usell.com, Inc.
Form S-1
November 30, 2017

As filed with the Securities and Exchange Commission on November 30, 2017

Registration No. ___________

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

USELL.COM, INC.

(Exact name of registrant as specified in its charter)

Delaware	**7389**	**98-0412432**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

171 Madison Avenue, 17th Floor

New York, New York 10016

(212) 213-6805

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Nikhil Raman

171 Madison Avenue, 17th Floor

New York, New York 10016

(212) 213-6805

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Palm Beach Gardens, Florida 33410
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Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date hereof.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x
	Emerging growth company ¨

If an emerging growth company, indicate by checkmark if the registrant has not elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered(1)**	**Proposed Maximum Offering Price Per Share(2)**	**Proposed Maximum Aggregate Offering Price(2)**	**Amount of Registration Fee**
Common stock, $0.001 par value per share	7,880,000	$ 0.53	$ 4,176,400	$ 519.96

(1) Under Rule 416 of the Securities Act of 1933, the shares being registered include such indeterminate number of shares of common stock as may be issuable with respect to the shares being registered in this registration statement as a result of any stock splits, stock dividends or similar transactions.

(2) The proposed maximum offering price per share and the proposed maximum aggregate offering price have been estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rules 457(c) under the Securities Act of 1933 on the basis of the average of the high and low prices of our common stock on the OTC Markets, Inc. on November 27, 2017 a date within five business days prior to filing this registration statement.

The registrant hereby amends this registration statement on such date or date(s) as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission of which this prospectus is a part becomes effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated November 30, 2017

USELL.COM, INC.

PROSPECTUS

7,880,000 Shares of Common Stock

This prospectus relates to the sale of up to 7,880,000 shares of usell.com, Inc. common stock which may be offered by the selling shareholders identified in this prospectus.

We will not receive any proceeds from the sales of shares of our common stock by the selling shareholders named on page 35.

Our common stock trades on the OTC Markets under the symbol "USEL". As of the last trading day before the date of this prospectus, the closing price of our common stock was $0.51 per share.

The common stock offered in this prospectus involves a high degree of risk. See "Risk Factors" beginning on page 5 of this prospectus to read about factors you should consider before buying shares of our common stock.

The selling shareholders are offering these shares of common stock. The selling shareholders may sell all or a portion of these shares from time to time in market transactions through any market on which our common stock is then traded, in negotiated transactions or otherwise, and at prices and on terms that will be determined by the then prevailing market price or at negotiated prices directly or through a broker or brokers, who may

act as agent or as principal or by a combination of such methods of sale. The selling shareholders will receive all proceeds from the sale of the common stock. For additional information on the methods of sale, you should refer to the section entitled "Plan of Distribution."

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined whether this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is ________________, 2017

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You should rely only on information contained in this prospectus. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. We are not offering to sell or seeking offers to buy shares of common stock in jurisdictions where offers and sales are not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully including the section entitled "Risk Factors" before making an investment decision. uSell.com, Inc. is referred to throughout this prospectus as "uSell," "we," "our" or "us."

Our Company

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.

Corporate Information

Our corporate headquarters are located at 171 Madison Avenue, 17th Floor, New York, New York 10016 and our phone number is (212) 213-6805. Our website can be found at www.usell.com. The information on, or that can be accessed through, our website is not incorporated in this prospectus.

THE OFFERING

Common stock outstanding prior to the offering:	28,286,999 shares
Common stock offered by the selling shareholders:	7,880,000 shares of common stock, all of which are outstanding as of the date of this prospectus
	28,286,999 shares

Common stock outstanding immediately following the offering:	
Use of proceeds:	We will not receive any proceeds from the sale of shares by the selling shareholders. See "Use of Proceeds" on page 10.
Stock Symbol:	OTCQB: USEL
Risk Factors:	See "Risk Factors" beginning on page 5 of this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

The number of shares of common stock to be outstanding prior to and after this offering excludes:

- a total of 482,000 shares of common stock issuable upon the exercise of outstanding stock options;
- a total of 493,020 shares of common stock reserved for future issuance under outstanding restricted stock units; and
- a total of 797,083 shares of common stock issuable upon the exercise of warrants.

SUMMARY FINANCIAL DATA

The following summary of our financial data should be read in conjunction with, and is qualified in its entirety by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements, appearing elsewhere in this prospectus.

