

usell.com, Inc.  
Form 10-Q  
May 10, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended: March 31, 2013

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.)*

**33 East 33<sup>rd</sup> Street, Suite 1101**  
**New York, New York** **10016**  
*(Address of principal executive offices) (Zip Code)*

**(212) 213-6805**

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

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

| <b>Class</b>                               | <b>Outstanding as of May 10, 2013</b> |
|--|---------------------------------------|
| Common Stock, \$0.0001 par value per share | 69,580,870 shares                     |



**usell.com, Inc. and Subsidiaries**

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

|   | March 31, 2013<br>(Unaudited) | December 31,<br>2012 |
|---|-------------------------------|----------------------|
| Assets  |                               |                      |
| Current Assets:   |                               |                      |
| Cash and cash equivalents   | \$ 942,435                    | \$ 1,604,587         |
| Accounts receivable - net   | 147,790                       | 154,750              |
| Prepaid expenses and other current assets   | 127,105                       | 88,705               |
| Total Current Assets  | 1,217,330                     | 1,848,042            |
| Property and Equipment - net  | 649,091                       | 628,437              |
| Other Assets:   |                               |                      |
| Intangible assets - net   | 1,389                         | 2,222                |
| Other assets  | 34,875                        | 34,875               |
| Total Other Assets  | 36,264                        | 37,097               |
| Total Assets  | \$ 1,902,685                  | \$ 2,513,576         |
| Liabilities and Stockholders' Equity  |                               |                      |
| Current Liabilities:  |                               |                      |
| Accounts payable  | \$ 674,170                    | \$ 634,083           |
| Accrued expenses  | 591,163                       | 553,749              |
| Deferred revenue  | 16,143                        | 2,309                |
| Derivative liability  | -                             | 153,776              |
| Total Current Liabilities   | 1,281,476                     | 1,343,917            |
| Stockholders' Equity:   |                               |                      |
| Convertible Series A preferred stock, (\$0.0001 par value, 10,000,000 shares authorized, 0 and 177,906 shares issued and outstanding, respectively)   | -                             | 18                   |
| Convertible Series B preferred stock, (\$0.0001 value per share, 4,000,000 shares authorized, 976,250 and 2,076,250 shares issued and outstanding, respectively) Liquidation preference \$976,250 and \$2,076,250, respectively | 98                            | 208                  |
| Series D preferred stock, (\$0.0001 value per share, 350,000 shares authorized, 25,000 and 350,000 shares issued and outstanding, respectively) Liquidation   | 3                             | 35                   |

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|  |                  |                  |
|--|------------------|------------------|
| preference \$250,000 and \$3,500,000, respectively   |                  |                  |
| Common stock, (\$0.0001 par value, 650,000,000 shares authorized,<br>74,330,870 and 52,646,233 shares issued, respectively, and 69,580,870 and<br>47,146,233 shares outstanding, respectively) | 6,959            | 4,715            |
| Additional paid in capital   | 42,668,077       | 41,655,960       |
| Accumulated deficit  | (42,053,928 )    | (40,491,277 )    |
| Total Stockholders' Equity   | 621,209          | 1,169,659        |
| <br>Total Liabilities and Stockholders' Equity   | <br>\$ 1,902,685 | <br>\$ 2,513,576 |

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

**usell.com, Inc. and Subsidiaries****Consolidated Statements of Operations and Comprehensive Loss****(Unaudited)**

|  | Three Months Ended March 31, |                 |
|--|------------------------------|-----------------|
|  | 2013                         | 2012            |
| Revenue  | \$ 1,046,398                 | \$ 244,607      |
| Costs and Expenses   |                              |                 |
| Cost of revenue  | 81,606                       | 27,675          |
| Sales and marketing expenses   | 871,640                      | 327,770         |
| General and administrative expenses  | 1,704,319                    | 670,152         |
| Total operating expenses   | 2,657,565                    | 1,025,597       |
| Loss from Operations   | (1,611,167 )                 | (780,990 )      |
| Other Income (Expense):  |                              |                 |
| Interest income  | 659                          | -               |
| Interest expense   | (19 )                        | (396,783 )      |
| Gain on settlements of accounts payable  | -                            | 175,666         |
| Change in fair value of derivative liability - embedded conversion feature of convertible Series A preferred stock | 47,876                       | (127,022 )      |
| Change in fair value of derivative liability - convertible notes payable   | -                            | 14,329          |
| Total Other Income (Expense) - Net   | 48,516                       | (333,810 )      |
| Net Loss   | \$ (1,562,651 )              | \$ (1,114,800 ) |
| Net loss per common share - basic and diluted  | \$ (0.03 )                   | \$ (0.19 )      |
| Weighted average number of common shares outstanding during the period - basic and diluted                         | 54,845,274                   | 5,790,352       |
| Comprehensive Loss:  |                              |                 |
| Net loss   | \$ (1,562,651 )              | \$ (1,114,800 ) |
| Comprehensive Loss   | \$ (1,562,651 )              | \$ (1,114,800 ) |

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

**usell.com, Inc. and Subsidiaries****Consolidated Statements of Cash Flows****(Unaudited)**

|   | Three Months Ended March 31, |                 |
|---|------------------------------|-----------------|
|   | 2013                         | 2012            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                              |                 |
| Net loss  | \$ (1,562,651 )              | \$ (1,114,800 ) |
| Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:                            |                              |                 |
| Depreciation and amortization   | 69,075                       | 7,318           |
| Stock based compensation expense  | 938,751                      | 90,065          |
| Amortization of debt issue costs into interest expense  | -                            | 2,858           |
| Amortization of debt discount into interest expense   | -                            | 395,470         |
| Gain on settlement of accounts payable  | -                            | (175,666 )      |
| Change in fair value of derivative liability - embedded conversion feature of convertible Series A preferred stock issuance | (47,876 )                    | 127,022         |
| Change in fair value of derivative liability - convertible notes payable  | -                            | (14,329 )       |
| Changes in operating assets and liabilities:  |                              |                 |
| Decrease (increase) in:   |                              |                 |
| Accounts receivable   | 6,960                        | (19,784 )       |
| Inventory   | -                            | 16,876          |
| Prepaid and other current assets  | (68,850 )                    | (3,011 )        |
| Increase (decrease) in:   |                              |                 |
| Accounts payable  | 40,087                       | (330,493 )      |
| Accrued expenses  | 37,414                       | 24,099          |
| Deferred revenues   | 13,834                       | -               |
| Net Cash and Cash Equivalents Used In Operating Activities  | (573,256 )                   | (994,375 )      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                              |                 |
| Cash paid to purchase property and equipment  | (88,896 )                    | (42,139 )       |
| Net Cash and Cash Equivalents Used In Investing Activities  | (88,896 )                    | (42,139 )       |

