulating its estimate, could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from these estimates.

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Cash and Cash Equivalents

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

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 $1,600 at December 31, 2017 and 2016, respectively.

Inventory, net

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

Allowances for slow-moving or obsolete inventory are provided based on historical experience of a variety of factors, including sales volume, product life and levels of inventory at the end of the period. The provision for slow-moving for inventory amounted to $170,000 and $115,000 for the years ended December 31, 2017 and 2016, 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 $474,000 and $221,000 at December 31, 2017 and 2016, respectively, and is included in inventory, net in the accompanying consolidated balance sheets.

Property and Equipment

Property and equipment represent costs associated with leasehold improvements, software, and computer and office equipment. Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation on property and equipment is calculated on the straight-line basis over the estimated useful lives of the related assets, which typically range from three to five years. Leasehold improvements are amortized over the shorter of the estimated useful lives or the remaining lease term. Maintenance and repairs are expensed as incurred; expenditures that enhance the value of property or extend their useful lives are capitalized. When assets are sold or returned, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in income.

Capitalized Technology Costs

In accordance with Accounting Standards Codification ("ASC") 350-40, Internal-Use Software, the Company capitalizes certain external and internal computer software costs incurred during the application development stage. The application development stage generally includes software design and configuration, coding, testing and installation activities. Training and maintenance costs are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Capitalized technology costs are amortized over the estimated useful lives of the software assets on a straight-line basis, generally not exceeding three years.

Goodwill and Intangible Assets

The Company accounts for goodwill and intangible assets in accordance with ASC 350, Intangibles – Goodwill and Other ("ASC 350"). ASC 350 requires that goodwill and other intangibles with indefinite lives be tested for impairment annually or on an interim basis if events or circumstances indicate that the fair value of an asset has decreased below its carrying value.

Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (December 31 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

F-9

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Among other relevant events and circumstances that affect the fair value of reporting units, the Company considers individual factors such as macroeconomic conditions, changes in the Company's industry and the markets in which the Company operates, as well as the Company's historical and expected future financial performance.

Prior to January 1, 2017, when conducting its annual goodwill impairment assessment, the Company initially performed a qualitative evaluation of whether it is more likely than not that goodwill was impaired. If it was determined by a qualitative evaluation that it was more likely than not that goodwill was impaired, the Company then applied a two-step impairment test. The two-step impairment test first compared the fair value of the Company's reporting unit to its carrying or book value. If the fair value of the reporting unit exceeded its carrying value, goodwill was not impaired and the Company was not required to perform further testing. If the carrying value of the reporting unit exceeded its fair value, the Company determined the implied fair value of the reporting unit's goodwill and if the carrying value of the reporting unit's goodwill exceeded its implied fair value, then an impairment loss equal to the difference was recorded in the consolidated statements of operations.

Effective January 1, 2017, the Company prospectively adopted the provisions of ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 eliminates the second step of the goodwill impairment test. Therefore, for goodwill impairment tests occurring after January 1, 2017, if the carrying value of a reporting unit exceeds its fair value, the Company will measure any goodwill impairment losses as the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

The valuation of fair value for reporting units is determined based on a discounted future cash flow model that uses six years of projected cash flows and a terminal value based on growth assumptions. Rates used to discount cash flows are dependent upon interest rates and the cost of capital based on the Company's industry and capital structure, adjusted for equity and size risk premiums based on market capitalization. Estimates of future cash flows are dependent on the Company's knowledge and experience about past and current events and assumptions about conditions expected to exist, including long-term growth rates, capital requirements and useful lives. The Company's estimates of cash flows are also based on historical and future operating performance, economic conditions and actions the Company expects to take.

In making its assessments of fair value, the Company relies on its knowledge and experience about past and current events and assumptions about conditions expected to exist in the future. These assumptions are based on a number of factors, including future operating performance, economic conditions, actions the Company expects to take and present value techniques. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of goodwill impairment. It is possible that assumptions underlying the impairment analysis will change in such a manner that impairment in value may occur in the future.

As a result of recurring and projected operating losses, the Company undertook a review of the carrying amount of its goodwill as of December 31, 2017. The Company performed its review based on both qualitative and quantitative factors and determined that the carrying value of the Company's reporting unit exceeded its fair value. Accordingly, the Company recorded a goodwill impairment charge of $8,449,000 in the accompanying consolidated statement of operations for the year ended December 31, 2017.

Intangible assets represent customer relationships and trade names/trademarks related to We Sell Cellular. Finite lived assets are amortized on a straight-line basis over the estimated useful lives of the assets. Indefinite lived intangible assets are not amortized, but instead are subject to annual impairment evaluation.