Statements of Operations Data

	Three Months Ended September 30, 2017 (Unaudited)	**Three Months Ended September 30, 2016 (Unaudited)**	**Nine Months Ended September 30, 2017 (Unaudited)**	**Nine Months Ended September 30, 2016 (Unaudited)**	**Year Ended December 31, 2016**	**Year Ended December 31, 2015**
Revenue	$ 28,872,702	$ 24,817,307	$ 81,141,673	$ 73,098,642	$ 94,656,735	$ 27,093,928
Gross profit	$ 1,557,792	$ 2,067,306	$ 5,278,244	$ 4,779,325	$ 5,821,823	$ 3,544,830
Net loss	$ (625,030)	$ (411,479)	$ (2,519,778)	$ (2,534,732)	$ (3,711,738)	$ (2,632,375)
Net loss per common share – basic and diluted	$ (0.03)	$ (0.02)	$ (0.13)	$ (0.13)	$ (0.19)	$ (0.27)
Weighted average common shares outstanding (basic and diluted)	20,150,640	20,123,042	20,143,783	19,995,689	20,029,701	9,687,951

Balance Sheet Data

	September 30, 2017 (Unaudited)	December 31, 2016	December 31, 2015
Cash and cash equivalents	$477,610	$1,657,422	$1,047,786
Working capital	$6,200,532	$5,770,420	$5,597,143
Total assets	$24,786,711	$25,497,630	$24,318,660
Total current liabilities	$5,866,988	$6,303,477	$4,112,053
Accumulated deficit	$(60,906,506)	$(58,386,728)	$(54,674,990)
Total shareholders' equity	$10,559,724	$12,705,167	$13,989,564

RISK FACTORS

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

Risks Relating to Our Business

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

In January 2017, we entered into a Note Purchase Agreement (the "2017 NPA") with a new lender to whom we issued a secured term note in the principal amount of approximately $8.6 million (the "2017 Note") and who acts as the Manager of the Special Purpose Entity (the "SPE"). See page 22 for a description of this 2017 and the SPE. As long as our working relationship with this entity is positive, we believe that we have sufficient capital to operate our business as we did in 2016 and grow it through the SPE. In fact, we have entered into two amendments to the Note Purchase Agreement. However, if we encounter issues working with this new lender, it could adversely affect our results of operations and future financial condition. In that event, we would have to refinance our loan and possible issue equity and/or debt securities.

If we fail to meet the covenants under the 2017 Note, we may sustain material adverse consequences including the possibility of the lender declaring a default.

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As is customary with institutional loan agreements, our loan agreement requires us to meet future a number of financial covenants. If we fail to comply with any of these covenants, we may sustain a number of material adverse consequences including:

- we may incur interest penalties; and
- the lender may declare a default and accelerate the repayment of the 2017 Note

If any of these events were to occur, your investment may be lost.

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

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

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

In 2015, we acquired We Sell Cellular which primarily engages in the wholesale acquisition and resale of smartphones and related devices from carriers and big box stores. The We Sell Cellular business is reliant on its ability to purchase phones at low prices which result in profitability on liquidation. Conversely, if the prices that We Sell Cellular offers suppliers for the phones are too low, than we will be unsuccessful at obtaining the phones and our revenues will be adversely affected.

Because we acquired 72% of our phones in 2016 from one supplier, if this supplier reduces its sales to us, it may adversely affect our results of operations.

We Sell Cellular’s business has been characterized by a high degree of supplier concentration. In 2016 and 2015, We Sell Cellular purchased approximately 72% and 94%, respectively, of its inventory from one supplier. We have decreased this concentration to 57% for the nine months ended September 30, 2017. Unless we were to find new large suppliers or continue to decrease this concentration, the relationship with this supplier is vital to the continued success of We Sell Cellular. Although this supplier continues to sell We Sell Cellular phones in large quantities, we cannot assure you that the supplier will continue to provide us with phones at a cost effective rate for any reason. In the event that our relationship with this supplier was terminated or the number of phones supplied to We Sell Cellular from this supplier were reduced, our revenues and profitability would be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Common Stock

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

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

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

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

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

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

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

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

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

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

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

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

As of November 28, 2017, our executive officers and directors beneficially owned approximately 32% of our outstanding common stock. Therefore, these shareholders will have the ability to influence us through this ownership position. These shareholders may be able to determine all matters requiring shareholder approval and, acting together, may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock you may believe are in your best interest as one of our shareholders.