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



**usell.com, Inc. and Subsidiaries****Consolidated Statements of Cash Flows****(Continued)****(Unaudited)**

|  | Three Months Ended<br>March 31, |             |
|--|---------------------------------|-------------|
|  | 2013                            | 2012        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                 |             |
| Principal repayments toward note payable   | -                               | (35,000 )   |
| Proceeds from sale of convertible Series A preferred stock   | -                               | 3,261,000   |
| Cash paid for direct offering costs of Series A preferred stock  | -                               | (6,509 )    |
| Net Cash and Cash Equivalents Provided By Financing Activities   | -                               | 3,219,491   |
| Net (Decrease) Increase in Cash and Cash Equivalents   | (662,152 )                      | 2,182,977   |
| Cash and Cash Equivalents - Beginning of Period  | 1,604,587                       | 1,791,623   |
| Cash and Cash Equivalents - End of Period  | \$942,435                       | \$3,974,600 |
| <b>SUPPLEMENTARY CASH FLOW INFORMATION:</b>  |                                 |             |
| Cash Paid During the Period for:   |                                 |             |
| Interest   | \$-                             | \$-         |
| Taxes  | \$-                             | \$-         |
| <b>SUPPLEMENTARY DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>                              |                                 |             |
| Derivative liability arising from convertible Series A preferred stock                                       | \$-                             | \$220,746   |
| Derivative liability reclassified to Additional Paid in Capital upon conversion of Series A preferred stock  | \$105,900                       | \$-         |
| Derivative liability reclassified to Additional Paid in Capital upon conversion of Convertible Notes Payable | \$-                             | \$15,508    |
| Accrued interest on Convertible Notes Payable reclassified to Additional Paid in Capital                     | \$-                             | \$1,770     |
| Sale of stock for subscriptions receivable   | \$-                             | \$50,000    |
| Conversion of Series A preferred stock into common stock   | \$18                            | \$-         |
| Conversion of Series B preferred stock into common stock   | \$110                           | \$-         |
| Conversion of Series D preferred stock into common stock   | \$32                            | \$-         |

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



**usell.com, Inc. and Subsidiaries**

**Notes to Interim Condensed Consolidated Financial Statements**

**March 31, 2013**

**(Unaudited)**

**Note 1 - Organization and Business**

usell.com, Inc., through our wholly-owned subsidiaries (collectively, “usell,” “Company,” “we,” “us,” and/or “our”), helps individuals (“Consumers”) monetize household items, such as small consumer electronics, that they are no longer using.

From the inception of our business in 2008 through 2010, substantially all of our revenue came from the procurement, aggregation and resale of precious metals. In mid-2010, we diversified our business by introducing a service similar to our precious metals business, for cellular phones. We stopped offering to purchase precious metals in the United Kingdom and European markets during the fourth quarter of 2010 and in Canada and the United States in early 2011. By mid-2011 we further adapted our business strategy and stopped offering to purchase cellular phones directly, although we continued to service packs coming in from prior precious metals and cellular phone advertising campaigns.

We utilize consumer oriented advertising efforts, such as direct response television commercials and various forms of internet advertising, to attract individuals to our website. Our services are free for Consumers and we partner with electronics buying companies to offer them a cost-efficient customer acquisition model.

**Note 2 – Going Concern**

As reflected in the accompanying financial statements, the Company had a net loss of approximately \$1,563,000 and net cash and cash equivalents used in operations of approximately \$573,000 for the three months ended March 31, 2013. The Company has an accumulated deficit of approximately \$42,054,000 and a working capital deficit of approximately \$64,000 at March 31, 2013. The Company does not yet have a history of financial stability. Historically, the principal source of liquidity has been the issuance of debt and equity securities. These factors raise substantial doubt about the Company’s ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent on management's plans, which include further implementation of its business plan and continuing to raise funds through debt and/or equity raises.

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

### **Note 3 - 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 accounting principles generally accepted in the United States of America 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 our 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 our Annual Report on Form 10-K for the year ended December 31, 2012 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, 2012 and 2011. The financial information as of December 31, 2012 is derived from the audited financial statements presented in our Annual Report on Form 10-K for the year ended December 31, 2012. The interim results for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013 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.



**usell.com, Inc. and Subsidiaries**

**Notes to Interim Condensed Consolidated Financial Statements**

**March 31, 2013**

**(Unaudited)**

**Use of Estimates**

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

**Reclassification**

We have reclassified certain prior period amounts to conform to the current period presentation. These reclassifications have no effect on the financial position or on the results of operations or cash flows for the periods presented.

**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.

We minimize credit risk associated with cash by periodically evaluating the credit quality of our primary financial institution. At times, our cash may exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limit. On March 31, 2013 and December 31, 2012, our deposits exceeded the FDIC limit by approximately \$757,000 and \$1.4 million, respectively.

### **Accounts Receivable**

Accounts receivable represent obligations from our customers. We periodically evaluate the collectability of our accounts receivable and consider the need to record an allowance for doubtful accounts based upon historical collection experience and specific information. Actual amounts could vary from the recorded estimates. Our allowance for doubtful accounts was \$100,299 at March 31, 2013 and December 31, 2012.

### **Convertible Instruments**

We review all of our 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,

The hybrid instrument that embodies both the embedded derivative instrument and the host contract is not  
b) 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, we may be required to classify certain stock equivalents issued in connection with the underlying debt instrument as derivative liabilities.

For convertible instruments that we have determined should not be bifurcated from their host instruments, we record 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, we record 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.