The Company periodically reviews the carrying values of its intangible assets and other long-lived assets when events or changes in circumstances indicate that it is more likely than not that their carrying values may exceed their fair values, and records an impairment charge when considered necessary. When circumstances indicate that an impairment of value may have occurred, the Company tests such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying amount of the asset over its estimated fair value, is recognized. The cash flow estimates used in such calculations are based on estimates and assumptions, using all available information that management believes is reasonable. Fair value, for purposes of calculating impairment, is measured based on estimated future cash flows, discounted at a market rate of interest. During the years ended December 31, 2017 and 2016, the Company noted no indicators of impairment.

Debt Issue Costs

Debt issuance costs incurred in connection with the Company's debt are capitalized and amortized as interest expense over the term of the related debt. In accordance with Accounting Standards Update ("ASU") No. 2015-03, "Interest—Imputation of Interest," the Company presents debt issuance costs as a reduction from the carrying amount of debt.

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Convertible Instruments

The Company reviews all of its convertible instruments for the existence of an embedded conversion feature which may require bifurcation, if certain criteria are met. These criteria include circumstances in which:

a) The economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract,

b) The hybrid instrument that embodies both the embedded derivative instrument and the host contract is not remeasured at fair value under otherwise applicable GAAP with changes in fair value reported in earnings as they occur, and

c) A separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to certain requirements (except for when the host instrument is deemed to be conventional).

A bifurcated derivative financial instrument may be required to be recorded at fair value and adjusted to market at each reporting period end date. In addition, the Company may be required to classify certain stock equivalents issued in connection with the underlying debt instrument as derivative liabilities.

For convertible instruments that the Company has determined should not be bifurcated from their host instruments, the Company records discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. Also when necessary, the Company records deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the financing transaction and the effective conversion price embedded in the preferred shares.

Finally, if necessary, the Company will determine the existence of liquidated damage provisions. Liquidated damage provisions are not marked to market, but evaluated based upon the probability that a related liability should be recorded.

Common Stock Purchase Warrants and Derivative Financial Instruments

The Company reviews any common stock purchase warrants and other freestanding derivative financial instruments at each balance sheet date and classifies them on the consolidated balance sheet as:

a) Equity if they (i) require physical settlement or net-share settlement, or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement), or

b) Assets or liabilities if they (i) require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the Company's control), or (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

The Company assesses classification of its common stock purchase warrants and other freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required. The Company determined that its outstanding common stock purchase warrants satisfied the criteria for classification as equity instruments at December 31, 2017 and 2016.

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, generates revenue from the sales of its cellular telephones and related equipment. The Company recognizes revenue "FOB shipping point" on such sales. Delivery to the customer is deemed to have occurred when the customer takes title to the product. Generally, title passes to the customer when the products leave the Company's warehouse. Payment terms generally require payment once an order is placed. The Company allows customers to return product within 30 days of shipment if the product is defective. Allowances for product returns are recorded as a reduction of sales at the time revenue is recognized based on historical data. The estimate of the allowance for product returns amounted to approximately $267,000 and $130,000 at December 31, 2017 and 2016, respectively, and is recorded in accrued expenses in the accompanying consolidated balance sheets.

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Agent Commission Revenue

Sellers on the Company's uSell.com website are shown a list of offers from third party buyers interested in purchasing their devices. If a seller chooses one of these offers, the seller will ship their device directly to the buyer. 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.

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 regarding shipping and handling costs. Shipping and handling costs included in cost of revenue were approximately $566,000 and $519,000 for the years ended December 31, 2017 and 2016, respectively.

Advertising

Advertising costs are expensed as they are incurred and are included in sales and marketing expenses. Advertising expense amounted to approximately $41,000 and $50,000 for the years ended December 31, 2017 and 2016, respectively.

Share-Based Payment Arrangements

The Company accounts for stock options in accordance with ASC 718, “Compensation - Stock Compensation.” ASC 718 requires generally that all equity awards be accounted for at their “fair value.” This fair value is measured on the grant date for stock-settled awards, and at subsequent exercise or settlement for cash-settled awards. Fair value is equal to the underlying value of the stock for “full-value” awards such as restricted stock and performance shares, and is estimated using an option-pricing model with traditional inputs for “appreciation” awards such as stock options and stock appreciation rights.