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

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

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements including liquidity and capital expenditures. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future financial position, liquidity, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "co "target," "potential," "is likely," "will," "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. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in "Risk Factors" elsewhere in this prospectus.

Other sections of this prospectus may include additional factors which could adversely affect our business and financial performance. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Except as otherwise required by applicable laws, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this prospectus, whether as a result of new information, future events, changed circumstances or any other reason after the date of this prospectus.

DILUTION

The shares of common stock to be sold by the selling shareholders are issued and outstanding. Accordingly, there will be no dilution to our existing shareholders.

PRIVATE PLACEMENTS

In November 2017, we raised $3,940,000 from the sale of 7,880,000 shares of common stock at $0.50 per share in a private placement offering to 14 accredited investors, including a large shareholder and uSell's Chief Executive Officer. We used, or are using, the proceeds from the private placements for general corporate purposes, including working capital as well as to maintain a $310,000 reserve account as required under the 2017 NPA.

This prospectus covers the offer and sale of the common stock issued in the November offering.

USE OF PROCEEDS

We will not receive any proceeds upon the sale of shares by the selling shareholders.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2017. The table should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus:

	As of September 30, 2017
Cash and cash equivalents	$ 477,610
Restricted cash	3,440,837
Debt:	
Due to related party	48,991
Promissory note payable	8,310,148
Stockholders' equity:	
Common stock; $0.0001 par value; 43,333,333 shares authorized; 20,154,999 shares issued and outstanding	2,015

Additional paid-in capital		71,464,215
Accumulated deficit		(60,906,506)
Total Stockholders' equity	$	10,559,724

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MARKET FOR COMMON STOCK

Our common stock is quoted on the OTC Markets (OTCQB) under the symbol "USEL." As of November 29, 2017, the last reported sale price of our common stock as reported by the OTC Markets was $0.51 per share. As of that date, there were approximately 130 shareholders of record. This number does not include beneficial owners whose shares are held in the names of various securities brokers, dealers and registered clearing agencies.

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

Year	Quarter Ended	Stock Price	
		High ($)	Low ($)
2017	September 30	0.80	0.26
	June 30	0.85	0.60
	March 31	0.88	0.44
2016	December 31	0.98	0.43
	September1	1.20	0.60
	June 30	1.15	0.62
	March 31	1.25	0.80
2015	December 31	2.00	0.72

Dividend Policy

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

We unable to declare or pay any dividends, without the prior consent of the lender under the 2017 NPA.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this prospectus. 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 this prospectus.

Overview

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

Device Acquisition

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

uSell's second method of sourcing devices is through its website, uSell.com, where individual sellers can find cash offers for their items based on the make, model, and condition of each item. Upon accepting an offer, sellers can ship their devices for free using either a prepaid shipping kit or shipping label, and then track the progress of their orders online from initiation to final payment of their devices. Since the acquisition of We Sell Cellular, only a small percentage of our devices have been sourced in this manner versus through wholesale channels.

Device Disposition

We sell devices through three primary means:

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

While a minority of our product is sold directly to consumers via third party eCommerce platforms, the majority of our sales are to professional buyers. These buyers include brick and mortar retailers, online retailers, large and small wholesalers, small repair shops, large refurbishing providers, and insurance companies. Approximately two-thirds of our customer base is in the United States, with the balance abroad. We are able to provide all of our buyers with a low risk, cost-efficient way to acquire inventory. Through participation on uSell's online marketplace or through interaction with our salesforce, our buyers gain access to the high volume of devices that we acquire through both wholesale and retail means, without taking on the risk and investment involved in marketing directly to consumers or purchasing directly from carriers, big box retailers, and manufacturers.

Revenue Model

We generate revenue by either taking possession of devices and selling these devices for a premium (“Principal Device Revenue”) or by facilitating transactions between buyers and sellers and collecting a commission (“Agent Commission Revenue”). The bulk of our revenue is from Principal Device Revenue.

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

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

Critical Accounting Policies

In response to financial reporting release FR-60, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, from the Securities and Exchange Commission (“SEC”), we have selected our more subjective accounting estimation processes for purposes of explaining the methodology used in calculating the estimate, in addition to the inherent uncertainties pertaining to the estimate and the possible effects on the our financial condition. The accounting estimates are discussed below and involve certain assumptions that if incorrect could have a material adverse impact on our results of operations and financial condition.