**usell.com, Inc. and Subsidiaries**

**Notes to Interim Condensed Consolidated Financial Statements**

**March 31, 2013**

**(Unaudited)**

Finally, if necessary, we 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**

We review any common stock purchase warrants and other freestanding derivative financial instruments at each balance sheet date and classify them on our balance sheet as:

a) Equity if they (i) require physical settlement or net-share settlement, or (ii) gives us a choice of net-cash settlement or settlement in our 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 our control), or (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

We assess classification of our 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.

**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.

*Consumer Electronics Referrals*

Individuals responding to our advertising campaigns come to our website where they search our database for the item they wish to sell. They are prompted to answer a number of questions regarding the condition of the item and which associated accessories they have, if any. Upon completion of the appraisal questions, they are presented with a listing of offers to purchase their item from our partners. We earn a fee for providing our partners with customers and recognize revenue upon acceptance of the partner's offer by the Consumer. We receive this fee regardless of whether the Consumer ultimately sends in the device. We record payments received from partners in advance of offer acceptance as deferred revenue at the time payment is received.

Until January 2013, all our partners paid similar fees per referral. The Company received a higher fee for premium electronics, such as smartphones and iphones, and a lower fee for non-premium electronics.

Beginning in January 2013, we changed our fee structure with our partners. Our partners now pay fees based on the demand for the individual item which the Consumer is seeking to sell. Fees are no longer based on the value of the item sold. All other terms of our agreements with our partners remained the same.

#### *Fulfillment Revenue*

In December 2012, we began to offer fulfillment services on behalf of our partners for the items sold by consumers. We act as the agent in these transactions, passing orders booked by our partners to our vendors, who then assemble the kits and mail them directly to the consumers. We earn a standard fee from our partners and recognize revenue upon shipment of the kits to the consumers. 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.

#### **Cost of Revenue**

Our cost of revenue pertaining to Consumer Electronics Referral revenue consists primarily of costs to maintain our website, including depreciation expense on technology platform software.

**usell.com, Inc. and Subsidiaries**

**Notes to Interim Condensed Consolidated Financial Statements**

**March 31, 2013**

**(Unaudited)**

**Advertising**

Advertising costs are expensed as they are incurred and are included in sales and marketing expenses. Advertising expense amounted to \$837,847 and \$285,169 for the three months ended March 31, 2013 and 2012, respectively.

**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.

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 cost of goods sold or general and administrative expense, depending on the nature of the services provided.

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.

**Net Loss per Share**

Basic earnings per share (“EPS”) is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to all dilutive potential of shares of common stock outstanding during the period including stock options or warrants, using the treasury stock method (by using the average stock price for the period to determine the number of shares assumed to be purchased from the exercise of stock options or warrants), 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. On June 8, 2012, our shareholders approved an amendment to our Certificate of Incorporation to effect a 1-for-52.4846 Reverse Split. All prior year share and per share amounts have been restated to reflect the Reverse Split.

The computation of basic and diluted loss per share at March 31, 2013 and 2012 excludes the common stock equivalents of the following potentially dilutive securities because their inclusion would be anti-dilutive:

|                                      | For the Three Months Ended March 31, |            |
|--------------------------------------|--------------------------------------|------------|
|                                      | 2013                                 | 2012       |
| Convertible Series A Preferred Stock | -                                    | 34,780,000 |
| Convertible Series B Preferred Stock | 930,035                              | 2,501,924  |
| Convertible Series C Preferred Stock | -                                    | 28,192     |
| Convertible Series D Preferred Stock | 1,250,000                            | -          |
| Unvested restricted stock            | 4,750,000                            | -          |
| Stock Warrants                       | 8,203,594                            | 553,697    |
| Stock Options                        | 7,178,186                            | 1,362,011  |
|                                      | 22,311,815                           | 39,225,824 |

**Legal Proceedings**

From time to time, we are a party to or otherwise involved in legal proceedings arising in the normal and ordinary course of business. As of the date of this report, 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.

**usell.com, Inc. and Subsidiaries****Notes to Interim Condensed Consolidated Financial Statements****March 31, 2013****(Unaudited)**

In August 2011, the Florida Attorney General (the “AG”) initiated an official investigation into whether or not we engaged in unfair trade practices in violation of its “Little FTC Act.” The investigation was due to consumer complaints. We generally relied on third parties to handle the products we sold, the Refinery for precious metals and ReCellular for phones and smart phones. Under Florida law, the remedies included actual damages, civil penalties, and attorneys’ fees. We provided a comprehensive response to the AG demonstrating that we acted properly. In April 2012, we met with the AG to discuss the matter and address their concerns. The AG submitted a proposed settlement in which the Company would reimburse the AG \$20,000 for the costs of the investigation. In March 2013, we entered into a Settlement Agreement with the AG, pursuant to which we agreed to reimburse the AG \$20,000 for investigative costs and My Gold Envelope, Inc., our subsidiary, agreed not to engage in the precious metals business. The Company paid the amount owed to the AG during the quarter ended March 31, 2013.

**Customer Concentrations**

The following table shows significant concentrations in our revenues and accounts receivable for the periods indicated.

|            | Percentage of Revenue During the<br>Three Months Ended March 31, |   |      |   | Percentage of Accounts Receivable at |   |                   |   |
|------------|--|---|------|---|--------------------------------------|---|-------------------|---|
|            | 2013   |   | 2012 |   | March 31,<br>2013                    |   | December 31, 2012 |   |
| Customer A | 22   | % | -    |   | 19                                   | % | 13                | % |
| Customer B | 20   | % | 14   | % | 17                                   | % | 9                 | % |
| Customer C | 11   | % | -    |   | 10                                   | % | 5                 | % |
| Customer D | -  |   | 33   | % | 25                                   | % | 26                | % |
| Customer E | -  |   | 18   | % | -                                    |   | 6                 | % |
| Customer F | -  |   | 12   | % | -                                    |   | 10                | % |
| Customer G | -  |   | -    |   | 13                                   | % | 13                | % |

**Recent Accounting Pronouncements**

There are no recent accounting pronouncements that have had a material impact on our unaudited condensed consolidated financial statements.

**Note 4 - Fair Value**

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

- Level 1: Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs based on our assessment of the assumptions that market participants would use in pricing the asset or liability.