Costs equal to these fair values are recognized ratably over the requisite service period based on the number of awards that are expected to vest, or in the period of grant for awards that vest immediately and have no future service condition. For awards that vest over time, cumulative adjustments in later periods are recorded to the extent actual forfeitures differ from the Company’s initial estimates: previously recognized compensation cost is reversed if the service or performance conditions are not satisfied and the award is forfeited. The expense resulting from share-based payments is recorded in general and administrative expense in the accompanying consolidated statements of operations.

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Subsequent modifications to outstanding awards result in incremental cost if the fair value is increased as a result of the modification. Thus, a value-for-value stock option repricing or exchange of awards in conjunction with an equity restructuring does not result in additional compensation cost.

Income Taxes

The Company complies with the accounting and reporting requirements of ASC Topic 740, "Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

ASC Topic 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. There were no unrecognized tax benefits as of December 31, 2017. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

The Company may be subject to potential income tax examinations by federal or state authorities. These potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with federal and state tax laws. Management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

The Company's policy for recording interest and penalties associated with audits is to record such expense as a component of income tax expense. There were no amounts accrued for penalties or interest as of December 31, 2017.

On December 22, 2017 the U.S. Tax Cuts and Jobs Act of 2017 (“Tax Reform”) was signed into law. As a result of Tax Reform, the U.S. statutory tax rate was lowered from 35% to 21% effective January 1, 2018, among other changes. ASC Topic 740 requires companies to recognize the effect of tax law changes in the period of enactment; therefore, the Company was required to revalue its deferred tax assets and liabilities at December 31, 2017 at the new rate. The SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain tax effects of Tax Reform. The ultimate impact may differ from this provisional amount, possibly materially, as a result of additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of Tax Reform.

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 December 31, 2017 and 2016, 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 and cash equivalents, accounts receivable and accounts payable 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.

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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 and warrants, using the treasury stock method, and convertible debt or convertible preferred stock, using the if-converted method. Diluted EPS excludes all dilutive potential of shares of common stock if their effect is anti-dilutive.

The computation of diluted EPS excludes the common stock equivalents of the following potentially dilutive securities because their inclusion would be anti-dilutive:

	Year Ended December 31,	
	2017	2016
Unvested Restricted Stock	113,334	226,666
Vested and Unvested Restricted Stock Units	493,020	743,020
Stock Warrants	797,083	801,250
Stock Options	482,000	434,998
	1,885,437	2,205,934

Recent Accounting Pronouncements

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 will adopt the standard on January 1, 2018 using the modified retrospective transition method. The Company completed its detailed review of its revenue recognition methods to determine necessary adjustments to existing accounting policies and procedures and to support an evaluation of the standard's impact on its consolidated financial statements and disclosures included within the notes to the consolidated financial statements. Based on reviews performed, the Company concluded that its revenues will not be materially impacted by the implementation of this guidance.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). In September 2017, the FASB issued ASU 2017-13, "Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)", which provides additional implementation guidance on the previously issued ASU 2016-02. ASU 2016-02 increases transparency and comparability among organizations by reporting lease assets and lease liabilities, both finance (capital) and operating leases, on the balance sheet and disclosing key information about leasing arrangements. 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.

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. The Company adopted the methodologies prescribed by ASU 2016-09 as of January 1, 2017. The adoption of ASU 2016-09 did not have a material effect on the Company's financial position or results of operations.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows: Clarification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), which eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing;

contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. ASU 206-15 is effective for annual and interim periods beginning after December 15, 2017 and early adoption is permitted. ASU 2016-15 provides for retrospective application for all periods presented. The adoption of ASU 2016-15 is not expected to have a material effect on the Company’s consolidated financial statements.

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740)” (“ASU 2016-16”), which reduces the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted using a modified retrospective transition approach. The adoption of ASU 2016-15 is not expected to have a material effect on the Company’s consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”), providing specific guidance on the cash flow classification and presentation of changes in restricted cash and restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 and is to be applied retrospectively. Upon the adoption of the new guidance, the Company will change the presentation of restricted cash in its consolidated statements of cash flows to conform to the new requirements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805) Clarifying the Definition of a Business” (“ASU 2017-01”). The amendments in ASU 2017-01 is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company is currently evaluating the impact of adopting this guidance.

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting “(“ASU 2017-09”). ASU 2017-09 provides clarity and reduces both (i) diversity in practice and (ii) cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for all annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact of adopting this guidance.

In July 2017, the FASB issued ASU No. 2017-11, “Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with

Down Round Features; (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception” (“ASU 2017-11”). ASU 2017-11 allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity’s own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted for as derivative liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, an entity will treat the value of the effect of the down round as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings. ASU 2017-11 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The guidance in ASU 2017-11 can be applied using a full or modified retrospective approach. The adoption of ASU 2017-11 is not expected to have any impact on the Company’s financial statement presentation or disclosures.

