

usell.com, Inc.
Form 10-Q
August 10, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2017

or

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

For the transition period from _____ to _____

Commission file number 000-50494

uSell.com, Inc.

(Exact name of registrant as specified in its charter)

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

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

Class	Outstanding as of August 9, 2017
Common Stock, \$0.0001 par value per share	20,152,999 shares

uSell.com, Inc. and Subsidiaries

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

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current Assets:		
Cash and cash equivalents	\$613,473	\$1,657,422
Restricted cash	1,183,479	982,064
Accounts receivable, net	251,715	430,171
Inventory, net	9,652,524	8,874,099
Due from related party	390,675	—
Prepaid expenses and other current assets	145,949	130,141
Total Current Assets	12,237,815	12,073,897
Property and equipment, net	186,900	191,957
Goodwill	8,448,759	8,448,759
Intangible assets, net	3,336,380	3,724,466
Capitalized technology, net	898,128	934,193
Other assets	61,750	124,358
Total Assets	\$25,169,732	\$25,497,630
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$4,098,277	\$4,328,422
Accrued expenses	1,420,214	916,961
Promissory note payable	—	673,332
Deferred revenue	249,494	374,098
Capital lease obligations	13,847	10,664
Total Current Liabilities	5,781,832	6,303,477
Promissory note payable, net of current portion	8,281,879	6,441,000
Capital lease obligations, net of current portion	53,394	47,986
Total Liabilities	14,117,105	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; 20,147,999 and 20,134,999 shares issued and outstanding, respectively	2,014	2,013
Additional paid in capital	71,332,089	71,089,882
Accumulated deficit	(60,281,476)	(58,386,728)
Total Stockholders' Equity	11,052,627	12,705,167
Total Liabilities and Stockholders' Equity	\$25,169,732	\$25,497,630

See accompanying notes to unaudited interim condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$24,637,472	\$25,829,187	\$52,268,971	\$48,281,335
Cost of Revenue	23,645,261	24,021,565	48,548,519	45,569,316
Gross Profit	992,211	1,807,622	3,720,452	2,712,019
Operating Expenses:				
Sales and marketing	486,295	413,805	1,084,774	790,900
General and administrative	1,307,633	1,453,403	2,894,497	2,989,238
Total operating expenses	1,793,928	1,867,208	3,979,271	3,780,138
Loss from Operations	(801,717)	(59,586)	(258,819)	(1,068,119)
Other (Expense) Income:				
Interest expense	(346,550)	(328,082)	(1,635,929)	(685,133)
Change in fair value of placement rights derivative liability	—	355,000	—	(370,000)
Total Other (Expense) Income, Net	(346,550)	26,918	(1,635,929)	(1,055,133)
Net Loss	\$(1,148,267)	\$(32,668)	\$(1,894,748)	\$(2,123,252)
Basic and Diluted Loss per Common Share:				
Net loss per common share - basic and diluted	\$(0.06)	\$(0.00)	\$(0.09)	\$(0.11)
Weighted average number of common shares outstanding during the period - basic and diluted	20,143,559	20,110,625	20,140,297	19,931,312

See accompanying notes to unaudited interim condensed consolidated financial statements.

uSell.com, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows(Unaudited)

	Six Months Ended June	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(1,894,748)	\$(2,123,252)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	723,191	998,632
Stock based compensation expense	242,208	271,930
Amortization of debt issue costs into interest expense	1,026,656	216,799
Change in fair value of placement rights derivative liability	—	370,000
Recovery of bad debt expense		(1,828)
Changes in operating assets and liabilities:		
Accounts receivable	178,456	188,173
Inventory	(778,425)	(1,355,899)
Due from related party	(390,675)	—
Prepaid and other current assets	(15,808)	125,440
Other assets	12,608	690
Accounts payable	(230,145)	803,660
Accrued expenses	503,253	(34,704)
Lease termination payable	—	(5,000)
Deferred revenues	(124,604)	(389,473)
Net Cash and Cash Equivalents Used In Operating Activities	(748,033)	(934,832)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Website development costs	(269,977)	(267,293)
Restricted cash	(201,415)	(804,872)
Cash paid to purchase property and equipment	(9,320)	(4,245)
Security deposits	—	25,875
Net Cash and Cash Equivalents Used In Investing Activities	(480,712)	(1,050,535)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	8,572,400	2,000,000
Principal repayments of note payable	(8,080,000)	—
Payment of capital lease obligations	(6,095)	—
Cash paid for debt issue costs	(301,509)	(49,551)
Net Cash and Cash Equivalents Provided By Financing Activities	184,796	1,950,449
Net Decrease in Cash and Cash Equivalents	(1,043,949)	(34,918)

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Cash and Cash Equivalents - Beginning of Period	1,657,422	1,047,786
Cash and Cash Equivalents - End of Period	\$613,473	\$1,012,868

SUPPLEMENTARY CASH FLOW INFORMATION:

Cash Paid During the Period for:

Interest	\$500,602	\$382,117
Taxes	\$7,177	\$—

SUPPLEMENTARY DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Adjustment to goodwill for inventory valuation	\$—	\$42,198
Common stock issued in connection with note payable	\$—	\$402,500
Purchases of property and equipment through capital leases	\$14,686	—

See accompanying notes to unaudited interim condensed consolidated financial statements.

uSell.com, Inc and Subsidiaries
Notes to Interim Condensed Consolidated Financial Statements
June 30, 2017
(Unaudited)

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.

Note 2 - Significant Accounting Policies

Basis of Presentation

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

The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the SEC, which contains the audited financial statements and notes thereto, together with Management’s Discussion and Analysis, for

the years ended December 31, 2016 and 2015. The financial information as of December 31, 2016 is derived from the audited financial statements presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The interim results for the six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017 or for any future interim periods.

Principles of Consolidation

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

Segment Information

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

Use of Estimates

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

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

uSell.com, Inc and Subsidiaries
Notes to Interim Condensed Consolidated Financial Statements
June 30, 2017
(Unaudited)

Accounts Receivable

Accounts receivable represent obligations from the Company's customers and are recorded net of allowances for cash discounts, doubtful accounts, and sales returns. The Company's policy is to reserve for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance for doubtful accounts is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts was \$1,600 at June 30, 2017 and December 31, 2016.

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 \$91,000 and \$0 for the three months ended June 30, 2017 and 2016, respectively, and \$30,000 and \$178,000 for the six months ended June 30, 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 \$399,000 and \$221,000 at June 30, 2017 and December 31, 2016, respectively, and is included in inventory, net in the accompanying condensed consolidated balance sheets.

Revenue Recognition

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

Principal Device Revenue

The Company, through We Sell Cellular, 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 \$289,000 and \$130,000 at June 30, 2017 and December 31, 2016, respectively, and is recorded in accrued expenses in the accompanying condensed consolidated balance sheets.

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.

uSell.com, Inc and Subsidiaries
Notes to Interim Condensed Consolidated Financial Statements
June 30, 2017
(Unaudited)

Advertising Revenue

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

Deferred revenue represents amounts billed to customers o