**usell.com, Inc. and Subsidiaries****Notes to Interim Condensed Consolidated Financial Statements****March 31, 2013****(Unaudited)**

The following are the major categories of assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2013 and December 31, 2012, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

|                      | At March 31, 2013 |             | At December 31, 2012 |             |
|----------------------|-------------------|-------------|----------------------|-------------|
|                      | Assets            | Liabilities | Assets               | Liabilities |
| Level 1              |                   |             |                      |             |
| None                 | \$ -              | \$ -        | \$ -                 | \$ -        |
| Level 2              |                   |             |                      |             |
| None                 | -                 | -           | -                    | -           |
| Level 3              |                   |             |                      |             |
| Derivative liability | -                 | -           | -                    | 153,776     |
|                      | \$ -              | \$ -        | \$ -                 | \$ 153,776  |

The following table reflects the change in fair value of our derivative liabilities for the three months ended March 31, 2013:

|  | Assets | Liabilities |
|--|--------|-------------|
| Balance at beginning of period   | \$ -   | \$ 153,776  |
| Change in value of derivative liability - Series A preferred stock   | -      | (47,876 )   |
| Reclassification of beneficial conversion feature to additional paid in capital - Series A preferred stock | -      | (105,900)   |
| Balance at end of period   | \$ -   | \$-         |

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

**Note 5 - Stockholders' Equity (Deficit)**

**Convertible Series A Preferred Stock**

On November 18, 2011, our Board authorized the sale of up to 10,000,000 shares of Convertible Series A Preferred Stock ("2011 Series A PS"), with a par value of \$0.0001 per share. The 2011 Series A PS have:

a) Seniority and a liquidation preference over all classes of common stock, but subordinate to our Series B Preferred Stock and Series C Preferred Stock;

b) Voting rights and powers equal to the voting rights and powers of our common stock. Each share of 2011 Series A PS is entitled to the number of votes that the holder would be entitled to upon the conversion of the shares into common stock;

c) A stated liquidation value of \$1 per share;

d) No stated dividends; and

e) Automatic conversion (subject to blocking provisions for certain significant shareholders) into common shares upon the consummation of the 1-for-52.4846 reverse stock split effected on June 8, 2012 at a rate of five common shares for each share of 2011 Series A PS. Shares of the 2011 Series A PS were not subject to the Reverse Split.



**usell.com, Inc. and Subsidiaries****Notes to Interim Condensed Consolidated Financial Statements****March 31, 2013****(Unaudited)**

During March 2013, as a result of the conversion of our 2012 Series D PS (discussed below), all of the outstanding 177,906 shares of our Convertible Series A Preferred Stock (“2011 Series A PS”) automatically converted (as a result of no longer being subject to a 9.99% conversion blocker) into 889,530 shares of our common stock, at a conversion rate of 5 common shares for each share of Series 2011 A PS. Accordingly, we reclassified \$105,900 of derivative liability, representing the fair value of the 177,906 shares of 2011 Series A PS immediately prior to the conversion, to additional paid in capital, and recorded a gain of \$47,876, for the remaining derivative liability pertaining to the 2011 Series A PS during the three months ended March 31, 2013.

We determined that the fair value of the derivative liability pertaining to the 177,906 shares of 2011 Series A PS immediately prior to the conversion was \$105,900 using the Black-Scholes option pricing model based on the following weighted average variables:

|                         |        |       |
|-------------------------|--------|-------|
| Expected dividends      | 0      | %     |
| Expected volatility     | 214.26 | %     |
| Expected term           | 4      | years |
| Risk free interest rate | 0.81   | %     |

**Convertible Series B Preferred Stock**

On August 3, 2010, our Board authorized the sale of up to \$4,000,000 of Units in a private placement (the “August 2010 PP”), whereby each Unit consisted of 100,000 shares of Convertible Series B Preferred Stock (“2010 Series B PS”) and 47,633 warrants to purchase our common stock.

The 2010 Series B PS have:

- (a) Seniority to all classes of common and preferred stock existing or issued in the future;

Voting rights and powers equal to the voting rights and powers of our common stock. Each share of 2010 Series B (b)PS is entitled to the number of votes that the holder would be entitled to upon the conversion of the shares into common stock;

A stated liquidation value of \$1 per share, and a liquidation preference of the greater of \$1 per share, or the amount (c)that would be due if all 2010 Series B PS shares had been converted to common stock immediately prior to the liquidation event;

(d) No stated dividends;

(e) An option by the holder to convert each share into common shares at a rate of 0.9527 shares of common for each share of 2010 Series B PS;

Conversion price protection whereby if, in the twelve months following the date of the filing of the amended (f)certificate of designation with the State of Delaware (August 16, 2010), we sell any stock for a price less than \$0.02 per share, then the conversion price will be adjusted to reflect the lowest price for which the shares were sold.

In March 2013, holders of 1,100,000 shares of our Convertible Series B Preferred Stock (“2010 Series B PS”) converted their shares into 1,047,966 shares of common stock, at a conversion rate of .9527 common shares for each share of 2010 Series B PS.

### Series D Preferred Stock

On April 24, 2012, our Board authorized the sale of up to 350,000 shares of Series D Preferred Stock (“2012 Series D PS”), with a par value of \$0.0001 per share. The 2012 Series D PS have:

a) A liquidation preference equal to \$10.00 per share;

b) No voting rights; and

c) No stated dividends; and

d) Are convertible into common shares at a rate of 50 shares of common for each share of 2012 Series D PS (see below).

**usell.com, Inc. and Subsidiaries**

**Notes to Interim Condensed Consolidated Financial Statements**

**March 31, 2013**

**(Unaudited)**

During the third quarter of 2012, our Board amended the conversion rights on the 2012 Series D PS such that it becomes convertible immediately prior to the closing of a Combined Transaction or the occurrence of the Liquidation Event, both as defined in the Certificate of Designation, as amended.

In March 2013, the Company amended the conversion rights on its outstanding 2012 Series D PS giving its holders the option to convert their 2012 Series D PS shares at their discretion. Subsequently, holders of 325,000 shares of 2012 Series D PS holders elected to convert their 2012 Series D PS into 16,250,000 shares of common stock, at a conversion rate of 50 common shares for each share of 2012 Series D PS.