Note 3 - Property and Equipment

Property and equipment consists of the following at December 31, 2016 and 2015:

	2017	2016
Machinery and Equipment	$122,714	$89,690
Leasehold Improvements	159,215	139,254
Computer Software	21,564	21,564
Furniture and Fixtures	5,645	5,645
	309,138	256,153
Less: Accumulated Depreciation	(121,082)	(64,196)
Property and Equipment, Net	$188,056	$191,957

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Depreciation expense on property and equipment amounted to $58,000 and $45,000 for the years ended December 31, 2017 and 2016, respectively.

Note 4 – Intangible Assets, Net

Intangible assets, net is as follows:

December 31, 2017	Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade Name	7	$2,622,000	$(811,564)	$1,810,436
Customer Relationships	5	2,008,000	(870,142)	1,137,858
eBay Reputation Relationship	1	369,000	(369,000)	—
Non-Compete Agreement	1	283,000	(283,000)	—
Intangible assets, net		$5,282,000	$(2,333,706)	$2,948,294

December 31, 2016	Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade Name	7	$2,622,000	$(436,996)	$2,185,004
Customer Relationships	5	2,008,000	(468,538)	1,539,462
eBay Reputation Relationship	1	369,000	(369,000)	—
Non-Compete Agreement	1	283,000	(283,000)	—
Intangible assets, net		$5,282,000	$(1,557,534)	$3,724,466

Intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense amounted to $776,000 and $1,319,000 for the years ended December 31, 2017 and 2016, respectively.

Future annual estimated amortization expense is summarized as follows:

Years ending December 31,	
2018	$776,171
2019	776,171
2020	709,229
2021	374,571
2022	312,152
	$2,948,294

Note 5 – Capitalized Technology, Net

Capitalized technology consists of the following at December 31, 2017 and 2016:

	2017	2016
Gross value	$3,707,688	$3,171,414
Accumulated amortization	(2,839,239)	(2,237,221)
Net value	$868,449	$934,193

Capitalized technology is amortized on a straight-line basis over their estimated useful lives of three years. Amortization expense amounted to $602,000 and $548,000 for the years ended December 31, 2017 and 2016, respectively, and is included in cost of revenue.

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Future annual estimated amortization expense is summarized as follows:

Years ending December 31,	
2018	$481,376
2019	290,653
2020	96,420
	$868,449

Note 6 - Promissory Notes

At December 31, 2017, the Company's Notes (as defined below) is comprised of the following:

Total Notes	$8,660,000
Less: Unamortized discount and debt issue costs	(334,645)
Total Notes, net of unamortized discount and debt issue costs	$8,325,355

On January 13, 2017 (the "Closing Date"), the Company entered into a Note Purchase Agreement (the "NPA") with an institutional investor (the "Lender") and in Lender's capacity as a purchaser and as the agent (the "Agent") for all purchasers from time to time party to the NPA pursuant to which the Company issued the Lender a secured term note in the principal amount of $8,660,000 at an original issue discount of 1%, for gross proceeds of $8,572,400 (the "Note"). The entire principal balance of the Note matures three years from issuance (January 2020) and bears interest at an annual rate of 13.25%, which interest is due and payable monthly in arrears. In addition, the Company paid the Lender a fee equal to 2% of the aggregate original principal amount of the Note and will pay the Lender a monthly maintenance fee based on an annual rate of 0.75% of the aggregate original principal amount of the Note. The Note is prepayable after 18 months with a 3% prepayment penalty. The Note contains customary financial covenants. In connection with the issuance of the Note, the Company granted the Lender a right of first refusal to participate in future financings (with certain exceptions) for as long as the principal balance of the Note remains outstanding.

On June 29, 2017, the Company entered into a First Amendment to Note Purchase Agreement, effective as of June 29, 2017, with the Lender and the Agent pursuant to which the Company amended the terms of its financial covenant related to the interest coverage ratio. On November 13, 2017, the Company entered into a Second Amendment to Note Purchase Agreement (the “Second Amendment”), effective November 2, 2017, with the Lender and the Agent pursuant to which the Company amended the terms of its financial covenant related to the outstanding principal amount of loan to EBITDA ratio and also increased the Note’s interest rate from 13.25% to 15.0%. The Second Amendment also included a requirement for the Company to complete an equity raise of at least $1 million on or prior to December 31, 2017.

