

Research Solutions, Inc.
Form 10-Q
November 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2015

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

For the transition period from _____ to _____

Commission File No. 000-53501

RESEARCH SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

11-3797644

(I.R.S. Employer Identification No.)

5435 Balboa Blvd., Suite 202, Encino, California

(Address of principal executive offices)

91316

(Zip Code)

(310) 477-0354

(Registrant's telephone number, including area code)

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(Former name, former address and former fiscal year, if changed since last report)

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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.

Title of Class	Number of Shares Outstanding on November 6, 2015
Common Stock, \$0.001 par value	18,392,277

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PART 1 — FINANCIAL INFORMATION**Item 1. Condensed Consolidated Financial Statements****Research Solutions, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets**

	September 30, 2015 (unaudited)	June 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,465,026	\$ 1,354,158
Accounts receivable, net of allowance of \$56,835 and \$69,731, respectively	4,964,622	4,889,937
Prepaid expenses and other current assets	52,383	70,195
Prepaid royalties	518,626	372,581
Total current assets	7,000,657	6,686,871
Other assets:		
Property and equipment, net of accumulated depreciation of \$599,633 and \$585,410, respectively	68,100	83,238
Deposits and other assets	9,376	9,471
Total assets	\$ 7,078,133	\$ 6,779,580
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,855,783	\$ 5,611,453
Deferred revenue	164,666	75,311
Total current liabilities	6,020,449	5,686,764
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; \$0.001 par value; 20,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock; \$0.001 par value; 100,000,000 shares authorized; 18,392,277 and 18,242,125 shares issued and outstanding, respectively	18,392	18,242
Additional paid-in capital	16,330,193	16,188,358
Accumulated deficit	(15,263,257)	(15,084,437)
Accumulated other comprehensive loss	(27,644)	(29,347)

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Total stockholders' equity	1,057,684	1,092,816
Total liabilities and stockholders' equity	\$7,078,133	\$6,779,580

See notes to condensed consolidated financial statements

Research Solutions, Inc. and Subsidiaries**Condensed Consolidated Statements of Operations and Other Comprehensive Income (Loss)****(Unaudited)**

	Three Months Ended September 30,	
	2015	2014
Revenue	\$8,027,101	\$7,553,396
Cost of revenue	6,472,754	6,053,591
Gross profit	1,554,347	1,499,805
Operating expenses:		
Selling, general and administrative	1,704,961	1,426,315
Depreciation and amortization	14,738	72,088
Total operating expenses	1,719,699	1,498,403
Income (loss) from operations	(165,352)	1,402
Other income (expenses):		
Interest expense	(4,993)	(3,198)
Other income (expense)	2,769	298
Total other expenses	(2,224)	(2,900)
Loss from continuing operations before provision for income taxes	(167,576)	(1,498)
Provision for income taxes	(11,244)	(5,438)
Loss from continuing operations	(178,820)	(6,936)
Discontinued operations:		
Loss from discontinued operations	-	(395,344)
Gain from deconsolidation of former French subsidiary	-	1,548,295
Income from discontinued operations	-	1,152,951
Net income (loss)	(178,820)	1,146,015
Other comprehensive income (loss):		
	1,703	(4,356)
Foreign currency translation		
Comprehensive income (loss)	\$(177,117)	\$1,141,659
Basic income (loss) per common share:		
Loss per share from continuing operations	\$(0.01)	\$-
Income per share from discontinued operations	\$-	\$0.07

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Net income (loss) per share	\$(0.01)	\$0.07
Basic weighted average common shares outstanding	17,564,070		17,406,012
Diluted income (loss) per common share:			
Loss per share from continuing operations	\$(0.01)	\$-
Income per share from discontinued operations	\$-		\$0.07
Net income (loss) per share	\$(0.01)	\$0.07
Diluted weighted average common shares outstanding	17,564,070		17,407,428

See notes to condensed consolidated financial statements

Research Solutions, Inc. and Subsidiaries**Condensed Consolidated Statement of Stockholders' Equity****For the Three Months Ended September 30, 2015****(Unaudited)**