**Shares Granted to Directors, Consultants and Employees**

During February 2013, we granted 3,500,000 fully vested shares of common stock, having a fair value of \$437,500 based on the quoted closing trading price of our common stock as of the grant date, to our Chief Executive Officer. We recorded \$437,500 as compensation expense pertaining to this grant during the three months ended March 31, 2013.

Including the above grant, we recorded non-cash compensation expense of \$557,950 and \$12,478 for the three months ended March 31, 2013 and 2012, respectively, pertaining to stock grants.

**Warrants**

The following summarizes our warrant activity for the three months ended March 31, 2013:

Series A Preferred Stock

Common Stock

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|                                 | Number of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in Years) | Number of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in Years) |
|---------------------------------|--------------------|---------------------------------|--|--------------------|---------------------------------|--|
| Outstanding - December 31, 2011 | -                  | \$ -                            | -  | 281,987            | \$ 12.96                        | 1.1  |
| Granted                         | 25,000             | 0.20                            |  | 8,125,000          | 0.20                            |  |
| Exercised                       | -                  | -                               |  | -                  | -                               |  |
| Cancelled/Forfeited             | (25,000 )          | 0.20                            |  | (188,150 )         | 16.24                           |  |
| Outstanding - December 31, 2012 | -                  | \$ -                            | -  | 8,218,837          | \$ 0.27                         | 4.0  |
| Granted                         | -                  | -                               |  | -                  | -                               |  |
| Exercised                       | -                  | -                               |  | -                  | -                               |  |
| Cancelled/Forfeited             | -                  | -                               |  | (15,243 )          | 26.24                           |  |
| Outstanding - March 31, 2013    | -                  | \$ -                            | -  | 8,203,594          | \$ 0.22                         | 3.8  |
| Exercisable - March 31, 2013    | -                  | \$ -                            | -  | 8,203,594          | \$ 0.22                         | 3.8  |

The aggregate intrinsic value of the warrants at March 31, 2013 and December 31, 2012 was \$0. There was no expense pertaining to warrants recorded during the three months ended March 31, 2013.

### Stock Option Grants

During the first quarter of 2013, we granted 600,000 stock options to employees for future services. The options are exercisable at an exercise price of \$0.20 per share over a five-year term and vest over 4 years. These options had a fair value of \$82,399 using the Black-Scholes option-pricing model with the following assumptions:

|                         |               |       |
|-------------------------|---------------|-------|
| Risk-free interest rate | 0.85          | %     |
| Expected dividend yield | 0             | %     |
| Expected volatility     | 214.25-214.78 | %     |
| Expected life           | 5             | years |
| Expected forfeitures    | 0             | %     |

We recorded \$3,433 during the three months ended March 31, 2013 as compensation expense pertaining to this grant.

**usell.com, Inc. and Subsidiaries****Notes to Interim Condensed Consolidated Financial Statements****March 31, 2013****(Unaudited)**

Including the above grants, we recorded non-cash compensation expense of \$380,801 and \$77,587 for the three months ended March 31, 2013 and 2012, respectively, pertaining to stock option grants.

The following table summarizes our stock option activity for the three months ended March 31, 2013:

|                                 | Number of<br>Options | Weighted<br>Average Exercise<br>Price | Weighted Average<br>Remaining<br>Contractual Life<br>(in Years) | Aggregate<br>Intrinsic Value |
|---------------------------------|----------------------|---------------------------------------|---|------------------------------|
| Outstanding - December 31, 2012 | 6,594,165            | \$ 0.41                               | 4.8   | \$ -                         |
| Granted                         | 600,000              | 0.20                                  |   |                              |
| Exercised                       | -                    | -                                     |   |                              |
| Forfeited or Canceled           | (15,979 )            | 0.51                                  |   |                              |
| Outstanding - March 31, 2013    | 7,178,186            | \$ 0.39                               | 4.6   | \$ -                         |
| Exercisable - March 31, 2013    | 2,716,960            | \$ 0.63                               | 5.1   | \$ -                         |

The following table summarizes our stock option activity for non-vested options for the three months ended March 31, 2013:

|                              | Number of<br>Options | Weighted<br>Average Grant<br>Date Fair Value |
|------------------------------|----------------------|--|
| Balance at December 31, 2012 | 3,956,481            | \$ 0.56                                      |
| Granted                      | 600,000              |  |
| Vested                       | (79,276 )            |  |
| Forfeited or Canceled        | (15,979 )            |  |
| Balance at March 31, 2013    | 4,461,226            | \$ 0.45                                      |

**Restricted Stock Awards**

On December 21, 2012, we granted 6,000,000 shares of restricted common shares to our Chief Executive Officer. Of these shares, 500,000 were fully vested on the date of grant and the remaining shares will vest in equal increments of 250,000 shares over a 22-month period, with the first vesting date being January 10, 2013, subject to continued employment on each applicable vesting date. The fair value of the common stock at the date of grant was \$0.12 per share based upon our closing market price on the date of grant. The aggregate grant date fair value of the award amounted to \$720,000, which will be recognized as compensation expense over the vesting period. We recorded \$90,000 of compensation expense during the three months ended March 31, 2013 with respect to this award. Total unrecognized compensation expense related to unvested stock awards at March 31, 2013 amounts to \$570,000 and is expected to be recognized over a weighted average period of 1.5 years.

A summary of the restricted stock award activity for the three months ended March 31, 2013 is as follows:

|   | Number of<br>Shares | Weighted<br>Average Grant<br>Date Fair Value | Weighted<br>Average<br>Contractual<br>term | Aggregate<br>Intrinsic<br>Value |
|---|---------------------|--|--|---------------------------------|
| Unvested Outstanding at December 31, 2012 | 5,500,000           | \$ 0.12                                      | 1.8  | \$ 330,000                      |
| Granted                                   | -                   | -  | -  |                                 |
| Vested                                    | (750,000 )          | 0.12   | 1.5  |                                 |
| Unvested Outstanding at March 31, 2013    | 4,750,000           | \$ 0.12                                      | 1.5  | \$ 190,000                      |

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

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

### Company Overview

usell.com, Inc. ("usell") is a technology based company focused on creating an online marketplace where consumers interested in selling small consumer electronics that they are no longer using can:

- Research the current market value for their items, based on the make, model and condition of each item,
- Efficiently find and compare offers for those items from top-rated buyers, who we sometimes refer to as our partners,
  - Review satisfaction ratings and customer reviews of each buyer,
  - Determine the offer they wish to accept, and
- Immediately complete their transaction on our website directly with the buyer of their choice.