Capitalized Technology Costs

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

Business Combinations

ASC 805, Business Combinations (“ASC 805”), applies the acquisition method of accounting for business combinations to all acquisitions where the acquirer gains a controlling interest, regardless of whether consideration was exchanged. ASC 805 establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Accounting for acquisitions requires us to recognize, separately from goodwill, the assets acquired and the liabilities assumed at their acquisition-date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition-date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of comprehensive loss.

Goodwill and Intangible Assets

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

We assess goodwill for impairment, as described in Note 2, “Summary of Significant Accounting Policies – Goodwill and Intangible Assets,” in the Notes to Consolidated Financial Statements, on an annual basis or more often if deemed necessary. At December 31, 2016, goodwill totaled $8,449,000. To determine whether goodwill impairment indicators exist, we are required to assess the fair value of the reporting unit and compare it to the carrying value. A reporting unit is a component of an operating segment for which discrete financial information is available and management regularly reviews its operating performance. In evaluating goodwill for impairment, we have the option to first assess qualitative factors to determine whether further impairment testing is necessary.

Our annual impairment test performed as of December 31, 2016, did not result in any impairment of goodwill. We performed quantitative tests consistent with our policy of periodically updating our reporting unit’s fair value. Based on our quantitative analyses, we determined there was no impairment.

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

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

Revenue Recognition

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

Principal Device Revenue

Through our We Sell Cellular subsidiary, we generate revenue from the sales of our cellular telephones and related equipment and recognize revenue “FOB shipping point” on such sales. Delivery to the customer is deemed to have occurred when the customer takes title to the product. Generally, title passes to the customer when the products leave our warehouse. Payment terms generally require payment once an order is placed. We allow customers to return product within 30 days of shipment if the product is defective. Allowances for product returns are recorded as a reduction of sales at the time revenue is recognized based on historical data.

Under our “Managed by uSell” service on uSell.com, we partnered with a third party logistics company to inspect, wipe and process devices before passing them along to buyers. Under this model, title to a device passes to uSell upon issuance of payment to the seller, which is generally within one to two days from the receipt of the device at the third party warehouse. Title to a device is then transferred to the buyer upon shipment to the buyer.

Agent Commission Revenue

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

Fulfillment Revenue

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

Advertising Revenue

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

Share-Based Payment Arrangements

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

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

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

Results of Operations

2017 Financial Highlights

Key financial metrics are as follows:

Revenues increased by $4,056,000, or 16%, to $28,873,000 for the three months ended September 30, 2017, from $24,817,000 for the three months ended September 30, 2016

Revenues increased by $8,043,000, or 11%, to $81,142,000 for the nine months ended September 30, 2017, from $73,099,000 for the nine months ended September 30, 2016

Operating loss for the three months ended September 30, 2017 was $288,000, compared to $7,000 for the three months ended September 30, 2016, a change of $281,000

Operating loss for the nine months ended September 30, 2017 was $546,000, compared to $1,075,000 for the nine months ended September 30, 2016, an improvement of $529,000, or 49%

Net loss for the three months ended September 30, 2017 was $625,000, compared to $412,000 for the three months ended September 30, 2016

Net loss for the nine months ended September 30, 2017 was $2,520,000, compared to $2,535,000 for the nine months ended September 30, 2016

Adjusted EBITDA, a non-GAAP financial measure, was $203,000 for the three months ended September 30, 2017, compared to $590,000 for the three months ended September 30, 2016. See "Non-GAAP Financial Measure - Adjusted EBITDA" below.

Adjusted EBITDA was $909,000 for the nine months ended September 30, 2017, compared to $793,000 for the nine months ended September 30, 2016. See "Non-GAAP Financial Measure - Adjusted EBITDA" below.

The following table presents an additional operating metric, Gross Merchandise Volume ("GMV"), which management believes is useful in evaluating uSell's overall volume of transactions. We define GMV as the total of uSell revenue plus revenue generated by the SPE. GMV is a non-GAAP financial measure because it includes SPE revenue which is not reportable in our financial statements nor is it in accordance with GAAP. For information on non-GAAP financial measures, see page 18.