As a result of the downturn in the Company’s business relating in part to the disruptions in key global markets, as of the filing date of this report, the Company’s believes that it may not meet one of the financial covenants under the NPA and therefore may be in default under the agreement for the quarter ended March 31, 2018. The Company will seek a waiver from the Lender but the Company can provide no assurances that they will provide one. The Company believes it will be able to obtain a waiver from the Lender. However, if the Lender does not waive the potential default and the Company is unable to obtain replacement financing, the Lender will be able to foreclose on all of the Company’s assets and the Company will have to cease operations. Accordingly, the Company has classified the Note as a current liability.

In connection with the execution of the NPA and issuance of the Note, the Company and certain of its wholly-owned subsidiaries, (collectively, the “Debtors”) entered into a Security Agreement for the benefit of the Lender and Agent. Pursuant to the Security Agreement, the Debtors granted the Agent (for the benefit of the Lender) a lien on all of each Debtor’s respective assets, including, but not limited to, equipment, inventory, accounts, and intellectual property. The wholly-owned subsidiaries which are parties to the Security Agreement also jointly and severally guaranteed payment and performance of all obligations under the Note and related debt transaction documents. The Company also entered into a Trademark Security Agreement with the Lender incorporating the terms of the Security Agreement with respect to the Company’s trademark-related collateral.

As additional collateral to guarantee the Note and related obligations, the Company and certain of its wholly-owned subsidiaries also entered into a Pledge Agreement for the benefit of the Agent pursuant to which they pledged the equity interests of certain of their wholly-owned subsidiaries, including BST and We Sell Cellular, and the Company pledged its equity interest in the Special Purpose Entity (see Note 7).

In connection with the above, the Management Agreement effective as of October 1, 2015 by and among the Company, Nik Raman, Brian Tepfer, Scott Tepfer, and Daniel Brauser, the Company’s Executive Chairman, was amended to clarify that nothing in the Management Agreement precludes the Agent’s ability to exercise its remedies as a secured creditor party under the Note and related agreements.

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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 the Lender and is presented as restricted cash in the accompanying consolidated balance sheet.

The Company recorded a discount on the Note of $88,000 which is being accreted to non-cash interest expense over the contractual term of the Note. During the year ended December 31, 2017, accretion of the discount amounted to $27,000. Contractual interest expense on the Note amounted to $1,201,000 for the year ended December 31, 2017.

The Company incurred fees associated with the closing of the Note of $360,000. These amounts have been treated as a debt issue cost and, accordingly, have been recorded as a direct deduction from the carrying amount of Note and are being amortized to interest expense over the contractual term of the Note. During the year ended December 31, 2017, accretion of the fees amounted to $109,000.

The Company applied the proceeds received upon issuance of the Note to repay all amounts outstanding under its prior credit facility with certain institutional investors for which BAM Administrative Services, LLC acted as agent (the “BAM Facility”). At the time of repayment, amounts of principal outstanding under the BAM Facility were $8,080,000, with accrued interest and fees bringing the total payoff amount to $8,140,295. As a result of the termination of the BAM Facility, the Company amortized the remaining balance of the debt issue costs, amounting to $966,000, to interest expense in the accompanying consolidated statement of operations.

Note 7 – Special Purpose Entity

On the January 13, 2017, the Company and the Lender (the “Manager”) formed a special purpose entity as a Delaware limited liability company (the “SPE”), for the purpose of purchasing, refurbishing, repairing and reselling cell phones, smart phones, tablets and related accessories. The Manager is the sole manager of the SPE. The Manager invested $5,200,000 in equity in exchange for all of the membership interests. Of this sum, $5,000,000 will be used by the SPE for the purchase of approved inventory. Profits from the SPE will be distributed to the Manager and to the Company based on certain return thresholds, as defined in Limited Liability Company Agreement.

As further detailed in the Services Agreement entered into between the Company and the SPE on the Closing Date, the Company provides all administrative, inventory and cash management services necessary to the SPE's daily operations. The Company and its personnel will not be compensated for providing services to the SPE, and the Company will generally be responsible for the costs of providing services to the SPE. However, the SPE will be responsible for costs directly related to acquiring and refurbishing the SPE's inventory, shipping, certain tax accounting fees approved by the Manager, and other costs. The Services Agreement allows the Company to purchase inventory for its account and not for the SPE's account until the Company has no available capital to purchase inventory.