We have a low cost, highly scalable and flexible business model that allows us to quickly and efficiently adapt to entry into new markets, changes in economic conditions, supply and demand levels and other similar factors. We utilize consumer oriented advertising efforts, such as direct response television commercials and various forms of internet advertising, to attract individuals to our website. Our services are free for consumers. We partner with reputable electronics buying companies that require a cost efficient customer acquisition model. The economies of scale that we generate by combining the buying power of multiple companies allow us to pass savings on to our partners which, in turn, allows them to offer the highest possible prices to consumers.

When a consumer visits our website and accepts an offer from one of our partners, we receive a fee. We receive this fee regardless of whether the consumer ultimately sends in the device. Until January 2013, all our partners paid similar fees per referral. The Company received a higher fee for premium electronics, such as smartphones and iphones, and a lower fee for non-premium electronics. Beginning in January 2013, we changed our fee structure with our partners. Our partners now pay fees based on the demand for the individual item which the consumer is seeking to sell. Fees are no longer based on the value of the item sold. The Company does not believe that this will have a material effect on revenues.

Our corporate headquarters are located at 33 East 33<sup>rd</sup> Street, New York, New York 10016 and our phone number is (212) 213-6805. Our website can be found at [www.usell.com](http://www.usell.com). The information on our website is not incorporated in this report.

### **Description of Revenue Since Inception and Changes in Business Model**

We help consumers monetize household items, such as small consumer electronics that they are no longer using. We were incorporated in Delaware on November 18, 2003. On July 23, 2008, we acquired Money4Gold, Inc., an early stage precious metals company, and changed our name to Money4Gold Holdings, Inc. We started our business operations in 2008, buying precious metals directly from the public and selling them to a partner company. On May 7, 2009, we acquired My Gold Envelope, Inc. (“MGE”). MGE brought a management team with extensive experience in creating and growing businesses that provide shareholder value in a broad array of industries, including direct response, Internet marketing and national retail distribution and sales. MGE’s ability to reach a broader number of consumers through its management’s experience in multi-language television advertising, direct response, and retail distribution and sales greatly accelerated our growth and increased our depth of management experience. In mid-2010, we changed our name to Upstream Worldwide, Inc. and diversified our business by introducing a service similar to our precious metals business, for cellular phones. The response rates to the cellular phone offering far outpaced the responses on our precious metals campaigns. Hence, we began to focus our efforts on the domestic market for cellular phones and small consumer electronics. Through the end of 2010 and into 2011, our revenues began to shift substantially toward cellular phones. We stopped offering to purchase precious metals in the United Kingdom and European markets during the fourth quarter of 2010 and in Canada and the United States in early 2011. By mid-2011 we further adapted our business strategy and stopped offering to purchase cellular phones directly. In July 2011, we began to focus more intently on our core strength of cost-effective customer acquisition, and created an online marketplace where consumers interested in selling small consumer electronics that they are no longer using can educate themselves on current market values and sell their items to top-rated, reputable buyers. This strategy also allowed us to quickly expand into new product categories beyond cellular phones; we now offer a place to sell smartphones, iPads and other tablets, Kindles and other e-readers, digital cameras, MP3 players, and handheld game consoles. In April 2012, we acquired ecoSquid Inc. (“Acquisition Corp.”). Acquisition Corp owned the intellectual property that we licensed in order to implement our comparison technology platform. On July 23, 2012, we changed our name to usell.com, Inc.



## Critical Accounting Policies

In response to financial reporting release FR-60, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, from the SEC, we have selected our more subjective accounting estimation processes for purposes of explaining the methodology used in calculating the estimate, in addition to the inherent uncertainties pertaining to the estimate and the possible effects on the our financial condition. The accounting estimates involve certain assumptions that, if incorrect, could have a material adverse impact on our results of operations and financial condition. Our more significant accounting policies can be found in Note 3 of our unaudited interim condensed consolidated financial statements found elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC. There have been no material changes to our Critical Accounting Policies during the period covered by this report.

## Results of Operations

### *Comparison of the Three Months Ended March 31, 2013 to the Three Months Ended March 31, 2012*

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

|                            | For the Three Months Ended March 31, |                 | Change        | Change       |   |
|----------------------------|--------------------------------------|-----------------|---------------|--------------|---|
|                            | 2013                                 | 2012            | (Dollars)     | (Percentage) |   |
| Revenue                    | \$ 1,046,398                         | \$ 244,607      | \$801,791     | 328          | % |
| Cost of Revenue            | 81,606                               | 27,675          | 53,931        | 195          | % |
| Gross Profit               | 964,792                              | 216,932         | 747,860       | 345          | % |
| Sales and Marketing        | 871,640                              | 327,770         | 543,870       | 166          | % |
| General and Administrative | 1,704,319                            | 670,152         | 1,034,167     | 154          | % |
| Operating Loss             | (1,611,167 )                         | (780,990 )      | (830,177 )    | 106          | % |
| Other (Expense) Income     | 48,516                               | (333,810 )      | 382,326       | -115         | % |
| Net Loss                   | \$ (1,562,651 )                      | \$ (1,114,800 ) | \$ (447,851 ) | 40           | % |

## Revenue by Type

The following table breaks down our revenue by type:

|                                | For the Three Months Ended March 31, |       |            |       |
|--------------------------------|--------------------------------------|-------|------------|-------|
|                                | 2013                                 |       | 2012       |       |
| Consumer Electronics Referrals | \$ 1,012,058                         | 97 %  | 229,418    | 94 %  |
| Precious Metals                | -                                    | 0 %   | 11,000     | 4 %   |
| Fulfillment Revenue            | 25,943                               | 2 %   | -          | 0 %   |
| Other                          | 8,397                                | 1 %   | 4,189      | 1 %   |
|                                | \$ 1,046,398                         | 100 % | \$ 244,607 | 100 % |