	Three Months Ended September 30,		Percentage
	2017	2016	Change
uSell Revenue – GAAP as Reported	$28,873,000	$24,817,000	16 %
SPE Revenue – non-GAAP	5,142,000	—	100 %
Gross Merchandise Volume – non-GAAP	$34,015,000	$24,817,000	37 %

	Nine Months Ended September 30,		Percentage
	2017	2016	Change
uSell Revenue – GAAP as Reported	$81,142,000	$73,099,000	11 %
SPE Revenue – non-GAAP	13,946,000	—	100 %
Gross Merchandise Volume – non-GAAP	$95,088,000	$73,099,000	30 %

While quarterly revenues increased by 16% from the prior year, we saw a 37% increase in GMV for the quarter ended September 30, 2017 and a 30% increase in GMV for the nine months ended September 30, 2017. Gross margins increased from the prior quarter to 5.4% but were down from 8.3% from the prior year. Margins are driven primarily by supply and demand, but can also be impacted by our ability to make opportunistic purchases. Due to these factors, we cannot predict margins from quarter to quarter. However, management believes that, due to our scale and our supplier relationships, we are able to purchase at prices lower than our customers, which results in low risk of loss on our inventory. We therefore believe that increasing GMV is of primary importance, as this should result in increased gross margin dollars in future quarters. Increasing GMV, coupled with limiting growth in our fixed costs, should lead to a positive impact to profitability over the long term.

Technology and operational processes continue to play a key role in limiting the growth of our fixed costs while increasing capacity, sales velocity, and average selling prices. We continue to invest in our online platform and have steadily transitioned more of our customer interactions online. Beginning in the fourth quarter, a subset of our customers will have the ability to purchase directly through an online portal, rather than by speaking to a sales representative. This new platform, in addition to our online auction platform, will enable us to drive the bulk of our customers online in the coming quarters.

We continue to invest resources in optimizing the processes and technology needed to test and grade devices in our warehouse, with the aim of increasing capacity and decreasing processing lead time, while providing device level traceability to our suppliers. We believe that these investments are important to make for two reasons: 1) they differentiate us from competitors of similar scale that are looking to purchase from our suppliers, and 2) we expect the iPhone X launch to drive substantial trade in volume over the next six months. By adding more value than our competitors and becoming the partner of choice to our suppliers, we believe that we will greatly benefit from industry trends as trade-in continues to increase in importance throughout the mobile ecosystem.

On the supply side, we continue our supplier diversification initiatives, with our largest supplier's share of purchases representing just 57% for the nine months ended September 30, 2017, down from 81% during the same period in 2016. We view supplier diversification, as well as expanding our relationships with existing suppliers, as long term initiatives, and are optimistic about our prospects over the next year.

Comparison of the Three and Nine Months Ended September 30, 2017 to the Three and Nine Months Ended September 30, 2016

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

	Three Months Ended September 30,		Change	Change
	2017	2016	(Dollars)	(Percentage)
Revenue	$28,873,000	$24,817,000	$4,056,000	16 %
Cost of Revenue	27,315,000	22,750,000	4,565,000	20 %
Gross Profit	1,558,000	2,067,000	(509,000)	(25)%
Operating Expenses:				
Sales and Marketing	533,000	469,000	64,000	14 %
General and Administrative	1,313,000	1,605,000	(292,000)	(18)%
Total Operating Expenses	1,846,000	2,074,000	(228,000)	(11)%
Operating Loss	(288,000)	(7,000)	(281,000)	4,014 %
Other Expense, Net	(337,000)	(405,000)	68,000	(17)%
Net Loss	$(625,000)	$(412,000)	$(213,000)	52 %

	Nine Months Ended September 30,		Change	Change
	2017	2016	(Dollars)	(Percentage)
Revenue	$81,142,000	$73,099,000	$8,043,000	11 %
Cost of Revenue	75,863,000	68,319,000	7,544,000	11 %
Gross Profit	5,279,000	4,780,000	499,000	10 %
Operating Expenses:				
Sales and Marketing	1,618,000	1,260,000	358,000	28 %
General and Administrative	4,207,000	4,595,000	(388,000)	(8)%
Total Operating Expenses	5,825,000	5,855,000	(30,000)	(1)%
Operating Loss	(546,000)	(1,075,000)	529,000	(49)%
Other Expense, Net	(1,973,000)	(1,460,000)	(513,000)	35 %
Net Loss	$(2,519,000)	$(2,535,000)	$16,000	(1)%

Revenue by Type

The following table breaks down our revenue by type:

	Three Months Ended September 30,							
	2017				2016			
Principal Device Revenue	$	28,730,000	100	%	$	24,721,000	100	%
Agent Commission Revenue		140,000	0	%		75,000	0	%
Other		3,000	0	%		21,000	0	%
	$	28,873,000	100	%	$	24,817,000	100	%

	Nine Months Ended September 30,							
	2017				2016			
Principal Device Revenue	$	80,653,000	99	%	$	72,923,000	100	%
Agent Commission Revenue		471,000	1	%		106,000	0	%
Other		18,000	0	%		70,000	0	%
	$	81,142,000	100	%	$	73,099,000	100	%

Principal Device Revenue increased by $4,009,000, or 16%, from $24,721,000 for the three months ended September 30, 2016 to $28,730,000 for the three months ended September 30, 2017. Principal Device Revenue increased by $7,730,000, or 11%, from $72,923,000 for the nine months ended September 30, 2016 to $80,653,000 for the nine months ended September 30, 2017. The increase in our Principal Device revenue was due to our ability to source more devices from our expanded network of suppliers.

Agent Commission Revenue increased by $65,000, or 87%, from $75,000 for the three months ended September 30, 2016 to $140,000 for the three months ended September 30, 2017. Agent Commission Revenue increased by $365,000, or 344%, from $106,000 for the nine months ended September 30, 2016 to $471,000 for the nine months ended September 30, 2017. The increase in Agent Commission Revenue was due to our decision to shut down our Managed by uSell service at the end of 2016 and no longer take possession of devices sent in through our uSell.com website. Payments for devices sent in through uSell.com are now made directly from buyers to sellers, and we only recognize a commission on these transactions.

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

Cost of Revenue

Cost of revenue increased by $4,565,000, or 20% from $22,750,000 for the three months ended September 30, 2016 to $27,315,000 for the three months ended September 30, 2017. Cost of revenue increased by $7,544,000, or 11% from $68,319,000 for the nine months ended September 30, 2016 to $75,863,000 for the nine months ended September 30, 2017. As noted above, our revenue for these periods increased by 16% and 11%, respectively, which caused a corresponding increase in our cost of revenue. Cost of revenues for the three months ended September 30, 2017 did not include a provision for slow-moving and obsolete inventory, compared to $384,000 for the three months ended September 30, 2016. Cost of revenues for the nine months ended September 30, 2017 did not include a provision of $0 for slow-moving and obsolete inventory, compared to $563,000 for the nine months ended September, 2016.

Gross profit decreased to 5.4% for the three months ended September 30, 2017, compared to 8.3% for the three months ended September 30, 2016. Our margins decreased as a result of industry conditions, dictated by supply and demand. Gross profit remained the same at 6.5% for the nine months ended September 30, 2017 and 2016.

Sales and Marketing Expenses

Sales and marketing expense increased $64,000, or 14%, from $469,000 during the three months ended September 30, 2016 to $533,000 during the three months ended September 30, 2017. Sales and marketing expense increased $358,000, or 28%, from $1,260,000 during the nine months ended September 30, 2016 to $1,618,000 during the nine months ended September 30, 2017. The increase is primarily attributable to the higher fees paid as a result of the increased eBay sales during the three and nine months ended September 30, 2017, compared to the three and nine months ended September 30, 2016. With the We Sell Cellular acquisition and our newfound ability to source devices directly from the carriers, retailers, and manufacturers, our primary sales and marketing expenses have shifted from consumer marketing to paying out sales commissions and selling fees. Because the vast majority of our sales and marketing expenses are now paid to third party selling platforms, such as eBay and Amazon, any increases or decreases in these expenses are directly tied to sales for the period.

General and Administrative Expenses

General and administrative expenses include professional fees for technology, legal and accounting services as well as consulting and internal personnel costs for our back office support functions. General and administrative expenses are impacted by non-cash compensation expense pertaining to stock grants and option grants for services. Non-cash compensation expense amounted to $132,000 and $92,000 for the three months ended September 30, 2017 and 2016, respectively, and $374,000 and $364,000 for the nine months ended September 30, 2017 and 2016, respectively.

Excluding non-cash compensation expense, general and administrative expenses for the three months ended September 30, 2017 decreased by $332,000, or 22%, compared to the three months ended September 30, 2016. Excluding non-cash compensation expense, general and administrative expenses for the nine months ended September 30, 2017 decreased by $398,000, or 9%, compared to the three months ended September 30, 2016. The decrease is mainly the result of the decrease in amortization expense resulting from the full amortization of certain intangible assets acquired in connection with the We Sell Cellular acquisition. In addition, general and administrative expenses for the three and nine months ended September 30, 2016 include a loss on the disposal of assets in the amount of $112,000, for which such amount is not included in the three and nine months ended September 30, 2017.