The Company conducted an evaluation of its involvement with the SPE, which is considered to be a related party business entity, as of December 31, 2017, in order to determine whether the SPE was a variable interest entity ("VIE") requiring consolidation or disclosure in the consolidated financial statements of the Company. The SPE was determined to be a related party business entity because the Manager of the SPE is also the Lender to the Company's NPA, as described in Note 6. The Company evaluated the purpose for which the SPE was created and the nature of the risks in the entity as required by the guidance under ASC 810-10-25, "Consolidation." Based upon the Company's analysis, the Company concluded that the Company is not the primary beneficiary, and therefore, no consolidation is necessary.

As of December 31, 2017, the net amount due from the SPE for expense reimbursements was $139,000 and is recorded as due from related party in the accompanying consolidated balance sheets.

Expense reimbursements for the year ended December 31, 2017 amounted to $465,000, of which $315,000 was recorded in cost of revenues and $150,000 was recorded in sales and marketing. There were no profit distributions made to the Company from the SPE during the year ended December 31, 2017. The compensation for all services that the Company is rendering is going to be received in the form of profit distributions, as available.

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 8 – Capital Lease Obligations

We are obligated under a capital lease under which the aggregate present value of the minimum lease payments amounted to $75,000. The present value of the minimum lease payments was calculated using a discount rate of 8.6%. The future minimum lease payments under the capital lease at December 31, 2017 is as follows:

Years ending December 31,	
2018	$18,611
2019	18,611
2020	18,611
2021	13,506
2022	550
	69,889
Less: Amounts representing interest	9,436
Principal portion	60,453
Less: Current portion	14,400
Capital lease obligations, net of current portion	$46,053

The capital lease obligations are collateralized by underlying property and equipment. As of December 31, 2017, the gross amount of property and equipment under non-cancelable capital leases was $80,000 and the amount of accumulated amortization was $18,000.

Note 9 - Commitments and Contingencies

Management Incentive Compensation Plan

On July 27, 2016, the Company adopted its Management Incentive Compensation Plan (the “Incentive Plan”). The Incentive Plan provides that each quarter that the Company meets certain gross EBITDA thresholds, participants will be eligible to receive quarterly bonuses. The Incentive Plan is effective through September 2018. The Incentive 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 Incentive 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. During the years ended December 31, 2017 and 2016, a total of $180,000 and $104,000, respectively, was earned under the Incentive Plan. As of December 31, 2017 and 2016, $90,000 and $52,000, respectively, is included in accrued expenses (see Note 14).

Private Sale of Common Stock

On December 22, 2016, Brian Tepfer and Scott Tepfer each sold 500,000 shares of the Company's common stock at $1.00 per share to an investment fund (the "Purchaser") and each issued to the Purchaser a five-year option to purchase an additional 500,000 shares of the Company's common stock at $1.00 per share. On June 2, 2017, they each sold the Purchaser 679,419 shares at $1.00 per share. The securities were sold in private transactions which was initiated by an investment fund that has investment power on behalf of the Purchaser. As an inducement to the Purchaser, the Company granted demand and piggy back registration rights to the Purchaser and another shareholder of the Company over which the investment fund exercises investment power. If the registration rights are exercised, the two investment funds will pay the legal and other expenses of the Company.

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 September 2021. 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.

Rent expense, amounting to $346,000 and $235,000 for the years ended December 31, 2017 and 2016, respectively, is included in general and administrative expense in the consolidated statements of operations.

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Future annual minimum payments due under the leases are summarized as follows:

Year ended December 31,	
2018	$303,598
2019	225,017
2020	231,767
2021	177,268
	$937,650

Note 10 – Stockholders' Equity

Private Placement of Common Stock

In November 2017, the Company sold 7,880,000 shares of its common stock at $0.50 per share for gross proceeds of $3,940,000 in a private placement to certain accredited investors, including the Company's Chief Executive Officer. Net proceeds, after the payment of legal and other expenses, amounted to $3,876,067. The Company intends to use the proceeds for general working capital and the funding of a $310,000 reserve account as required under the Second Amendment.

Note 11 - Stock-Based Compensation

Stock Option Grants

On April 12, 2017, the Company amended its 2008 Equity Incentive Plan (the "Plan") to increase the number of authorized shares of common stock under the Plan by 150,000 shares, increasing the available number of shares authorized under the Plan to 1,732,023 shares. The Plan is administered by the board of directors. Under the Plan, the board of directors is authorized to grant awards to employees, consultants and any other persons to whom the Plan is applicable and to determine the number and types of such awards and the terms, conditions, vesting and other limitations applicable to each such award. The Plan provides for the issuance of both incentive stock options ("ISO's") and non-qualified stock options ("NQO's"). ISO's can only be granted to employees and NQO's can be granted to directors, officers, employees, consultants, independent contractors and advisors. As of December 31, 2017, there were 258,855 shares of common stock available for issuance under the Plan.