### **Comparison of Revenue and Sales and Marketing Spend**

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

|                              | For the Three Months Ended March 31, |   |         |   |
|------------------------------|--------------------------------------|---|---------|---|
|                              | 2013                                 |   | 2012    |   |
| Revenue                      | 1,046,398                            |   | 244,607 |   |
| Sales and Marketing Expenses | 871,640                              |   | 327,770 |   |
| Percentage of Revenue        | 83                                   | % | 134     | % |

As we increase our sales and marketing expenses, our revenues increase which demonstrates a strong correlation between revenue and our spending on advertising and marketing. Comparison of revenue, cost of revenue and the resulting gross margins for the three months ended March 31, 2013 to the same period in 2012 highlights the effects of the changes to our business over the last year. During 2013, our revenue was generated primarily by earning fees for providing our partners with consumers, which normally generate a higher gross profit margin. During 2012, a portion of our revenue was generated from selling precious metals, which had a lower gross profit margin.

### **Cost of Revenue**

Our cost of revenue for generating leads for our partners consists primarily of costs to access and maintain our website, as well as amortization expense on our technology platform software.

### **Sales and Marketing Expenses**

Our sales and marketing expenditures represent one of our most significant costs, amounting to 83% and 134% of revenue for the three months ended March 31, 2013 and 2012, respectively. We utilize direct response advertising and marketing campaigns, including television, print and Internet to attract consumers to our website. Our sales and marketing costs include production costs to produce and edit advertisements as well as the costs to run them. We manage our advertising and marketing campaigns, and make allocation decisions, by measuring their effectiveness based on a variety of metrics, including response rates, conversion rates and average revenue statistics. During 2012, our advertising and marketing costs exceeded our revenue as we incurred significant production costs to generate advertisements promoting our new online marketplace and optimized the placement of those advertisements. We have seen improvement in the return on our advertising and marketing expenses through 2013, as evidenced by the decline in total sales and marketing costs as a percentage of revenue as noted in the above table, "Comparison of Revenue and Sales and Marketing Spend." Factors such as the time of year and significant local or nationally televised events can influence the effectiveness of our advertising campaigns. Our marketing spending will vary during 2013 as we add new partners and increase our conversion rates. As we continue to invest in and improve our infrastructure, we believe it will improve our efficiency and expand the buyers on our site; this will allow us to increase our marketing spend and, accordingly, increase our revenues.

### **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. Our general and administrative expenses for the three months ended March 31, 2013 were impacted by non-cash compensation expense pertaining to share grants and option grants for services. Excluding non-cash compensation expense, our general and administrative expenses for 2013, as compared to 2012, increased as we began to invest in our infrastructure by increasing our headcount to support our business model. By the same token, we are continuing to seek out ways to reduce our other overhead costs by consolidating our New York and Florida offices, and reducing other expenses, such as travel, wherever practical.

### **Other Income (Expenses)**

Other income (expense) during the three months ended March 31, 2013 was primarily attributable to the change in the market value of the derivative liability pertaining to our 2011 Series A preferred stock ("2011 Series A"). The derivative liability related to the price protection provided to investors in the 2011 Series A offering. In March 2013, all 177,906 shares of outstanding 2011 Series A were converted into common stock.

Other income expense during the three months ended March 31, 2012 was attributable to interest expense associated with our 2011 Convertible Notes and the change in the market value of the derivative liability pertaining to our 2011 Series A, partially offset by a gain on the settlement of certain accounts payable.

### **Liquidity and Capital Resources**

We utilize direct response advertising and marketing campaigns, including television, print and Internet to attract consumers to our website where we help them monetize household items, such as small consumer electronics that they are no longer using. These advertising and marketing campaigns are our most significant use of cash from operations. Payment policies for these campaigns vary by advertising medium and by vendor. Payment terms vary as well, but in general payment for our advertisements is due within two-weeks or less of when the advertisement airs. Other significant uses of cash include production costs to create our advertisements, salary expense for our employees, and professional fees.

Cash receipts from our partners, for providing them with consumers, are generally received by us within seven to 10 days of the order being placed with the partner by the consumer.

#### *Cash Flows from Operating Activities*

We used \$573,000 in operating activities during the three months ended March 31, 2013, a decrease from \$994,000 used in operating activities during the three months ended March 31, 2012. Our net loss of approximately \$1.6 million was mainly offset by \$939,000 of stock-based compensation. In 2012 we had a lower net loss, which was impacted by a gain on the settlement of certain accounts payable and offset by amortization of our debt discount and the non-cash charge related to the change in our derivative liability. The significant components which affect our working capital are revenues derived from the leads to our partners, capital raised in private offerings, offset by marketing expenses, expenses spent on our technology infrastructure and public company expenses including audit and legal expenses.

*Cash Flows from Investing Activities*

During the first quarter of 2013, we used \$89,000 of net cash to purchase property and equipment while in 2012 we used \$42,000 to acquire property and equipment. We currently do not have any capital obligations or commitments that will require a significant amount of capital.

*Cash Flows from Financing Activities*

We did not generate any proceeds or use in any cash in financing activities during the quarter ended March 31, 2013. During the quarter ended March 31, 2012, our financing activities generated \$3.2 million in net proceeds, mainly comprised of proceeds from the sale of our 2011 Series A, partially offset by the repayment of an outstanding note payable to an investor.

**Liquidity and Going Concern**

We do not yet have a sustained history of financial stability. Historically our principal source of liquidity has been the issuances of debt and equity securities (including to related parties), including preferred stock, common stock and various debt financing transactions. Losses from operations are continuing subsequent to March 31, 2013. We anticipate that we will continue to generate losses from operations in the near future. If necessary, we will reduce operating expenses other than marketing and advertising expenses. As we continue to invest in and improve our infrastructure, we believe it will improve our efficiency and expand the number of buyers on our site; which will allow us to increase our marketing spend and, accordingly, increase our revenues.

We expect that we have enough cash to sustain operations at present level for approximately six months. To meet our working capital needs as our business and revenues expand. We are considering a convertible debt financing and have initiated discussions with some present shareholders. It has become increasingly difficult for micro cap companies like us to raise capital. There can be no assurance we will be successful in sustaining our working capital needs.