	Common Stock		Additional	Accumulated	Other	Total
	Shares	Amount	Paid-in	Deficit	Comprehensive	Stockholders'
			Capital		Income (Loss)	Equity
Balance, July 1, 2015	18,242,125	\$ 18,242	\$ 16,188,358	\$(15,084,437)	\$ (29,347)	\$ 1,092,816
Fair value of vested stock options	-	-	56,574	-	-	56,574
Fair value of vested restricted common stock	152,000	152	87,015	-	-	87,167
Common stock repurchase and retirement	(1,848)	(2)	(1,754)	-	-	(1,756)
Net loss for the period	-	-	-	(178,820)	-	(178,820)
Foreign currency translation	-	-	-	-	1,703	1,703
Balance, September 30, 2015	18,392,277	\$ 18,392	\$ 16,330,193	\$(15,263,257)	\$ (27,644)	\$ 1,057,684

See notes to condensed consolidated financial statements

Research Solutions, Inc. and Subsidiaries**Condensed Consolidated Statements of Cash Flows****(Unaudited)**

	Three Months Ended September 30,	
	2015	2014
Cash flow from operating activities:		
Net income (loss)	\$(178,820)	\$1,146,015
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities of continuing operations:		
Loss from discontinued operations	-	395,344
Gain from deconsolidation of former French subsidiary	-	(1,548,295)
Depreciation and amortization	14,738	72,088
Fair value of vested stock options	56,574	61,348
Fair value of vested restricted common stock	87,167	46,371
Changes in operating assets and liabilities:		
Accounts receivable	(74,685)	(178,781)
Prepaid expenses and other current assets	17,812	15,288
Prepaid royalties	(146,045)	(46,845)
Deposits and other assets	95	52
Accounts payable and accrued expenses	244,330	(237,298)
Deferred revenue	89,355	-
Other liability	-	187,907
Net cash provided by (used in) operating activities from continuing operations	110,521	(86,806)
Net cash used in operating activities of discontinued operations	-	(34,503)
Net cash provided by (used in) operating activities	110,521	(121,309)
Cash flow from investing activities:		
Purchase of property and equipment	-	(9,731)
Purchase of intangible assets	-	(8,490)
Net cash used in investing activities from continuing operations	-	(18,221)
Cash flow from financing activities:		
Advance under line of credit	500,000	500,000
Payment under line of credit	(500,000)	(500,000)
Common stock repurchase and retirement	(1,756)	-
Net cash used in financing activities from continuing operations	(1,756)	-
Net cash used in financing activities of discontinued operations	-	(67,515)
Net cash used in financing activities	(1,756)	(67,515)
Effect of exchange rate changes	2,103	(142,207)

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Net increase (decrease) in cash and cash equivalents	110,868	(349,252)
Cash and cash equivalents, beginning of period	1,354,158	1,884,667
Cash and cash equivalents, end of period	\$1,465,026	\$1,535,415

Supplemental disclosures of cash flow information:

Cash paid for income taxes	\$11,244	\$5,438
Cash paid for interest	\$4,993	\$3,198

See notes to condensed consolidated financial statements

RESEARCH SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended September 30, 2015 and 2014 (Unaudited)

Note 1. Organization, Nature of Business and Basis of Presentation

Organization

Research Solutions, Inc. (the “Company,” “Research Solutions,” “we,” “us” or “our”) was incorporated in the State of Nevada November 2, 2006. On March 4, 2013, we consummated a merger with DYSC Subsidiary Corporation, our wholly-owned subsidiary, pursuant to which we, in connection with such merger, amended our Articles of Incorporation to change our name to Research Solutions, Inc. (formerly Derycz Scientific, Inc.). Research Solutions, Inc. is a publicly traded holding company with two wholly owned subsidiaries: Reprints Desk, Inc., a Delaware corporation (“Reprints Desk”) and Reprints Desk Latin America S. de R.L. de C.V, an entity organized under the laws of Mexico (“Reprints Desk Latin America”).

On August 18, 2014, the Board of Directors of the Company authorized the immediate disposal of the Company’s former subsidiary Techniques Appliquées aux Arts Graphiques, S.p.A. (“TAAG”), an entity organized under the laws of France, at a reasonable price in relation to its current fair value, and in the event such sale was not consummated by September 10, 2014, that management proceed with an insolvency filing by TAAG under French law. On September 15, 2014, the French Tribunal de Commerce appointed an Administrator for TAAG following a declaration of insolvency by our legal representative, and on October 6, 2014 TAAG entered into a judicial liquidation procedure. As a result, effective September 15, 2014, the Company relinquished control of TAAG to the Tribunal and TAAG ceased to be our subsidiary and was deconsolidated from our financial statements.