The fair value of options is estimated on the date of grant using the Black-Scholes option pricing model. The valuation determined by the Black-Scholes pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The risk free rate is based on the U.S. Treasury rate for the expected life at the time of grant, volatility is based on the average of the Company's long-term implied volatility, the expected life is based on the estimated average of the life of options using the simplified method, and forfeitures are estimated on the date of grant based on certain historical data. The Company utilizes the simplified method to determine the expected life of its options due to insufficient exercise activity during recent years as a basis from which to estimate future exercise patterns. The expected dividend assumption is based on the Company's history and expectation of dividend payouts.

Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

On May 11, 2017, the Company granted an aggregate of 265,000 stock options to certain employees for future services. These options had a fair value of $151,100, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.55	%
Expected dividend yield	0	%
Expected volatility	139.48	%
Expected term	3.5 years	

The options are exercisable over a five-year term and vest over three years. The Company recorded $29,000 during the year ended December 31, 2017, respectively, as compensation expense pertaining to these grants.

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

During the year ended December 31, 2016, the Company granted 10,000 stock options to an employee for future services. These options had a fair value of $8,800, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.94	%
Expected dividend yield	0	%
Expected volatility	166.35	%
Expected term	3.5 years	

The options are exercisable over a five-year term and vest over three years. The Company recorded $3,000 and $2,000 during the years end December 31, 2017 and 2016, respectively, as compensation expense pertaining to these grants.

The following table summarizes the Company's stock option activity for the year ended December 31, 2017:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding - December 31, 2016	434,998	$ 2.59	1.7	$ —
Granted	265,000	0.70		
Exercised	—	—		
Forfeited or Canceled	(217,998)	2.93		
Outstanding – December 31, 2017	482,000	$ 1.39	3.2	$ —
Exercisable – December 31, 2017	241,168	$ 2.04	2.1	$ —

The Company recorded non-cash compensation expense of $45,000 and $18,000 for the years ended December 31, 2017 and 2016, respectively, pertaining to stock option grants.

The weighted-average grant date fair value of options granted during the years ended December 31, 2017 and 2016 was $0.57 and $0.88, respectively. Total unrecognized compensation expense related to unvested stock options at December 31, 2017 amounts to $137,000 and is expected to be recognized over a weighted average period of 2.2 years.

The following table summarizes the Company's stock option activity for non-vested options for the year ended December 31, 2017:

	Number of Options	**Weighted Average Grant Date Fair Value**
Balance at December 31, 2016	45,001	$ 0.86
Granted	265,000	0.57
Vested	(62,502)	(0.66)
Forfeited or Canceled	(6,667)	(1.28)
Balance at December 31, 2017	240,832	$ 0.59

Warrants

As of December 31, 2017 and 2016, there were 797,083 warrants and 801,250 warrants outstanding and exercisable, respectively, with a weighted average exercise price of $3.19 per share. The weighted average remaining contractual life of the warrants outstanding and exercisable at December 31, 2017 and 2016 was 1.6 and 2.8 years, respectively, and the aggregate intrinsic value was $0.

The Company did not grant any warrants to purchase shares of common stock during the years ended December 31, 2017 and 2016.

There was no expense pertaining to warrants recorded during the year ended December 31, 2017 and 2016.

F-21

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Restricted Stock Awards and Restricted Stock Units

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 year ended December 31, 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 $154,000 of compensation expense during the years ended December 31, 2017 and 2016 related to this award.

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 year ended December 31, 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 closing market price 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 year ended December 31, 2016.

During the three months ended June 30, 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 dates of grant ranged from

$0.90 to $1.00 per share, based upon the closing market price on the respective grant dates. The aggregate grant date fair value of the awards amounted to $6,000, which was recorded as compensation expense during the year ended December 31, 2016.

During the year ended December 31, 2016, the Company granted 18,000 fully vested shares of common stock to an advisor for services provided. The fair value of the common stock on the dates of grant ranged from $0.51 to $1.00 per share. The aggregate grant date fair value of the award amounted to $16,000, which was recorded as compensation expense during the year ended December 31, 2016.

On July 1, 2016, the Company granted 6,379 RSUs to its Chief Financial Officer. The RSUs vested monthly over a three-month period through September 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 $0.90 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 year ended December 31, 2016.

During the year ended December 31, 2017, the Company granted 24,000 fully vested shares of common stock to an advisor for services provided. The fair value of the common stock on the dates of grant ranged from $0.49 to $0.85 per share. The aggregate grant date fair value of the awards amounted to $15,800, which was recorded as compensation expense during the year ended December 31, 2017, respectively.