There can be no assurance that the plans and actions proposed by management will be successful, that we will generate profitability and positive cash flows in the future, that our diversification and expansion plans will not require substantial amounts of capital beyond our current capabilities, or that unforeseen circumstances will not require us to seek additional funding sources in the future or effectuate plans to conserve liquidity. Future efforts to raise additional funds through the issuance of debt and/or equity securities may not be successful or, in the event additional sources of funds are needed to continue operations, they may not be available on acceptable terms, if at all.

The ability of the Company to continue as a going concern is dependent on management's plans, which include further implementation of its business plan and continuing to raise funds through debt and/or equity raises.

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

### **Recent Accounting Pronouncements**

See Note 3 to our unaudited interim condensed consolidated financial statements regarding recent accounting pronouncements.

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

This report includes forward-looking statements including statements regarding liquidity, anticipated revenues and cash flows.

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 that could cause actual results to differ from those in the forward-looking statements include providing consumers with a sufficient number of partners that furnish offers on our sites, the effectiveness of our advertising campaigns and the willingness of people to use us to help them monetize and recycle their small consumer electronic items. Further information on our risk factors is contained in our filings with the SEC, including our Annual Report on Form 10-K. We undertake no obligation to publicly update or revise any forward-looking statements, whether as the result of new information, future events or otherwise.

Not applicable to smaller reporting companies.

**Item 4.**

**Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures*

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

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

*Changes in Internal Controls Over Financial Reporting*

There were no changes in our internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1.**

**Legal Proceedings.**

From time to time, we are a party to, or otherwise involved in, legal proceedings arising in the normal and ordinary course of business. As of the date of this report, 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. Other than described below, there were no material changes during the first quarter to any pending legal proceedings previously reported.



In March 2013, we entered into a Settlement Agreement with the Florida Attorney General. In connection with the Settlement Agreement, we reimbursed the Attorney General \$20,000 for investigative costs and MGE, our subsidiary, agreed not to engage in the precious metals business.

**Item 1A.**

**Risk Factors.**

Not applicable to smaller reporting companies.

**Item 2.**

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

In addition to those unregistered securities previously disclosed in filings with the SEC, we have sold securities which are not registered under the Securities Act of 1933 (the "Act"), as described below.

| Name or Class of Investor | Date Issued   | No. of Securities                | Consideration  |
|---------------------------|---------------|----------------------------------|--|
| Series B Holders (1)      | March 5, 2013 | 1,047,966 shares of common stock | Conversion of 1,100,000 shares of Series B Preferred Stock |
| Series A Holder (1)       | March 6, 2013 | 889,530 shares of common stock   | Conversion of 177,906 shares of Series A Preferred Stock   |

(1) Exempt under Section 3(a)(9) of the Act.

**Item 3.**

**Defaults Upon Senior Securities.**

None.

**Item 4.**

**Mine Safety Disclosures.**

Not Applicable.

**Item 5.**

**Other Information.**

None.

**Item 6.**

**Exhibits.**

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

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**SIGNATURES**

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

**usell.com, Inc.**

May 10, 2013 /s/ Sergio Zyman  
Sergio Zyman  
Chief Executive Officer  
(Principal Executive Officer)

May 10, 2013 /s/ Jennifer Calabrese  
Jennifer Calabrese  
Executive Vice President of Finance  
(Principal Financial Officer)

## INDEX TO EXHIBITS

| Exhibit |  | Incorporated by Reference |           |        | Filed or<br>Furnished |
|---------|--|---------------------------|-----------|--------|-----------------------|
| No.     | Exhibit Description  | Form                      | Date      | Number | Herewith              |
| 3.1     | Certificate of Incorporation   | 10-QSB                    | 6/7/06    | 3.1    |                       |
| 3.2     | Certificate of Amendment – Increase in Capital                             | 10-QSB                    | 6/7/06    | 3.1    |                       |
| 3.3     | Certificate of Amendment – Effective Profitable Software                   | 10-QSB                    | 6/7/06    | 3.1    |                       |
| 3.4     | Certificate of Amendment – Money4Gold Holdings, Inc.                       | 8-K                       | 7/29/08   | 3.1    |                       |
| 3.5     | Certificate of Amendment – Increase in Capital                             | 10-Q                      | 8/19/09   | 3.3    |                       |
| 3.6     | Certificate of Correction – Preferred Stock Rights                         | 10-Q                      | 11/19/08  | 3.2    |                       |
| 3.7     | Certificate of Amendment – Increase in Capital                             | 10-K                      | 3/31/10   | 3.5    |                       |
| 3.8     | Certificate of Amendment – Upstream Worldwide, Inc.                        | S-1                       | 6/24/10   | 3.8    |                       |
| 3.9     | Certificate of Amendment – Increase in Capital                             | 10-Q                      | 8/15/11   | 3.12   |                       |
| 3.10    | Certificate of Amendment – Reverse Split                                   | 8-K                       | 6/11/12   | 3.1    |                       |
| 3.11    | Certificate of Amendment – usell.com, Inc.                                 | 10-Q                      | 8/13/12   | 3.11   |                       |
| 3.12    | Amended and Restated Certificate of Designation – Series B                 | 10-Q                      | 11/12/10  | 3.9    |                       |
| 3.13    | Certificate of Designation – Series C                                      | 10-K                      | 3/31/11   | 3.10   |                       |
| 3.14    | Second Amended and Restated Certificate of Designation– Series D           | 8-K                       | 3/1/2013  | 3.1    |                       |
| 3.15    | Second Amended and Restated Bylaws   | S-1                       | 9/21/2012 | 3.16   |                       |
| 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   |                           |           |        | **                    |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                    |                           |           |        | **                    |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                      |                           |           |        | **                    |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                       |                           |           |        | **                    |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                            |                           |           |        | **                    |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                     |                           |           |        | **                    |

\*\*Attached as Exhibit 101 to this report are the Company’s financial statements for the quarter ended March 31, 2013 formatted in XBRL (eXtensible Business Reporting Language). The XBRL-related information in Exhibit 101 to this report shall not be deemed “filed” or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of those sections.

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