The Company derecognized the assets, liabilities and other comprehensive income of TAAG with a resulting non-cash gain on deconsolidation of \$1,548,295 recorded on the consolidated statements of operations for the three months ended September 30, 2014. In addition, comparative information for prior periods have been restated to segregate the assets, liabilities, revenue, expenses, and cash flows related to TAAG as discontinued operations. The Company has determined based on discussions with French counsel that it is remote that the Company will be liable for the unsatisfied liabilities of TAAG as a result of the insolvency process in France, and as a result, the Company has eliminated any respective liability as of June 30, 2015.

Nature of Business

We provide on-demand access to scientific, technical, and medical (“STM”) information for life science companies, academic institutions, and other research-intensive organizations. We provide two types of services to our customers: Article Galaxy, and Reprints and ePrints.

Article Galaxy

Article Galaxy, our cloud-based software-as-a-service (“SaaS”) solution, provides our customers with a single source to the universe of published STM content that includes over seventy million existing STM articles and over one million newly published STM articles each year. Article Galaxy allows customers to find and download in digital format STM articles that are critical to their research. In addition, Article Galaxy facilitates customers’ compliance with applicable copyright laws.

Researchers and regulatory personnel in life science and other research-intensive organizations generally require single copies of published STM journal articles for use in their research activities. They place orders with us for the articles they need and we source and electronically deliver the requested content to them generally in under an hour. This service is known in the industry as single article delivery or document delivery. We also obtain the necessary permissions from the content publisher so that our customer’s use complies with applicable copyright laws. We have arrangements with numerous content publishers that allow us to distribute their content. The majority of these publishers provide us with electronic access to their content, which allows us to electronically deliver single articles to our customers often in a matter of minutes. Even though single article delivery services are charged on a transactional basis, customer order volume tends to be consistent from month to month in part due to consistent orders of larger customers that require the implementation of our services into their work flow, subject to fluctuations due to the addition or loss of customers.

We deliver the aforementioned services through our Article Galaxy journal article platform (“Article Galaxy”), which consists of proprietary software and Internet-based interfaces that allow customers to initiate orders, manage transactions, obtain reporting, automate authentication, improve seamless connectivity to corporate intranets, and enhance the information resources they already own, or have access to via subscriptions or internal libraries, as well as organize workgroups to collaborate around scientific information.

As a cloud-based SaaS solution, Article Galaxy is deployed as a single system across our entire customer base. Customers access Article Galaxy securely through online web interfaces and via web service APIs, which enable customers to leverage Article Galaxy features and functionality from within proprietary and other 3rd party software systems. Article Galaxy can also be configured to satisfy a customer’s individual preferences in areas such as user experience, business processes, and spend management. As a SaaS solution, Article Galaxy benefits from efficiencies in scalability, stability and development costs, resulting in significant advantages versus multiple instance or installed desktop software alternatives. We leverage these technical efficiencies to fuel rapid innovation and competitive

advantage.

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Reprints and ePrints

Marketing departments in life science and other research-intensive organizations generally require large quantities of printed copies of published STM journal articles called “Reprints” that are distributed to physicians and at conferences. We obtain the necessary permissions from the content publisher so that our customer’s use complies with applicable copyright laws. The majority of content publishers print their content in-house and prohibit others from printing their content; however, when not prohibited by the content publisher, we use third parties to print Reprint orders. Electronic copies, called “ePrints”, are also used for distribution through the Internet and other electronic mechanisms. We have developed proprietary ePrint software that increases the efficiency of our customers’ content purchases by transitioning from paper Reprints to electronic ePrints, and by improving compliance with applicable copyright laws and promotional regulations within the life science industry. Reprints and ePrints are charged on a transactional basis and order volume typically fluctuates from month to month based on customer marketing budgets and the existence of STM journal articles that fit customer requirements.

Principles of Consolidation

The accompanying financial statements are consolidated and include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated fina