During the year ended December 31, 2017, the Company granted 2,000 fully vested shares of common stock to an advisor for services provided. The fair value of the common stock on the date of grant ranged from $0.70 to $0.80 per share. The aggregate grant date fair value of the awards amounted to $1,500, which $was recorded as compensation expense during the year ended December 31, 2017.

A summary of the restricted stock award and RSU activity for the year ended December 31, 2017 is as follows:

	Number of Shares
Unvested Outstanding at December 31, 2016	793,333
Granted	26,000
Forfeited	—
Vested	(406,000)
Unvested Outstanding at December 31, 2017	413,333

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

The Company recorded non-cash compensation expense of $459,000 and $507,000 for the years December 31, 2017 and 2016, respectively.

Total unrecognized compensation expense related to unvested stock awards and unvested restricted stock units at December 31, 2017 amounts to $257,000 and is expected to be recognized over a weighted average period of 0.6 years.

Note 12 - Income Taxes

The Company recognizes deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carryforwards. The Company established a valuation allowance to reflect the likelihood of realization of deferred tax assets.

The valuation allowance at December 31, 2017 was approximately $7,035,000. The net change in the valuation allowance during the year ended December 31, 2017 was a decrease of approximately $1,695,000. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on consideration of these items, management has determined that enough uncertainty exists relative to the realization of the deferred tax asset to warrant the application of a full valuation allowance as of December 31, 2017 and 2016.

The Company has a net operating loss carryforward totaling approximately $17,239,000 at December 31, 2017, expiring through 2037. Pursuant to Code Sec. 382 of the Internal Revenue Code, the utilization of net operating loss carryforwards may be limited as a result of a cumulative change in stock ownership of more than 50% over a three year period. The Company underwent such a change and consequently, the utilization of a portion of the net operating loss carryforwards is subject to certain limitations. Temporary differences are approximately as follows:

	December 31,	
	2017	2016
Accrued expenses	$203,000	$238,000
Inventory reserve	67,000	42,000
Allowance for doubtful accounts	—	1,000
Intangible Assets	(518,000)	(1,092,000)
Fixed Assets	(279,000)	(415,000)
Charitable Contributions	2,000	2,000
Stock Options	1,805,000	2,811,000
Net operating loss carryover	5,755,000	7,143,000
Deferred tax assets	7,035,000	8,730,000
Less: valuation allowance	(7,035,000)	(8,730,000)
Net deferred tax assets	$—	$—

The actual tax benefit differs from the expected tax benefit for the years ended December 31, 2017 and 2016 (computed by applying the U.S. Federal Corporate income tax rate of 34%) as follows:

	December 31,	
	2017	2016
Expected tax benefit	$4,182,000	$1,262,000
State income taxes, net of federal benefit	72,000	66,000
Permanent items	(3,267,000)	(416,000)
Change in tax rate	(2,664,000)	(200,000)
True-up	(18,000)	(308,000)
Change in valuation allowance	1,695,000	(404,000)
Actual tax benefit	$—	$—

uSell.com, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 13 – Customer and Vendor Concentrations

Customer Concentration

During the year ended December 31, 2017 and 2016, there were no customers that represented at least 10% of revenues. During the year ended December 31, 2017 and 2016, 62% and 64% of the Company's revenues, respectively, were originated in the United States, 18% and 22% of the Company's revenues, respectively, were originated in Europe and 14% and 12% of the Company's revenues were originated in Hong Kong.

At December 31, 2017, two customers represented at least 10% of accounts receivable, accounting for 26% and 18% of the Company's accounts receivable. At December 31, 2016, two customers represented at least 10% of accounts receivable, accounting for 22% and 15% of the Company's accounts receivable.

Vendor Concentration

During the year ended December 31, 2017, three vendors represented at least 10% of purchases, accounting for 47%, 23% and 11% of the Company's purchases. During the year ended December 31, 2016, one vendor represented at least 10% of purchases, accounting for 72% of the Company's purchases.

At December 31, 2017, one vendor represented at least 10% of accounts payable, accounting for 82% of accounts payable. At December 31, 2016, one vendor represented at least 10% of accounts payable, accounting for 52% of accounts payable.

Note 14 – 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 in Note 6 and below, the Company did not identify any subsequent events that would have required adjustment or disclosure in the financial statements.

Effective March 16, 2018, Mr. Raman, Brian Tepfer and Scott Tepfer's base salary was reduced to $150,000 per year and each of them also agreed to waive any bonuses due to them under the Incentive Plan.