<u>**Other Income (Expense)**</u>

Other expense during the three months ended September 30, 2017 is comprised of ($337,000) of interest expense consisting primarily of the contractual interest expense and amortization of debt issue costs on the 2017 NPA.

Other expense during the three months ended September 30, 2016 is mainly comprised of ($405,000) of interest expense primarily attributable to the BAM Note Purchase Agreement entered into in October 2015 (“BAM Facility”).

Other expense during the nine months ended September 30, 2017 is comprised of ($1,973,000) of interest expense consisting primarily of $996,000 attributable to the amortization of the remaining debt issue costs on the terminated BAM Facility, as well as the contractual interest expense and amortization of debt issue costs on the BAM Facility.

Other expense during the nine months ended September 30, 2016 is mainly comprised of ($1,090,000) of interest expense primarily attributable to the BAM Facility and ($370,000) of derivative expense related to the change in the fair value of the placement rights derivative liability. The placement rights were waived in July 2016 and, accordingly, the derivative liability was eliminated.

<u>**Special Purpose Entity**</u>

Expense reimbursements for the three months ended September 30, 2017 amounted to $139,000, of which $100,000 was recorded in cost of revenues and $39,000 was recorded in sales and marketing. Expense reimbursements for the nine months ended September 30, 2017 amounted to $402,000, of which $261,000 was recorded in cost of revenues and $141,000 was recorded in sales and marketing. There were no profit distributions made to the Company from the SPE during the three and nine months ended September 30, 2017.

Non-GAAP Financial Measures - Adjusted EBITDA and Gross Merchandise Volume or GMV

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

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

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

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

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2017	2016	2017	2016
Net loss	$(625,000)	$(412,000)	$(2,520,000)	$(2,535,000)
Stock-based compensation expense	132,000	92,000	374,000	364,000
Depreciation and amortization	359,000	505,000	1,082,000	1,504,000
Interest expense	337,000	405,000	1,973,000	1,090,000
Change in fair value of derivative liability	—	—	—	370,000
Adjusted EBITDA	$203,000	$590,000	$909,000	$793,000

See page 18 for a discussion of another non-GAAP financial measure which is GMV. This financial measure is non-GAAP because it combines our actual GAAP revenue with the revenue of the SPE. We define GMV as the total of uSell revenue plus revenue generated by the SPE.

Our management believes GMV is useful in evaluating uSell's overall volume of transactions and in evaluating the SPE's performance. Since all SPE revenue is generated by uSell's management team and employees, our management believes it demonstrates how effective uSell's business model is and its potential if it had additional capital. Investors should recognize that uSell will not receive all of the profits from the SPE assuming profitability; uSell receives a minority percentage of any distributions until the investor receives an agreed upon preference at which time the profit sharing shifts to uSell receiving a majority of the distributions. As of the date of this prospectus, the Company has not received any distributions from the SPE.

Comparison of the Year Ended December 31, 2016 to the Year Ended December 31, 2015

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

	Year Ended December 31,		Change	Change
	2016	2015	(Dollars)	(Percentage)
Revenue	$94,657,000	$27,094,000	$67,563,000	249 %
Cost of Revenue	88,835,000	23,549,000	65,286,000	277 %
Gross Profit	5,822,000	3,545,000	2,277,000	64 %
Operating Expenses:				
Sales and Marketing	1,680,000	2,037,000	(357,000)	(18)%
General and Administrative	5,987,000	6,345,000	(358,000)	(6)%
Total Operating Expenses	7,667,000	8,382,000	(715,000)	(9)%
Operating Loss	(1,845,000)	(4,837,000)	2,992,000	(62)%
Other Expense, Net	(1,867,000)	(188,000)	(1,679,000)	893 %
Income Tax Benefit	-	2,393,000	(2,393,000)	(100)%
Net Loss	$(3,712,000)	$(2,632,000)	$(1,080,000)	41 %

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

The following table breaks down our revenue by type:

	Year Ended December 31,					
	2016			2015		
Principal Device Revenue	$94,190,000	100	%	$26,238,000	97	%
Agent Commission Revenue	378,000	0	%	516,000	2	%
Other	89,000	0				